

Standing Committee on Public Accounts

Wednesday, April 16, 1980

Chairman: Mr. Mandeville

10 a.m.

MR. CHAIRMAN: Good morning, everyone. It's a little after 10 o'clock, and we do have our quorum. So we'll bring our meeting to order.

I see that we have pretty well the faces here that we've had in the past. We do have one new face, Ken Kowalski. We welcome you as a new member of the committee. It is a new committee, but we're all old faces except yours. So welcome to our committee, Ken. We're looking forward to your input.

Committee members, in the past, we've had organizational meetings, and I thought we just wouldn't take up that much time in organizing our meeting for this term. If there's any disagreement with the times we had -- last year we started our meetings at 10 sharp, whenever we could, and quit at 11:30. Is that agreeable to the committee, to continue with that? Also, to have every Wednesday, is that agreed?

HON. MEMBERS: Agreed

MR. CHAIRMAN: Also, we agreed that we would send transcripts to all the committee members. If that's agreeable, we'll also have that carried on for this coming year. Committee members, we're going to have some changes as far as our Public Accounts are concerned, or at least I certainly hope that we will. I'm going to be looking forward to getting input from all committee members, because we're going into a new era with our Auditor General and with Public Accounts. So I'd appreciate very much, even if you could give me some input on some changes we could make, even if it's not at our meetings. If you could do it personally with me, or discuss any problems, I'd certainly appreciate that.

We took it upon ourselves to set up our first agenda, since we decided we didn't want to have one meeting as an organizational meeting. We have discussed it, and we thought we would possibly, for two weeks, or whatever the committee desires or whatever time it takes, have an overview of volumes 1 and 2 of Public Accounts, which are out now. We would go through Public Accounts and only discuss the principles of Public Accounts, not go into detail. We could go into detail at a later date. And then we thought we would go through the Auditor General's report, and not discuss it in detail, but in principle.

So just before I start possibly I'll introduce -- you all know Mr. Henkelman, of course, and Mr. Rogers, Mr. O'Brien, and Mr. Heisler, who's going to be the resource person for Mr. O'Brien.

Of course we have Donna back with us. Welcome back to our committee, Donna. To start our discussion, I would just like to turn the meeting over now to Mr. Rogers.

MR. ROGERS: Ladies and gentlemen, in the 1977-78 report, I made a recommendation, which I will read.

Based on recent developments and studies it is my opinion that the objective should be to create a single set of financial statements to reflect on an accrual and aggregated basis, to the end of the fiscal year, the end result of all the activities of the Government which involve public funds (other than funds of third parties held in trust) for which there was accountability to the Legislative Assembly.

We had been making gradual changes in the financial statements of the province for a number of years, as you're aware. But with the growth of the heritage trust fund, it became quite clear that changes were needed to what we might call the statements of the province, because the heritage trust fund was not reflected in the statements of the General Revenue Fund. Our office, the Auditor General's office, in its first year of operation, worked very closely with the Controller's office, but it was the Controller's office that was responsible for preparing Public Accounts in '78-'79. With that, I'd like to hand over to the Controller and have him give the overview of Public Accounts.

MR. CHAIRMAN: Before we start, I'd just like to indicate that anytime I've talked to our Controller, Mr. O'Brien, and to Mr. Rogers, and anytime you'd like to intervene with a question, we would invite that at anytime they're in discussion of their reports. If anyone needs Public Accounts, volumes 1 and 2, Mr. O'Brien does have a few copies here. Is there anyone here that would . . .

DR. C. ANDERSON: I need the Auditor General's report.

MR. CHAIRMAN: Sorry, Charlie, we don't have any right now, but some are coming. We'll have them for the next meeting.

MR. McCRAE: Mr. Chairman, I wonder if it wouldn't help if Mr. O'Brien might take us through The Financial Administration Act, which is the basis of his responsibilities, and then if, at some point, Mr. Rogers might take us through The Auditor General Act, and just highlight what your different responsibilities are and how the two Acts mesh or merge or how they conflict or whatever. It might be helpful, I think, to the committee to get a perspective of the two responsibilities.

MR. CHAIRMAN: Does that meet your approval, Mr. O'Brien? If we could now turn the meeting over to our Controller, Mr. O'Brien, and Public Accounts.

MR. O'BRIEN: Thank you, Mr. Chairman, ladies and gentlemen. Perhaps I could just, following on the Auditor's comments, note that The Financial Administration Act, 1977, was approved by the House in the fall of 1977, and came into force on April 1, 1978. These are the first Public Accounts prepared in accordance with that new legislation by Treasury. They report really on the financial plan presented in the budget to the House on March 17, 1978, by the then Treasurer, Mr. Leitch. The Accounts have been prepared in accordance with the financial regime established under the Act, and incorporate accounting policy changes, both as required under the Act, and in accordance with some of the recommendations which had been made by the Provincial Auditor in his final Public Accounts.

If I could then, I would perhaps go briefly over the Act and the nature of the classifications of financial entities it establishes and the basic parts of the Act. It might be helpful to an understanding of the way Public Accounts are put together. The Financial Administration Act starts with a series of definitions which are then used throughout the Act. In particular,

the Act defines a number of financial entities that are reported on the different sections of Public Accounts. First, the Act establishes the General Revenue Fund of the province, into which all public moneys that are not otherwise appropriated to the Legislature are to be paid. That is generally reflected in the budgetary accounts of the province. The General Revenue Fund is reported on in section 2 of Public Accounts.

Then the Act defines what are called revolving funds, which are really just the departmental accounts that provide for rolling receipt and disbursement of money to provide for costing of particular services. We have several of these revolving funds in our departments of Transportation, Government Services, and so on. Those activities are reflected in the province's budgetary accounts, in terms of the net requirements, and are treated as a statutory expenditure in the budgetary accounts of the general revenue.

Then the Act defines regulated funds, which are really simply dispositions of public money that are segregated from the General Revenue Fund. I guess the most substantial regulated fund, as it's called here, is the heritage fund, but there are a number of them; the school foundation fund, and so on. Then the Act defines provincial agencies of two types: provincial corporations, which are bodies corporate where either 100 per cent of the equity in the corporation or a majority of the board are controlled by the government or by an Act of the Legislature, and provincial committees which are simply unincorporated boards and agencies.

So those definitions are set out in the first part of the Act, and we follow those in the organization of Public Accounts. They go: General Revenue Fund, revolving funds, regulated funds, provincial corporations and committees. For accounting purposes, we've divided provincial corporations, because we treat them differently, into those which are fully commercial, where their total operations are funded from their own revenues, and those which are in some way related to the province by a subsidy. So those are all set out in Volume 1 of Public Accounts.

Then the first section of Public Accounts includes, for the first time, a consolidated set of financial statements, which brings together those statements of all those regulated funds and agencies on a consolidated basis, to show the overall financial position of the province.

At the end of the definitions, in Section 2, there's a section on the application of the Act, and this is perhaps of particular interest relative to the new Public Accounts; 2(5) provides that the Act does not apply to universities, colleges, and provincially owned hospitals, with the exception of the definition section itself, and Section 81, which has some provisions respecting borrowing. Other than that, the Act does not apply to those entities. As a result, those entities this year, which I think were previously included in Public Accounts, I think have not been included.

Then the Act is divided into a number of sections. The first deals with the establishment of the Treasury Board, which is a committee of cabinet, and the Department of the Treasury itself, and sets out the Treasurer's powers. Of particular interest I guess, relative to the Treasurer's powers in Public Accounts, are the provisions in Section 12, which make the Treasurer responsible for maintaining or causing to be maintained the financial records of the Crown, and authorizes the Treasurer to prescribe the form and content of the financial records of the Crown and agencies and the accounting systems of the Crown and provincial agencies.

Section 13 in that general organizational section, authorizes the Treasurer to delegate his powers under certain conditions. The Treasurer has delegated certain of his responsibilities under the Act to the Controller, including the responsibility for preparation of Public Accounts.

Then the second section of the Act goes into the receipt of public money. It provides for the establishment of the consolidated fund, the General

Revenue Fund, and the payment of public moneys into it, and so on, and then has provisions respecting banking and the payment of public moneys to the Treasurer, and so on; authority for remissions and write-offs of public debt.

Then Part 3 of the Act deals really with the supply process, the appropriation of public money, the preparation of estimates, and the authorization for special warrants. A section of particular relevance to the '78-'79 Public Accounts is Section 32, which deals with the lapse of funds at the end of the fiscal year, and has a new requirement really, that the Treasurer record liabilities at the end of the fiscal year and report on those liabilities in Public Accounts. It also has provisions respecting charges of those liabilities and what happens if there are any liabilities in excess of the authority that's been granted by the Legislative Assembly under appropriation Acts.

The fourth part of the Act deals with disbursements of public money, and essentially establishes the kind of control of payments and the issuance of cheques, authorization of disbursements of public money that were established under the previous Act. It provides for what has traditionally been called a pre-audit of disbursements by the Treasurer now, rather than the Provincial Auditor under the older legislation, and sets out the requirements of the Treasurer's to ensure are met before public money is disbursed.

Those requirements are essentially set up under Section 39. That responsibility, again, has been delegated by the Provincial Treasurer to the Controller. This section also sets out the requirements respecting departmental authorization of expenditure and establishes the system of internal control within departments. We might at some time get into more discussion about those, but the Act did try to establish a firmer basis of internal control within departments and segregation of duties in departments.

Then Part 5 of the Act deals with the Treasurer's power to make investments. Part 6 governs the manner in which the government may borrow moneys. Part 7 is new in the 1977 Act, essentially that dealt with the guarantee of debts and the giving of indemnities by the government. Part 8 is the section that prescribes the manner in which Public Accounts are to be prepared and the contents of Public Accounts. I might perhaps just mention specifically that Section 77 there requires that the accounts include statements of "financial position, results of operation and changes in financial position" for the General Revenue Fund and provincial agencies. So all provincial agencies that are subject to Section 77 must be included in Public Accounts.

Then it gives the Treasurer discretion as to the inclusion of financial statements for regulated funds. It only requires that he include in Public Accounts statements for those funds he considers appropriate. Then Part 9 of the Act provides some general authority respecting establishment of financial management procedures. Part 10 is just a general section that has some penalty provisions and so on.

So that's the general regime of the Act. In addition to having exempted under the provisions of 2(5) the universities and colleges from the operation of The Financial Administration Act, the Act also provides that the Lieutenant Governor in Council may exempt provincial agencies and regulated funds from the operation of parts or all of the Act.

A regulation has been passed under that section that generally excludes autonomous provincial corporations and certain regulated funds from the detailed operation of the pre-audit system, from control of disbursements by the Controller; it generally also exempts some of the agencies from the operation of some of the detailed revenue control requirements, and in certain instances, exempts from the operation of administrative directives of the Treasury Board. But all provincial agencies and regulated funds are subject to the accounting and reporting provisions under the Act, with the exception of those exempted by statute, universities, colleges, and hospitals.

MR. CHAIRMAN: Are there any questions on The Financial Administration Act that you want to direct to Mr. O'Brien?

MR. O'BRIEN: If not, Mr. Chairman, perhaps I could quickly cover the format of the 1978-79 Public Accounts, in accordance with it. Volume 1 includes the audited financial statements of the Crown, the government, and the various agencies. Section 1 of the Accounts provides for the first time the consolidated statements which I referred to. I don't know whether . . . I presume at this stage we wouldn't want any detailed comment there. We can have comments there.

There are statements on the realizable assets, liabilities, and net assets of the province on this consolidated basis, which was prepared, as the Auditor mentioned, in accordance with his recommendation in the 1977-78 Public Accounts. These statements really eliminate the interfund holdings of the various funds and agencies. Obviously members would be aware that the heritage fund, for example, holds debt of a number of other provincial agencies. Those kinds of holdings are eliminated, so that we get the net financial picture of the province.

Then section 2 of Volume 1 includes the traditional General Revenue Fund financial statement, the budgetary statements of the province, and reports against the budgetary plan that was presented by the government back in March 1978. Then section 3 simply has the financial statements of revolving funds; section 4 the statements respecting regulated funds other than trust funds, funds that are held with a third-party beneficiary, where the government is simply holding them in trust. Section 5 contains statements of provincial corporations.

I should perhaps just note which regulated funds have been included, because there are a number of regulated funds. We have specifically given separate statements for the loan funds, as we call them, the rural electric fund revolving fund, and so on, the horned cattle fund, motor vehicle accident claims, the school foundation fund, forest development research, health care, the Alberta planning fund, and the Heritage Savings Trust Fund. Then we simply have all the other regulated funds on a summary statement in that section.

Section 5 has the statements of provincial corporations. There's a detailed table of contents at the beginning of that section. There are a number of those provincial corporations. These are the corporations that are funded in some fashion from budgetary revenues. Then we have financial statements of provincial committees. Those are unincorporated bodies. There are only a few of them -- the Students' Finance Board and the Environment Council of Alberta are located in that section. Then we have the financial statements of the commercial enterprises. Those are also provincial corporations, but ones that are entirely self-sufficient. There are five under that classification: the Alberta general insurance company, the Workers' Compensation Board, the Liquor Control Board, the treasury branches, and AGT.

Then finally, in section 8, we have a schedule of the trust funds, a summary of the trust funds that are held by the government for third-party beneficiaries. So that is Volume 1, which includes really all of the audited financial statements. In prior years, the audit statements of provincial agencies were included in Volume 2. This time we have all the statements in Volume 1, and then the consolidation of those in the first section.

Volume 2 then contains details of revenue and expenditure of departments. In the final section, section 24, we have included a number of supplementary schedules that are required by specific provisions of The Financial Administration Act, such as the schedules, special warrants, and those statements.

The format of the departmental statements follows essentially that of the estimates that are presented in the House. I think essentially the information provided is similar to that provided in prior years. We have some less detail on some of the subprograms. We have included for the first time the expenditure by program element, which is provided as supplementary information with the estimates, and we have a comparison of the actual expenditure against the estimates at the element level this year in Public Accounts.

Finally, as is noted in the introduction to Volume 1 of the Accounts, we will be providing as supplementary information the details of payments by payee or vendor, as it's traditionally been called, as soon as they're available. We have encountered some difficulty in producing that information. It's a fairly massive task. The Auditor had made some changes in the previous year and provided some additional detail, which has given us some difficulty in meeting that level. But we have now completed that information, and it's just about ready to be printed. So we're hopeful that it will be available shortly.

I think that's all I'd offer by way of introductory comments, Mr. Chairman.

MR. CHAIRMAN: Do we have any questions that you want to direct at Mr. O'Brien, on the Act or the principle of Public Accounts, volumes 1 or 2?

MR. KUSHNER: Mr. Chairman, I have a question. It might be in considerable detail, but I haven't seen anything here that indicates what revenues or expenditures, or how it's organized, with regard to the lotteries -- the provincial revenues with that. I was wondering, does it fall under Culture or . . . It might be too much detail to be discussed right now.

MR. O'BRIEN: The accounts do not include any statement of the revenues, if you're referring to the revenues of the Western Canada Lottery Foundation, which is a partnership of the Edmonton and Calgary exhibition associations. The revenues that arise there arise under a licence issued by the minister responsible for the lotteries Act, and have not heretofore been considered public moneys. The moneys are not paid back to the minister or to the General Revenue Fund.

There are conditions under that licence as to who the beneficiaries of certain of the lottery revenues will be, and a number of provincial agencies do receive, such as, I believe, the historical resources foundation, from the Western Canada Lottery Foundation. Their receipts would appear in the financial statements of the particular provincial agency. But only to that extent would they appear in these accounts. They do not appear in a consolidated fashion as a statement of lottery revenues. The Auditor's report, of course, has raised the question as to whether that is the correct treatment of lottery revenues, but that's essentially a legal question, at least, as well as perhaps raising other questions.

MR. CHAIRMAN: Any further questions? If not, we'll turn the meeting over to Mr. Rogers, and he can go through his first annual report. Mr. Rogers.

MR. ROGERS: Thank you, Mr. Chairman. On the matter of the consolidated statement, I think it may be of interest -- Al didn't mention it, but I think it might be of interest to state that we are the first in Canada to achieve a consolidated statement. I believe a number will be following us in due course.

Mr. Chairman, as requested, I will deal with the Act first. The Act, which was a companion piece of legislation to The Financial Administration Act, 1977, went into effect, of course, April 1, 1978, for the '78-'79 year. It

had a number of features. One was to appoint an Auditor General as an officer of the Legislature, and cleared up the age-old problem of to whom does the Auditor report. Now the Auditor General reports to a select standing committee of this House, the Standing Committee on the Offices of the Auditor General and the Ombudsman. I would report on the basis of experience to date that that is working very well. That committee is responsible, in effect, for the housekeeping, if you will, relating to the Auditor General's office, the approval of estimates, and the submission of those estimates to the Treasurer.

The Act also deals, through this measure, by segregating -- having the Auditor General report to a select standing committee of the House, it in effect enunciates the independence of the office from those whom he's auditing, namely the government. I would like to say in passing, though, that I've been with the office for 32 years and therefore under two governments involved during that period, and I do not know of a single instance where the Auditor did not in fact have independence. There was never any constraint on the Auditor during that period, to my knowledge, and before that, of course.

However, I think it is good practice to have it in an Act as we have today, as a result of The Auditor General Act commencing in 1978. For the first time the Auditor has a reporting mandate, which is set out in sections 18, 19, and 20. Section 18 deals with the task the Auditor has traditionally had; that is, to give an opinion on financial statements. Section 19 is somewhat different, and for the first time gives the Auditor a specific responsibility to report to the Legislative Assembly

on the work of his office . . . on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

And any reservations of opinion he had to any financial statements under Section 18. Further to that, he is to report any instances he has observed that:

(a) collections of public money

- (i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,
- (ii) have not been fully accounted for, or
- (iii) have not been properly reflected in the accounts.

With regard to disbursements of public money, any observations he has in the course of his auditing work, where disbursements

- (i) have not been made in accordance with the authority of a supply fund vote, Heritage Fund vote, or relevant Act,
- (ii) have not complied with regulations, directives or orders applicable to those disbursements, or
- (iii) have not been properly reflected in the accounts.

Similarly, with regard to assets "administered or otherwise held," if those have not "been adequately safeguarded or accounted for."

Now, what is really new in the Act are 19(2)(d) and 19(2)(e). For the first time, the Auditor is called upon to observe systems where

- (d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of

assets or the determination of liabilities were not in existence .

And, if they were in existence, where they "were inadequate," and even if adequate systems were in place, where they "had not been complied with."

With regard to effectiveness, it calls upon him that

(e) where appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or were not being complied with . . .

And to cover any situation where the Auditor feels very strongly that the Legislative Assembly should be aware of the situation, that perhaps was not covered by any of the foregoing, "he shall call attention to any other case he considers should be brought to the notice of the Assembly."

There are further areas where the Auditor General may comment; that is, he may

(a) comment on the financial statements of the Crown . . . or any other organization or body of which he is the auditor . . . on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed, [and also that he may]

(b) include summarized information [in his report] and the financial statements of an organization on which he is reporting or summaries of those financial statements, [and may]

(c) comment on the suitability of the form of the estimates . . . for controlling disbursements for the fiscal year under review.

What else is new, is that in addition to the reporting responsibilities, is the establishment of an audit committee, with which I reviewed the draft of the report. And I can say without hesitation that I believe this is a good process. The review with the audit committee was most helpful. It did cause me to change the wording of the report, but not to cut anything back.

It made it apparent that some expansion was necessary in, I think, two areas. I simply added to the report to make it more readily understandable. Because this is new, I thought I would just cover this point, that I believe the discussions with the audit committee, which are normal practice for an auditor in the private sector, has worked out, in my opinion, to be a very good thing. It's been very helpful as far as I'm concerned. Then subsequently the report was printed and given to the chairman of the standing committee on the offices of the Auditor General and the Ombudsman for tabling.

Section 20 allows for special reports "on any matter of importance . . . that should not be deferred." There were no reports of that nature in this last fiscal year.

Mr. Chairman, I think perhaps those are the most significant aspects of the Act. If there are any questions, I'd be happy to answer them.

MR. CHAIRMAN: Are there any questions in regard to The Auditor General Act you'd like to direct to Mr. Rogers? Mr. Kushner.

MR. KUSHNER: Mr. Chairman, through you to Mr. Rogers, when you're performing a financial audit, in conjunction with your financial audit do you also look at procedures as far as efficiency of paper flow and that sort of thing is

concerned, within a specific department, or is that just left up to the administration of the particular department?

MR. ROGERS: Yes, we do. I think this will come out as we go through the way in which audits are conducted and the way our office operates. But very definitely, we review internal control, and this does of necessity involve us in reviewing document flow, and so on and so forth. And we do make recommendations.

MR. CHAIRMAN: Mr. Fjordbotten.

MR. FJORBOTTEN: Mr. Chairman, through you to Mr. Rogers, you mentioned that the audit committee worked out very well and that it was a new approach. I have three questions about that: how many were on the audit committee, who were they, and why do you think it was of value?

MR. ROGERS: There were six on the audit committee. They were appointed by order in council. The chairman is Hodden Thomson, a chartered accountant; Mr. Liden, who's a QC; John Rooney, who's a senior chartered accountant in Calgary. We have a systems analyst from Imperial Oil, whose name just eludes me for a moment, I'm sorry, and a businessman. And the Provincial Treasurer is also on the committee.

Why do I feel it worked out well? First of all, I should go back and say that we have been creating audit committees in various provincial agencies now for the last several years. I think an audit committee, just as this committee does, causes the Auditor to be on his toes. I think it's a good exercise. But especially at the draft stage of the Act. By the time it's at that level, you're very, very familiar with almost every word and comma and so on. And it's a good exercise to have the Act as the report, at that stage, looked at in detail in a critical way by a group of people who have not been privy to all that went before. That is why we felt it necessary to expand on a couple of points that we knew what the meaning was; it was very clear. But it was obvious that it needed further explanation, for it to be meaningful to someone who had not been privy to what had gone before.

MR. CHAIRMAN: If there are no further questions regarding the Act, maybe, Mr. Rogers, you could carry on with your report or explanation.

MR. ROGERS: Thank you, Mr. Chairman. If we look at 1.1.2 on the first page, there are two features that should be appreciated that revolve around Section 25 of the Act. I purposely didn't mention these in the review of the Act. Section 25 says:

In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

That's the first point: one of materiality. The second point is Section 19(5). Again, I believe unique in auditor general Acts across the country. It says:

The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

As far as I'm concerned, the purpose behind such provisions is to have a report that zeroes in on those things that are either important or pervasive.

It enables also maximum encouragement, if you will, to do what is most important; that is, correct deficiencies as early as possible. I think it's obvious that if a department -- during an audit we find deficiencies in controls, and there is no evidence of loss -- and I would assure you on this point -- then the important thing is to close that door before any horses go through it. This is best achieved by the fact that if the department gets busy and gets the situation corrected, then we've really achieved the main objective; that is, preserve public funds, or lessen the risk to public funds.

Just to confirm what I said earlier, if any loss is detected when we also discover a weakness in control, then it's in the report. There's no doubt about that. We are simply talking about usually quite technical points, where control can be improved, and to catalogue these in the report would, I'm afraid, perhaps obscure the main thrust of the report. I have some examples which would perhaps make that clear.

For instance: recording of receiveables and follow-up thereof is inadequate to control receiveables; a control account should be established and maintained, with a monthly follow-up made of unpaid accounts. In other words, this is the very point we're talking about, where we're recommending improved procedures, but the current procedures have not evidenced -- although perhaps it is possible that they could give an exposure to loss, there is no evidence that any loss has occurred.

So those kinds of things are what 19(5) is designed to give us the best way of getting early rectification. And it is working. If it wasn't, by the next year, if the matters have not been satisfactorily addressed to be rectified, it would be in the next report. So really it's a one-year hoist, in order to give a reasonable chance to rectify the situation; if the situation is not rectified in that year, then it will appear in the report, whether or not a loss has occurred. I just wanted to make sure that that was fully understood.

MR. McCRAE: Could I just ask you, Mr. Rogers, to get a general -- I guess we can't be down to the last one -- but a general cooperation from the departments in responding to your concerns about some of the controls that you said did not result in any loss of money, but you thought there were better systems and had recommendations. Were you generally supported by the departments?

MR. ROGERS: Yes. Very definitely.

MR. McCRAE: And we'll find our next year whether some of them quarreled with your judgment, and if they did, it'll be in the report.

MR. ROGERS: I should perhaps explain that a number of steps take place. At the close of an audit, but again, before we have anything firmed up as far as a management letter is concerned, we meet with senior officials of the department, and there is discussion of all the points we have discovered during the course of the audit. At that time, the department can present its arguments, if they feel we are in error or if they feel there are extenuating circumstances that perhaps we were not aware of, and we can generally argue it out.

Subsequent to that, we prepare a management letter, which goes out from the Auditor General's office to the department, setting out our recommendations and observations. Then a copy of that report also goes to the secretary of the Treasury Board, and the Treasury perhaps can comment on this, but they do follow up with the department. So this whole process, in effect, everyone is doing everything they can to ensure that matters are rectified. I believe this is a good way to approach the problem.

MR. CHAIRMAN: Mr. Clark, from Drumheller.

MR. L. CLARK: Thank you, Mr. Chairman. You were saying that you are giving the departments that had no loss but where controls weren't the way you'd like to see them, you're giving them a year to try, and then next year, if they're not, it would appear in your report, when there was no loss. My question is: if there was a loss in that department, will it appear in the report?

MR. ROGERS: Yes, it will be in the report automatically. And also, you could have a situation where there was no loss, but where the problems were so pervasive that I would not feel that we should use this discretion granted by the Act. And it would be reported then anyway. It is a judgment call, each and every time.

MR. CHAIRMAN: Mrs. Cripps.

MRS. CRIPPS: I understand then, that you're scrutinizing the various departments all through the year, and making recommendations, and they act on those recommendations. Do I take it then that all year long you work in the various departments, and if you were in Agriculture, say, in January 1979, you will be back in Agriculture in January 1980?

MR. ROGERS: Not necessarily, no. We are going into departments during the year on what we call a concurrent basis, looking at individual transactions from a sampling of transactions right across the government. That's one aspect of that auditing. Another aspect is, as near as possible, an annual visit. This usually takes place after the end of the fiscal year. This is one reason why the report, almost of necessity, appears quite a long time after the end of the year being reported on.

Most of the work that this report covers took place between the beginning of 1979 and right up until about last December. That was on the fiscal year, '78-'79. So, for the nine months, pretty well, after the end of the year we are auditing. The results of that work appears in the report. The Auditor General's office, of course, was created April 1, 1978, but between April 1, 1978, and the end of that year, pretty well, we were working on the '77-'78 fiscal year, clearing up our responsibilities as Provincial Auditor. So that's the timing of it.

MRS. CRIPPS: Supposing there was a concern raised by a member, if they came to you. Is that permissible, and what would the procedure be? Supposing that, say, I was concerned about some aspect of some department, is that permissible, and I came to you, what would happen in that case?

MR. ROGERS: I think such concerns would be best addressed through the House or this committee. If there was a matter that you were aware of and you, as an individual, wished to give some evidence to me, that would also be correct. But generally, I think it would be better if there were a resolution of this committee, for instance, asking me to do specific additional work. But if a matter was brought to me and I felt the evidence was such that I should act on it anyway, under my mandate, then I would proceed.

MR. CHAIRMAN: The Leader of the Opposition.

MR. R. CLARK: Mr. Chairman, and through you to Mr. Rogers, what might we look at as rather a general time frame as to when we receive the report. This year, the report was made available to the committee, when? March 31, 1979. Is that what we're looking at each year? I recognize the initial year, with

the changes and so on. What I'm really trying to find out is: will we traditionally be getting the report early in the spring session, as we did this year?

MR. ROGERS: I would look to being able to table with Public Accounts, right on the first day or so of the spring session. I think it's not possible to make the fall session, and I don't really think the report should be released prior to its being tabled. That is custom; for instance, in Ottawa James Macdonnell has been sort of sitting on his report now for a long, long time, and I think it's being tabled today, or very soon. But I think that's what we are looking at. Hopefully, it will be ready to be tabled on the very first day, or as soon thereafter as is necessary, as the session begins in the spring. That is what we would aim for, regardless of when the session began.

MR. R. CLARK: Mr. Chairman, might I ask a question of the same nature of Mr. O'Brien? Mr. O'Brien, the tradition in Alberta has been for a number of years that the Public Accounts would be released in September, October, or November. We've now slipped back to a situation where it's become many months later. I think now would be an appropriate time to hear from you as Controller as to what kind of time line you, sir, are looking at in making the Public Accounts available.

MR. O'BRIEN: I think we would certainly hope that we could improve on the timing this year, as we get into it and become familiar with the preparation of the accounts and standardize the procedures. I think also that the Treasurer is hoping to produce more timely interim financial reporting that we've always managed to date. I certainly would think that we would hope to be able to have Public Accounts available by the late fall.

The real constraint on us tends to be with the statements of the numerous agencies and funds. The primary budgetary accounts of the province are, I think, relatively easy to finalize, both in terms of preparing the statements and the audit of them. I think, Mr. Rogers, this has traditionally been the case. The real problem is that we have to have audited financial statements of all these agencies and funds before we can put the accounts together, and with the number of audits and the volume of activity, it's just difficult to get them finalized. I think we had one agency whose audited statements weren't finalized until mid-December this year. There were some peculiar problems there, but that is the constraining factor.

I think both ourselves and the agencies and the auditor's office will try to improve the timing. We certainly can make some improvements on our timing, and certainly in future the supplementary information on payees will be available when the other accounts are. The constraint of having the agency statements is there, and I expect we're looking at the late fall, at best.

MR. R. CLARK: Mr. Chairman, might I ask one further supplementary question of Mr. O'Brien or Mr. Rogers? Have meetings taken place with the agencies that have been -- I wouldn't want to use the word delinquent, but let's say slow, in getting their statements into the Provincial Controller? Because we've had a series of events over the last several years where Public Accounts have gotten later and later. I can certainly appreciate some of the reasons for this year, Mr. O'Brien, but if the basic problem is that these provincial agencies aren't able to get their situation in line to enable that, have there been some discussions with those groups, and can you give some kind of assurance that hopefully that can straighten up?

Mr. O'BRIEN: Yes, certainly we have had continuing discussions with the various agencies, and we're trying to make everyone aware of the importance of getting these statements finalized as promptly as possible.

MR. R. CLARK: I guess the third supplementary, and the last one I get, Mr. Chairman, would be to Mr. O'Brien or Mr. Rogers, and it deals with this question of the interim financial statements of the province. We follow the same practice there. This isn't meant as a criticism, but I think you'd agree with me; it's a fact. We've fallen to the point where, would I be exaggerating if I said that we were a full quarter behind on some occasions? I take it the nod means yes, that that's accurate. Are we going to be looking at getting that thing straightened out?

MR. O'BRIEN: Yes.

MR. R. CLARK: When might we expect them, then? Is six weeks after the quarter unreasonable?

MR. O'BRIEN: I don't think it's unreasonable . . .

MR. R. CLARK: You can just stop there, that's all right.

MR. ROGERS: I think perhaps I could make a comment on that. I think, Al, it's a case that your resources in working on finalizing Public Accounts are the same ones that would be working on the interim statements. I think that was the real problem wasn't it, on this last one.

MR. R. CLARK: If I might just be permitted, Mr. Rogers, with the greatest of respect, sir, the interim statements -- it isn't just the last one that's been late.

MR. CHAIRMAN: Mr. Notley.

MR. NOTLEY: I want to go back to the question of the deficiencies that are being rectified and not reported, although just as a passing comment on the last exchange, part of the problem is getting enough people in the auditor's department to be able to do the accounting work. I suspect there may be some personnel problem there.

The question I wanted to raise, Mr. Rogers, is: how extensive is this question of using the discretion of not publicly reporting concerns? You indicated, sir, that there was a management letter that would go to each of the departments. I assume it would probably actually go to each of the branches, would it, where you find concerns?

MR. ROGERS: There are several hundred.

MR. NOTLEY: And obviously these are not going to be reported unless there are deficiencies which either result in a loss of money, or are sufficiently serious that they should, in your judgment, be drawn to the attention of the Assembly and this committee. But that does give you a rather substantial latitude. I guess the question I would put to you is: how extensive is this? We have a number of recommendations that you have made and observations that you've drawn to our attention, but if you have several hundred management letters, then in fact, we are looking at many, many concerns that you've had brought to your attention, which you are then trying to rectify through the more conciliatory approach within The Auditor General Act. I think, as a

member of this committee, I would find interesting how extensive the practice is.

MR. ROGERS: In practice, it almost works the other way around. What we did in preparing this report -- now, admittedly, this was the first report, and we were feeling our way, and are not going to go this route for the second report -- but for preparing the first report we did just the reverse. We went through these hundreds of recommendations -- many of them, as I say, technical, and some of them very minor -- and made our selection, first of all looking for where there was any loss, secondly looking for those things that were pervasive; in fact, almost every management letter mentioned the subject. So in effect, rather than using the discretion not to report, we looked through everything to decide what should be reported, and did review every single item that had been reported in management letters in the course of the year.

MR. NOTLEY: Now let's just follow that along a bit. Suppose, for example, that recommendations were made in a management letter to the Department of Government Services -- totally for the sake of argument, a hypothetical case -- and they did not act upon those recommendations. Would the following year's report of the Auditor General include that management and draw to our attention the failure of a particular department to act upon those recommendation. Obviously, we're not going to table the 200-odd management letters, but, where there has been a failure to follow up, we do have the assurance then that the report of the Auditor General will in fact then bring this specifically to our attention and the management letter that hasn't been dealt with?

MR. ROGERS: I anticipate that next year -- because the first year, this is obviously not applicable -- any such situations will detail in the report the time at which the original recommendation was made, the extract, the replies, extracts from the replies from the department giving us assurance that matters were being proceeded with, and then the extract from the next management letter, wherein we'd found that in fact they had not rectified the situation. So, yes, everything will be incorporated in next year's report, on '79-'80.

MR. NOTLEY: Thank you.

MR. CHAIRMAN: Dr. Anderson.

DR. C. ANDERSON: Mr. Chairman, and to Mr. Rogers, the hon. Leader of the Opposition may have some information I don't know about, but, how these interim reports -- are they available to the members of the Legislature to review, or are they . . .

MR. R. CLARK: . . . sent in the mail to you . . .

DR. C. ANDERSON: Okay.

MR. R. CLARK: You're just too busy.

DR. C. ANDERSON: So they are mailed out each quarter.

MR. ROGERS: The quarterly statements, yes. They are not audited. They are prepared by the Controller, and mailed out.

DR. C. ANDERSON: What about the pre-audit program you have in effect with management review, are those reports coming out as well?

MR. ROGERS: The management letters that I referred to?

DR. C. ANDERSON: Yes.

MR. ROGERS: Those are strictly from my office to the 'auditee,' the party being audited, whether it be a department, a branch of a department, a provincial agency or whatever. It's addressed to the deputy minister or chief executive officer, with a copy to the minister, and a copy to the secretary of the Treasury Board, in each and every case.

DR. C. ANDERSON: Thank you.

MR. CHAIRMAN: Mr. McCrae.

MR. McCRAE: To the Auditor General. Last time we met last fall, Mr. Rogers, you advised the committee you were having some difficulty recruiting the personnel you wanted in Alberta and in Canada. I think you were off to Britain at that time. Could you report to us whether you have succeeded in hiring the people you wanted, and whatever?

MR. ROGERS: Mr. Chairman, in reply to that question, I would advise the committee that I did go to London, England, interviewed, using the facilities of Alberta House. It was a very successful week. The end result of that week was that 18 chartered accountants were hired. Some have arrived, and others are arriving in the very near future. Our present strength in chartered accountants, which of course are the key to any auditing practice, is 43; with 18 coming, that will give us 61, which still leaves us nine short. In that period we have lost quite a few chartered accountants in the normal turnover, which is quite high -- seven since this January 1. So it is an up and down situation, but the ones arriving are extremely good, and we're very happy with them.

MR. CHAIRMAN: Mr. Pahl.

MR. PAHL: Thank you, Mr. Chairman. To Mr. Rogers. I noticed that you said "chartered accountants." I'm aware that there are other people in the industry: certified general accountants and registered industrial accountants, to name two. I would ask the question whether your area is the domain of the chartered accountant, and what implications this has for opportunities for Alberta people -- the necessity to go to England, it just raises a flag, sir. I wonder if you might comment on how we could perhaps encourage these institutions, if they can fill your needs, to perhaps respond better than they have in the past.

MR. ROGERS: First of all our office is a practicing office for the purpose of training students, and we operate in precisely as any firm of chartered accountants in the province. The problem is with a rather chronic shortage of chartered accountants in this province today generally, in that firms are also recruiting from the east and from the U. K. As a matter of fact, one or two firms were in the U. K. at exactly the same time I was there, and some of the people I interviewed were going between interviews -- also for Alberta.

So I think our preference would definitely be to train people and have them graduate in our office. Second to that would be to hire CA's who've graduated in other Alberta offices; third, to get people from the east, within Canada,

and only go to the U. K. pretty well as a last resort. We've gone through all those steps. We do train some people, but the problem is even getting students. We are hoping that this whole program is improving, but it is a step-by-step process, and going to London was the very last resort. I think I interviewed four or five different occasions in eastern Canada, when I happened to be there on other business.

MR. PAHL: Thank you, the second part of the question, or perhaps the first, was the other designations in the accountancy industry, if you will. Are they not to your standards, or could you perhaps clarify?

MR. ROGERS: We do have some RAs on the staff, yes. But generally speaking, the practice of auditing is in the area of chartered accountants, because it is the Institute of Chartered Accountants which is the standard-setting body with regard to auditing standards. We certainly have no closed door on people from other bodies, but we primarily, I think, have to be a chartered accountants' office, which we are.

MR. PAHL: A supplementary, if I may, Mr. Chairman. Does that mean that for purposes of acceptability for your requirements in the audit procedure, provincial Crown corporations would have to have as their auditor a chartered accountant or a chartered accountants' firm?

MR. ROGERS: A provincial agency? Under the Act, I'm the auditor of all provincial agencies.

MR. PAHL: Yes. And your requirement is that these agencies have their work done by a chartered accountant?

MR. ROGERS: Not necessarily. No, not at all.

MR. PAHL: Okay. Thank you.

MR. ROGERS: As a matter of fact, the strength of the RIAs is in the area of management accounting.

MR. PAHL: Okay. Thank you very much.

MR. CHAIRMAN: Mrs. Cripps, did you have a question?

MRS. CRIPPS: I think Milt asked most of my questions. The certified general accountants, do you use any of them in your offices? The second question is: is it a natural turnover of staff, and where do they go?

MR. ROGERS: We have some, what we call technicians, in the office who are taking CGA courses, and they will work their way up the ladder over time. The turnover problem I think arises because of opportunities in industry, in firms, and with other parts of the government even. For instance, one of the seven chartered accountants I mentioned a few moments ago went to the treasury branches. There was a vacancy there, and he was able to move there at a higher salary. I think in all cases the people who have left us have bettered themselves financially. In one or two cases, it's a question of simply advancing in the career. I think that covers most of these situations. It does involve going to other companies, usually within Alberta.

MRS. CRIPPS: Do you feel that the turnover is healthy, say, for your department, because of the fresh look that incoming people take at the government spending in the various departments?

MR. ROGERS: I'm sorry. I missed the first part of that.

MRS. CRIPPS: Do you think that the turnover of staff in the Auditor General's department is healthy because of the fresh look that someone coming in would take at the spending in the various departments?

MR. ROGERS: I think some turnover is always healthy, but I think it's a little high. But it is occasioned by the economy we have in the province today. The opportunities are there, and you see, unlike a firm, we cannot offer a partnership and the kind of . . .

AN HON. MEMBER: Management profit sharing. *laughter*

MR. CHAIRMAN: I broke the tie between the next two questions. They both had their hands up at the same time. So I'll go furthest, to the far end and Mr. Notley.

MR. NOTLEY: I guess just on a question, Mr. Chairman, to Mr. Rogers of the fact that we are nine CAs short, and we were even more seriously short before your successful trip to Great Britain. That still is a matter of some concern, coupled with the turnover. I don't mean this to be an embarrassing question and hope it isn't, but obviously one of the problems is, as you mentioned, that people can better themselves financially by going into the private sector. To what extent do we have to be more competitive in the salaries we pay, in order to keep people for a reasonable period of time? I agree with Mrs. Cripps, that a little turnover would be always helpful, but the serious turnover and being short at this time are something that really should concern this committee. If we have to take a close look at the salary levels, as a committee, then perhaps we should do that.

MR. ROGERS: I think that's quite true. I am holding discussions with the public service commissioner on classification and this matter generally. His office of course is also concerned because they were involved in the recruitment of these chartered accountants. But I will be reporting to the select standing committee on this matter, of course, because it is a matter of great concern to us.

MR. NOTLEY: A supplementary. Do you have any plans or is there any reasonable prospect of reaching the target number that we need. You were quite successful in Great Britain, but we're still nine short and we have people leaving from time to time. Seven have left since January 1, and it's probable that others will leave, as opportunities develop. What initiatives can be taken now, and is there any hope of reaching the full complement at this stage, given the present constraints.

MR. ROGERS: We have a competition underway right now, or very shortly. We are advertising across Canada again in the very near future, and the results of that -- I think it would be perhaps overly optimistic to get a completely full complement. I think we have a built-in vacancy rate that recognizes the fact that you always have some vacancies, which means that if we did have a completely full complement, we wouldn't have enough money to pay them. The vacancy rate recognizes that you do have some vacancies in the normal course, but I would like to get as near to a full complement as possible.

MR. NOTLEY: Just as a supplementary. A vacancy rate of nine out of 61 is a little more than you would considerable desirable?

MR. ROGERS: Yes. Far too high. That's right.

MR. CHAIRMAN: The Leader of the Opposition.

MR. R. CLARK: Mr. Rogers, a question to you and a supplementary to Mr. O'Brien. Mr. Rogers, over the past couple of years, what has been the turnover rate in what formerly was the Provincial Auditor's office and is now the Auditor General's office? Just some sort of ballpark figure there.

And to Mr. O'Brien, how is the Provincial Controller's office off as far as professional staff?

MR. O'BRIEN: I'm not sure I caught exactly the last part of your question.

MR. R. CLARK: Is the Provincial Controller's office up to complement as far as staff is concerned? CAs and so on.

MR. ROGERS: Perhaps, would you like a formal answer next week, with numbers? I think that would be the best thing, because actually we were quite a low turnover rate, then all of a sudden it jumped. This coincided with people who came in 1977 being here pretty well two years.

MR. R. CLARK: Perhaps, Mr. Rogers, if I might . . .

MR. ROGERS: I will prepare something for you.

MR. R. CLARK: If you could, perhaps for the last four or five years, so we get some sort of a picture, is that possible?

MR. NOTLEY: Basically since the guidelines..

MR. ROGERS: We will prepare something for that.

MR. R. CLARK: It would be good if it were just a year or two before the guidelines came into effect. If we could just include a year or two before the guidelines came into effect, and then we can . . .

MR. CHAIRMAN: Mr. McCrae.

MR. McCRAE: Mr. Chairman, I just wanted to ask a supplementary in the same area. I know the recruiting situation is a problem throughout government. It was a problem a couple of years back with the Attorney General, in hiring and maintaining legal staff, and certainly in Government Services, in the computer systems area, and in many many other areas. I guess that's one of the, I suppose you could call it a problem, with the opportunistic situation here in Alberta, the very happy situation where there are alternatives out in the private sector and in other corporations and so on.

But an alternative is always to contract out -- a balance between in-house activity and contracting out. I know in my department we are doing a significant amount of contracting out, just as a balance, and also because of necessity, from time to time, to get the thing done. And obviously you have gotten your work done, because we have your report. So the progress may have been slowed down. I don't know if it was put together as quickly as you wanted, but the fact is that we have your report, so whatever deficiencies

there were did not result in any problem for the public, the taxpayer of Alberta.

But I did want you to comment, if you would, on the contracting out possibilities of effectively doing your work, sir, in the time that you would like to have it done.

MR. ROGERS: Several years ago, we adopted the policy of, in effect, having audits carried out by firms of chartered accountants within the province, on an agency basis. This means that the responsibility to report to this House is mine, but the work is actually carried out by the firms, and my senior managers are involved at all stages of the audit, including the planning. But the actual work is carried out by the firm. We are sufficiently aware of the worth of the work carried out and the findings that the opinion is mine. And that is a recognized procedure under the CICA handbook, reliance on other auditors.

MR. CHAIRMAN: I'm sorry, Bob. You didn't get a reply on your question.

MR. O'BRIEN: Well, I could just say that I think we're getting fairly well staffed in the Controllers function. Of course, a number of staff were transferred from the Auditor's office in the disbursement control area, and we were sort of starting from scratch in the other areas, but our accounting division is fairly well staffed. We do have vacancies. I don't think we have any unique problems.

MR. R. CLARK: Serious problems?

MR. O'BRIEN: Not serious problems. We're not looking for as many people with the required audit experience and qualifications as the auditor is, but certainly all areas of financial skills are tight. I don't think we've had unusual problems, and we're getting reasonably well geared up.

MR. CHAIRMAN: It's now 11:30, and we do have several more people wanting to ask questions. I'm sure we can spend one more meeting going through Mr. Rogers' report. Also, if you want to go back to any questions as far as Public Accounts are concerned to direct at Mr. O'Brien at our next Wednesday meeting, be prepared for that. Maybe I could just say, on the recommendations in this report, I think it is important we go through them. Be prepared, so we know how we're going to handle them, how we're going to discuss them, and be looking at an agenda, in the event that we complete the overview of the report on the Auditor General and Public Accounts, so we can consider an agenda for the following meeting. I think that's one area we should keep in mind on how we're going to handle the recommendations, or are we going to have some input into the recommendations.

If that's agreed, could we have a motion to adjourn?

MR. NOTLEY: So moved.

HON. MEMBERS: Agreed.

The meeting adjourned at 11:33 a.m.