Legislative Assembly of Alberta

The 27th Legislature
Second Session

Standing Committee
on
Public Accounts

Auditor General

Wednesday, May 6, 2009
8:30 a.m.

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MacDonald, Hugh, Edmonton-Gold Bar (AL), Chair
Quest, Dave, Strathcona (PC), Deputy Chair

Benito, Carl, Edmonton-Mill Woods (PC)
Bhardwaj, Naresh, Edmonton-Ellerslie (PC)
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Drysdale, Wayne, Grande Prairie-Wapiti (PC)
Fawcett, Kyle, Calgary-North Hill (PC)
Jacobs, Broyce, Cardston-Taber-Warner (PC)
Johnson, Jeff, Athabasca-Redwater (PC)
Kang, Darshan S., Calgary-McCall (AL)
Mason, Brian, Edmonton-Highlands-Norwood (ND)
Olson, Verlyn, QC, Wetaskiwin-Camrose (PC)
Sandhu, Peter, Edmonton-Manning (PC)
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Jeff Dumont	Assistant Auditor General
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8:30 a.m. Wednesday, May 6, 2009

[Mr. MacDonald in the chair]

The Chair: I would like to call this meeting of the Standing Committee on Public Accounts to order, please. On behalf of the members I would like to welcome everyone in attendance this morning. Perhaps we can quickly go around the table, starting with the hon. Member for Strathcona, and introduce ourselves.

Mr. Quest: Good morning. Dave Quest, Strathcona.

Mr. Jacobs: Broyce Jacobs, Cardston-Taber-Warner.

Mr. Benito: Carl Benito, Edmonton-Mill Woods.

Mr. Dallas: Cal Dallas, Red Deer-South.

Mr. Chase: Harry Chase, Calgary-Varsity, looking very forward to the Auditor's reports today.

Mr. Kang: Good morning, everyone. Darshan Kang, Calgary-McCall.

Mr. Dumont: Jeff Dumont, Assistant Auditor General.

Mr. Ryan: Ed Ryan, Assistant Auditor General.

Mr. Dunn: Fred Dunn, Auditor General.

Mr. Saher: Merwan Saher, Assistant Auditor General.

Mr. Dharap: Vivek Dharap, Assistant Auditor General.

Mr. Drysdale: Wayne Drysdale, Grande Prairie-Wapiti.

Mr. Olson: Good morning. Verlyn Olson, Wetaskiwin-Camrose.

Mr. Vandermeer: Good morning. Tony Vandermeer, Edmonton-Beverly-Clareview.

Ms Rempel: Jody Rempel, committee clerk, Legislative Assembly Office.

The Chair: And I'm Hugh MacDonald, Edmonton-Gold Bar.

Before we proceed this morning, I'd like to welcome the visiting group of Canadian Comprehensive Auditing Foundation fellows that have come to observe this morning's meeting. They are participants in a nine-month CCAF international fellowship program that is a collaboration between the office of the Auditor General of Canada, the Auditor General of Alberta, and the CCAF. The Alberta Auditor General's office was partnered with the State Audit Office Vietnam last September as part of an expansion to this program. The program is sponsored by the Canadian International Development Agency and is designed to expand knowledge and understanding of public-sector accounting and auditing as practiced in Canada. Fellows work with audit teams and attend pertinent courses. The experience is designed to help them address auditing issues in their home environment.

Two of the fellows have been working with the office of the Auditor General of Alberta since last September while the rest of the fellows have been working with the office of the Auditor General of Canada in Ottawa. They are here today as part of a tour of western Canada that is taking place as they near the conclusion of their program. The fellows will be returning to their home countries in early June. I would ask them, if they wouldn't mind, please, to stand up as they're introduced. This year's fellows are Mr. Jacob Essilfie from Ghana and Ms Chandrawattie Samaroo from Guyana. From Kenya we have Ms Lucy Machungo. From St. Lucia we have Mr. Lenus Deterville. Good morning. From Thailand we have Ms Jane Kittima Hanthaipholdee. Good morning. From Vietnam we have Mr. Duong Tan Cao. Also from Vietnam we have Mr. Phuong Anh Nguyen. Good morning and welcome. They are accompanied today by their hosts Ms Donna Bigelow, program co-ordinator, international affairs, at the office of the Auditor General of Canada, and Ms Barb Dumont, administrative assistant, international programs, from the CCAF. Welcome, and I hope you find our meeting interesting.

May I please have approval of the agenda that was circulated? Mr. Olson. Moved by Mr. Olson that the agenda for the May 6, 2009, meeting be approved as distributed. All in favour? Seeing none opposed, thank you.

May I have approval of the minutes that were distributed for the April 29, 2009, meeting? Mr. Chase. Moved by Mr. Chase that the minutes for the April 29, 2009, meeting of the Standing Committee on Public Accounts be approved as distributed. All in favour? None opposed. Thank you.

Of course, this comes to our next item on the agenda, the meeting with the officials from the office of the Auditor General. This morning we're dealing with the Auditor General's report of April 2009 and the annual report of the government of Alberta 2007-08, which includes the consolidated financial statements of the government of Alberta 2007-08 and the Measuring Up document. We also have for our convenience the previous Auditor's report from 2008 and, of course, the one from April of this year for reference.

Mr. Dunn, please.

Mr. Dunn: I'll be very brief, and then I'm going to turn it over to my Assistant Auditor General. The report that we will briefly highlight is the April 2009 report. However, should there be questions that come out of the October 2008 report, we'd also entertain those questions at that time. This report in April 2009, similar to our April 2008 report, covers primarily postsecondary institutions in Alberta. In that regard, Jeff Dumont will provide some opening comments.

However, it does include, as I mentioned last week, a chapter starting on page 69 that talks about the consolidated financial statements. It's been a long time since our office has produced a separate chapter trying to explain some of the unusual items or the more difficult to understand items within the province's consolidated financial statements. I'm hoping that members have had a chance to look at that chapter and will feel comfortable asking us questions regarding the provincial consolidated financial statements of 2007-08.

With those brief opening comments, I'm going to turn it over to you, Jeff, to talk about the postsecondary institutions' audits.

Mr. Dumont: Okay. The public report contains 20 recommendations for the postsecondary institutions. First, the University of Lethbridge. This chapter, which starts on page 23, reports the results of our examination into the risks of entering into a business relationship between the university and a third party to form Alberta Terrestrial Imaging Corporation, or ATIC, a not-for-profit research company.

We found that management should have provided more information to the board of governors on the recommendation to pursue the business relationship and that the university should improve its processes for determining if ATIC is still meeting the university's objectives. Thus, we recommended that the university should strengthen its processes for assessing and monitoring business relationships related to research and periodically report key information on risk to the board of governors.

We have five recommendations in our chapter on Bow Valley College, and that begins on page 13 of the report. In November 2008 the college informed us of an alleged fraud by a senior employee that took place from July 2005 to November 2008. This employee, a former director, was terminated by the college in November 2008. The college alleges that approximately $190,000 was diverted to businesses operated or controlled directly or indirectly by the director. The college investigated and referred the matter to Calgary police, and they're currently investigating it.

Weaknesses in the college's system of internal controls enabled the director to allegedly prepare and submit invoices for the payment of commissions on contracts for which no services were provided. The director could initiate and approve service contracts without any secondary review, initiate and approve new vendors and invoices, and have the payment hand delivered to his department. We identified opportunities for management to improve the internal controls over personal service contracts, vendor maintenance and payment processing, and improve the processes for dealing with unethical conduct in the workplace. The five recommendations related to this work are on pages 16 to 21 of the report.

It's important to note here, though, despite the weaknesses, that we do commend the college for advising our office in a very timely manner. They did conduct a thorough and effective investigation, and they have shown good commitment to deal with the issues that we raised during that work.

The remainder of our Advanced Education and Technology chapter, which is on page 75 of the report, contains 14 unnumbered recommendations to postsecondary institutions. The sheer number of the recommendations combined with the fact that many of them relate to weaknesses in basic internal controls that expose the institutions to potential frauds and error is a cause for concern. In addition, we also noted that certain recommendations focusing on improving financial reporting would help management to better run the institutions and the audit committees to provide better oversight.

The other postsecondary institution that has a greater proportion of the findings in the report is Grant MacEwan College, which has four new recommendations. These, when you combine them with recommendations that we've had in past public reports, indicate that the college has an ineffective control environment for an organization of its size. The college needs to solve its staffing and system information issues and its internal control weaknesses. Until it does this, the college continues to be unnecessarily exposed to risks of fraud and error. On pages 81 to 84 of the report we talk about three forensic investigations that the college is currently carrying out.

Ed, do you want take over?

8:40

Mr. Ryan: In our environment and drinking water chapter it was a follow-up audit, which starts on page 33. We made six recommendations in '05-06, and we followed up on three of those recommendations during this period. The department has made satisfactory progress on two of the recommendations, those being improving the approval and registration systems and improving their inspection systems. They've implemented the third recommendation that we followed up, that being improving strategies to deal with the province's need for certified water treatment operators. Our follow-up work confirms that the department is now better positioned to maintain Alberta's drinking water safety performance.

In our emergency preparedness follow-up on page 47 we found that our 2002 recommendation about improving co-ordination of emergency preparedness plans in the province is no longer valid. A new agency, the Alberta Emergency Management Agency, was established in 2007-2008 with the responsibility to prepare an overall comprehensive emergency plan for the province, and this is under way. As this agency is still in its infancy, we will wait a year to 18 months and then audit the new agency's performance towards its mandate.

Mr. Dunn: Over to Merwan.

Mr. Saher: Thank you. In our reforestation follow-up chapter, that starts on page 49, we report the results of our follow-up audit of the Department of Sustainable Resource Development's systems to regulate reforestation. In our follow-up work we assessed if the department had implemented the five recommendations in our 2006 annual report. In this follow-up audit we found that the department had not yet implemented a process to report on the effectiveness of reforestation activities. We are therefore repeating our original recommendation because the department still does not publicly report relevant and sufficient reforestation performance information to confirm the effectiveness of its regulatory systems. This is recommendation 2 on page 52.

However, the department has made satisfactory progress on reforestation monitoring and enforcement. The department is implementing a formal quality control system over its forest management operations. The system includes standardized protocols for department staff to follow when they monitor industry's compliance with reforestation requirements. Also, this quality control system will include an ongoing independent review and certification. We believe this quality control system will bring the necessary rigour to make monitoring for compliance effective when it's fully implemented. We report what remains to be done in section 4.2 on page 56.

Management at SRD also took steps to assess the sufficiency and integrity of the provincial seed inventory, so we are satisfied with progress on that prior recommendation.

Finally, the department implemented our recommendation to clarify its accountability expectations for the Forest Resource Improvement Association of Alberta.

I'd also like to, as the Auditor General mentioned at the beginning, bring your attention to the chapter on Alberta's consolidated financial statements. That chapter starts on page 69. In June of this year the government will report on the consolidated financial statements of the province for the fiscal year ended March 31, 2009. Our goal in including this chapter is to promote a better understanding of the province's financial affairs.

On page 99 of the report we report on our review of the financial statements and management letters of school jurisdictions. We do this review because with one exception we are not the auditor of school jurisdictions.

Finally, on page 103 we have a recommendation to the Alberta Capital Finance Authority. We believe the authority needs additional skilled resources to ensure it produces quality financial statements and reports for its oversight board.

Thank you. I think that concludes the introductory comments.

Mr. Dunn: Back to you, Mr. Chairman, for questions from the committee.

The Chair: Thank you very much.

We'll start with Mr. Chase.

Mr. Chase: Thank you. I'm very grateful for and reliant upon the audited reports your department provides. Referencing the list of audits that were deferred or cancelled, can the Auditor explain how certain audits were prioritized for completion while others were deferred or cancelled outright? I have two specific examples. Specifically, why was the choice made to defer the audit on the effectiveness of the fiscal regime until 2011?

Mr. Dunn: Okay. I've tried to explain before how we scope out our work, how we select that which is going to be audited and then how we priorize within there. When we were looking at the resources that we had available within our office and we had to reconsider the plans that we had previously put in place, we stepped back to look at those audits which we had already started or started to acquire some knowledge on and were partway through. Those were the ones that we felt we should continue on because we did not want to stop and lose the value of the work that had been done to date.

After that we looked at it on a priority basis, based upon those that we felt had the greatest opportunity to be of service to the public sector, and we looked at those matters that I've mentioned in the past where we look at the vulnerability of Albertans, the protection of the assets and revenues of Alberta. We used that as a screen to decide what we'd do in the next period.

In the course of trying to be able to accommodate what our resources can handle, we selected the ones as you saw there. For the most part almost 70 per cent continued on. A number ended up being actually deferred, moved to another time slot, and we had to choose to defer that one.

Mr. Chase: Thank you. I am aware that approximately one-third of your audits had to be either stalled or cancelled due to lack of funding. Another specific concern I have: why was the choice made to outright cancel the PDD, persons-in-care audit?

Mr. Dunn: Indeed, that one would meet our screen about vulnerable Albertans. However, we have done extensive auditing in PDD, the different boards. As you know, there are a series of boards there. We've done an extensive amount of work in the past years, and the response we received to those recommendations is that they are being addressed and being followed up. In addition, the internal auditor has also done a lot of work within the contract in the PDD boards. We felt that there was a sufficient amount of work between our office, its follow-up, and what internal audit had done that didn't warrant for us to go in and spend the resources at this time in that area.

Mr. Chase: Thank you.

The Chair: Thank you.

Mr. Quest, please, followed by Mr. Kang.

Mr. Quest: Good morning. Thank you. On page 4 of the results analysis, financial information, your office shows a return of \$408,000. If you could just provide the committee with an explanation as to why there was a surplus for 2007-2008.

Mr. Dunn: As you appreciate, our office works on a continuous auditing process, and we don't start on April 1 and end on March 31. When we completed our financial statements at the end of March '08, we had unexpended resources at that time of the \$408,000. However, we had contracts in place that required work to be done just shortly after March 31, and that's why we requested a supplemental of \$750,000. It was just merely the timing of putting the resources, the external contracts in place. They occurred after March 31, prior to March 31; thus, we appear to be returning \$408,000, then at the same time requesting \$750,000. I know that at an earlier meeting you had aggregated those. Really, you should net the two of them. The \$408,000 we required, but it was at a different time period. It went into the next fiscal period.

Mr. Quest: Okay. There were some other postponed systems audits that are mentioned in here. So there was just no way to complete those before the time had run out for the fiscal year.

Mr. Dunn: Yeah, and that's the difficulty. When we report on a fiscal year-end for financial purposes, March 31, it doesn't mean to say that we've actually fully completed the audit work by that date. Some does go into April and, obviously, into May.

Mr. Quest: Thank you.

The Chair: Thank you.

The chair would like to welcome Mr. Mason this morning. You indicated a wish to participate?

8:50

Mr. Mason: Yes, I wish to participate. Thank you.

The Chair: Mr. Kang.

Mr. Kang: Thank you, Mr. Chair. On page 110 of your April 2009 report, in the outstanding recommendations section, you list recommendation 9 from your 2006-07 report, that "the Ministry of Energy clearly describe and publicly state the objectives and targets of Alberta's royalty regimes," as outstanding. What is the cost of the failure to implement this?

Mr. Dunn: I can't answer the question as to what is the cost of the failure. We are pursuing that recommendation because that is a very important recommendation. Of course, it is also made more complex as the royalty regime and the requirements have been changed. We are actually under way right now auditing the new regime, and we expect to report on the findings of that audit in October 2009. But as to what the cost is, I think that question belongs to the Department of Energy.

We did report in October 2008 that as a result of a lack of understanding as to the source of certain gases, which was called fuel gas, approximately \$25 million of royalties had not been collected by the department for a few years. There was an example there where the volumes, although being reported, were misclassified as to the source; thus, the fuel gas royalties were not being paid by those that were consuming the gas which goes into powering the pumps and pipelines and things like that. Thus, the royalty was not being remitted to the province, and that was an example of \$25 million of missing revenue.

Mr. Kang: I think this question is my supplemental. The royalty regime is changing. Do you have any understanding of when the Ministry of Energy will be getting around to doing this?

Mr. Dunn: This is not a simple process, as I hope everyone appreciates. To change the royalty is difficult. To also then put in place the supporting systems to accommodate the changes is very difficult. With the first announcement of the new royalty regime the Department of Energy immediately went into developing the supporting processes. However, subsequent amendments to that regime have required them to go back and revise certain of the supporting systems. I believe the Department of Energy is here next week, and they would be able to answer that question.

We certainly started to undertake the look at the new system immediately as it started to be developed because that's where we could look to see if there was opportunity to avoid future problems. We've had to defer some of that as the subsequent changes have come into play. We are at this time completing that work in order for the Department of Energy to be able to report in its March 31, 2009, financial information.

As you appreciate, the new regime came in January 1, 2009, so three of the months within the current fiscal year will be under the new regime. We are looking right now at testing the system for the integrity of reporting under that new system.

Mr. Kang: Thank you, sir.

The Chair: Thank you very much.
Mr. Dallas, please, followed by Mr. Mason.

Mr. Dallas: Thank you, Mr. Chair, and thanks to Mr. Dunn and all of your team for the fine work that you're doing on behalf of Albertans. The essence of this work, I think, is that Albertans have developed trust in the observations and reports. The continuation and further development of that sense of oversight to expenditures and value for money, I think, is critical, which brings me to the April '09 report. On page 49 there's a discussion on reforestation. In that report it states that because the department does not ensure through its regulations that the private sector sufficiently reforest cutblocks, Alberta's forests "are in danger of depletion." That's a bold statement, I think, that perhaps is contrary to some of the research that's out there. What's the current approach taken by the department to ensure that private companies are contributing to reforestation?

Mr. Dunn: Okay. I'm going to turn that over to you, Merwan.

Mr. Saher: We don't have evidence as an external audit group looking into the department of SRD that the forestry industry is not keeping up its side of what it's supposed to do under its arrangements with the province. Really, the repeated recommendation we have, which is public reporting on the success of reforestation, is an important recommendation in that it's the only objective way for the department to demonstrate that its systems for monitoring are functioning, that industry is doing what it should do, and that the fundamental standards that are being used are in fact appropriate, that the standards over time will result in healthy, regenerated commercial forests.

I think that if I come back to the recommendation we're making, we really think it's essential that that recommendation be complied with, that there be public reporting which an external party can look in at that source of the data, make a confirmation that the reporting is credible. In that way, I think the department will in essence be helping industry to demonstrate that industry is in fact doing what it is doing.

Mr. Dallas: Okay. Well, along that line, then, while I guess changes in regulation would be able to induce private companies to plant more trees, in the course of the examination did you find that there might be some other ways that would be just as effective but would either eliminate the need to place extra burden on those industry participants or the department itself?

Mr. Saher: No. Remember that we as an audit office are not experts in forestry management. We're looking in at the systems that the department has. We have no evidence that the basic systems that the department has to monitor what industry is doing need to change or that the department has to place a greater burden on industry. We're simply saying that you have well-designed systems; make sure that they're operating in practice. In point of fact, you know, in my opening comments I did make the point that we do believe that the department's monitoring is, in fact, more robust now than it was three years ago.

Mr. Dallas: Thank you.

The Chair: Thank you very much.
Mr. Mason, please, followed by Mr. Jacobs.

Mr. Mason: Thanks very much, Mr. Chairman. Mr. Auditor General, I'd like to follow up on a question about the objectives of a royalty program. I heard you say that it's a work-in-progress and that the Department of Energy is coming before the committee, but I'd like to know what the framework of an effective royalty program looks like. What tests would it have to meet in order to qualify as a royalty program that was, in fact, effective?

Mr. Dunn: Okay. We tried to address that exact question some years ago when we did our original work back in 2006. When we looked at the objective of why we actually did go and look at that work, it was representations at that time by the minister of the day in the House that a royalty review had been done and that the results of the royalty review would be tabled in the House. There was a fair amount of dialogue within the public and within the Legislative Assembly and different parties regarding: "Where is the royalty review? Show us its consequence." That's why we undertook that original work, Mr. Mason.

As you remember, at the time I expressed that my interest was that if a royalty review had been done, I wanted to read it: show me what it contains. Thus, I had a personal interest. Also, I ran into a bit of difficulty because a document, a binder, that publication was not made available to me, so I became more interested. The two questions we tried to answer were: what is a royalty review, and if they were not doing a royalty review, what were they doing?

That's why the original results that we produced in our audit contained five elements for what a royalty review would entail. It's all publicly available in our report, those five elements. We felt that the department had got to elements 1 and 2. We had engaged at that time internationally recognized specialists in royalty review. One individual had consulted on the Alaska revision to its royalties and also on the Norwegian revision. He had advised us, as part of our team and our audit, that you must go through the five elements, and where Alberta had gotten to was elements 1 and 2. It really was looking at the collection of historic arrangements, not looking at its new arrangement in modern petroleum economics, that type of thing.

9:00

If your challenge there is what had the department done, until such time as following the Royalty Review Panel, it really hadn't engaged in a revision or a royalty review. It had looked merely at the initial elements of the royalty reviews, elements 1 and 2, and had seen if those two were continuing to be monitored by the department. That's all it had done. It hadn't gone into rechallenging the rates. It hadn't gone into the consultation that it should have done. Thus, we concluded that it was insufficient.

Mr. Mason: With respect to the new royalty regime that we have in place in Alberta, there has been a lot of criticism of that from the oil companies', the energy companies' side. I rather suspect that the impact on our industry has a lot more to do with the current price of the commodities than any moderate and minimal tweaking of the present royalty regime. I'm wondering if you're planning to do any follow-up audits on the new royalty regime to establish that it's effective, that we're getting the value that we need from the resources, and also to test the notion that is being put forward in some sectors of downtown Calgary that it is a severe disincentive to the activities of that industry.

Mr. Dunn: I'm not sure if we'll ever address your latter comment there. In our original audit, when we looked at the former royalty regime, what we had portrayed within our report – you remember that there were graphs in there. The real fundamental issue with the former royalty review was that it was not price sensitive. It capped gas at I think it was 3 and a quarter, it capped oil at a much lower rate, and those rates had not been seen for many years. In fact, the rates that it was capped at really went back to 2001-2002. Thus, with significant and severe price escalation, the royalty regime of the day at that time didn't capture that escalation. Some people would refer to that as the windfall gains.

In the current royalty review – and we are now looking at the systems by which you are supposed to collect the royalty under the new system – it is, as I'm led to believe, designed to be price sensitive. Thus, as the price declines, there will be a lower amount of royalty being attributed to the commodity. As price escalates, it's much more price sensitive, and it will then accommodate for the increased take on that.

[Mr. Quest in the chair]

We're just conducting our audit right now, Mr. Mason, around the systems to see if they are sufficient to make sure you can collect that which you're entitled to. But on whether or not they are fully sensitive to price escalation, we won't do that until a year later. We'll look at the testing on that.

Mr. Mason: Thank you.

The Deputy Chair: Thank you.

Mr. Jacobs, please, followed by Mr. Chase.

Mr. Jacobs: Thank you, Mr. Chairman. I should acknowledge to the Auditor General that I probably don't understand a lot about financial statements, but I see a line on page 70 of your report that catches my attention. At the bottom of the page you suggest that had a line-by-line consolidation of statements been done, it would have increased net assets of the provincial government by $12 billion and the surplus by $2 billion. It seems to me that those are fairly significant numbers. Although I read the rest of your report on the explanation relative to the SUCH sector and so on, could you please, in layman's terms that a humble rancher could understand, explain to me exactly what that means and why it occurred that way?

Mr. Dunn: Thank you for the question. This is something which we've been asking, really, the departments of Treasury Board and Finance to explain: "Look forward. This is going to come to pass. Can you explain it within your financial analysis?" Thank you ever so much, Mr. Jacobs, for the question. We thought that was in plain language.

If I could ask everybody to take out your financial statements. If you'll turn to page 49 of this binder, it's an attachment to the financial statements which is called schedule 8, Equity in Crown-controlled SUCH Sector Organizations. SUCH is an acronym which stands for schools boards, universities. . .

Mr. Benito: What page again?

Mr. Dunn: Page 49 of the financial statements, so it'll be near the back.

I'm going to try to answer your question as an Albertan to an Albertan.

Mr. Jacobs: Okay. Good.

Mr. Dunn: On this schedule it shows the elements that are right now not consolidated in the province as a whole. That's your school boards, your universities, colleges, and hospital organizations. They are seen to be external to the province as a whole.

If you look down through the schedule, you'll see that in here there's a bit of an expansion around the one line that appears in the financial statements. If you go halfway down, where assets start, you'll see there's a listing that starts with $2,963,000,000 and then due from government-sector entities, investments, et cetera, and it aggregates to $21 billion. Then it goes to liabilities, and it comes down through liabilities, which aggregates to $17 billion. Within there it says that the net is $3,519,000,000. That appears on the province's financial statement as one number, but it's comprised of all those components. When you look at the assets, you'll see that within tangible capital assets – that's all your schools, all your colleges, all your hospitals, et cetera – it's $12,523,000,000. That's the second-to-last line within the assets. That's your $12,523,000,000.

When the province incorporates all those organizations, what is called as an accounting term – we try with plain language – fully consolidating line by line, if you stick in every line, you'll add into your tangible capital assets, $12.5 billion. So people say: "Where is all this capital that has gone out to be spent? Where is all the capital?" Well, it sits in new schools. It sits in extensions to the colleges and the hospitals. There's a massive construction program over the last number of years.

There's often the question: well, is this simply akin to – I've heard people put the analogy out – Enron? You know, Enron had a whole bunch of nonconsolidated entities, and therefore it had all its debt. When you go down to the liabilities, you have to recognize that the last line in the liabilities – it's an accounting term: unamortized deferred capital contributions – is not a liability in that there's not a payment out to anybody. That is the amount of previous years' cumulative capital transfers to those nonconsolidated SUCH entities not yet amortized into its accounts like depreciation. It's not owing to anybody. What you've got is a cumulative amount of prior years' capital transfers made to those entities that have gone into the ground, built the assets. They're there, they exist, but we don't have much debt attached to them. The only debt you have is really the first three lines, which is the accounts payable, debt held by other government-sector entities, and other liabilities and unmatured debt.

There is significant equity in those organizations that will come into the province when they get fully consolidated. This has been an interesting challenge to the accounting standards that are in Canada dealing with the public sector. It's not unique to Alberta. This is happening with all jurisdictions. Initially it was proposed that they would be doing line-by-line consolidation effective this year-end, March 31, 2009. Because of some of the challenges within other jurisdictions – not Alberta, but other jurisdictions have significant challenges – when this comes into play within their organization, you're going to find that a substantial amount of real debt comes on the books of that province or that jurisdiction, and that is going to be difficult to communicate.

9:10

Some of our very large provinces have substantial amounts of debt existing in their postsecondary education, within their health authorities, that type of thing, and there is some debate as to which entities are truly controlled by the province. In Alberta, because of the structure and the way in which the boards are put in place, it is our conclusion together with Treasury Board and Finance that Alberta as a government controls these entities and thus will include them all. Certain jurisdictions have pushed back on that and are possibly considering revisions to their legislation whereby they will not be able to describe that they control it, and this won't come in.

Anyway, when this takes place in 2010, with the 2010 equivalent of these numbers, the assets will come in together with the attached liabilities, but you will remove these nonliabilities, these accounting deferrals, and you'll bring in substantially more assets – approximately $12 billion, I believe, Merwan, is what we're looking at – than real liabilities.

Within the transfers, the actual costs of the province, the province, as you know, makes operating grants – those are the grants that you debate in the House, the supply votes – and it makes capital grants. When those capital grants go out to the unconsolidated SUCH sector, when the capital grants go out, they are written off as a current-year expense. So if you end up consolidating those entities, those capital grants will come back on as a long-term asset and not a current-year expense. Thus, the amount of the normal capital grants paid to these nonconsolidated entities will not be expensed; thus, your bottom line will go up.

Where is that described in here? In the upper part, Merwan? I'll turn that over to you at this point.

Mr. Saher: What the Auditor General has just been talking about is that on a full consolidation what the budget treats as a capital expense . . .

The Deputy Chair: Mr. Saher, if I can just get you to trim it up just a little bit. We have a fairly long list of questions.

Mr. Saher: Fine. Essentially, the Auditor General at the end of his comments there was talking about the change to the operating result of the province. The questioner had asked about the $12 billion, but as we note in our piece on the consolidated financial statements, there's also a change to the reported financial result of the province. That's connected with the fact that as the money goes out, it's treated as an operating grant, but on full consolidation it's replaced by what it actually is, which is infrastructure in the SUCH sector.

Mr. Jacobs: Thank you very much for the explanation. I will not ask a further question given the time.

Mr. Dunn: Essentially – and I'm sorry for the length of it – this is going to be an interesting challenge for everyone to understand: how did our assets go up so much, and why is our surplus going up or our deficit not as large? It merely is the way in which historically all governments have treated capital transfers to nonconsolidated entities.

The Deputy Chair: Mr. Dunn, that's actually pretty interesting, and we have some of our committee members not here. I would ask: is there some way you could distribute that in writing to the committee?

Mr. Dunn: Well, it is recorded in *Hansard*. We will undertake to see if we can add to that.

Certainly, when Treasury Board appears before this committee, that's a very good question to ask Treasury Board. They're the authors of the financial statements, so when Treasury Board appears before you, that's the type of question you should be able to ask and get a very good answer on. But we'll undertake a summarized version of what I've said, through the clerk, to distribute to committee members.

The Deputy Chair: That would be great. Thank you.

Mr. Chase, please, followed by Mr. Drysdale.

Mr. Chase: Thank you. I can't help but note the importance of covering our assets in order to avoid exposing our risks.

The government chose to ignore two key recommendations of its Affordable Housing Task Force with regard to temporarily capping rents and freezing condo conversions. Instead, it paid out over $121 million taxpayer dollars to landlords through its homeless and eviction fund initiative. With the recent cancellation of the homeless and eviction prevention fund, the deferral of the review of the HEP fund until October 2009 has great significance. Are there any initial conclusions you could speak to about the management of this fund? What specific aspects of the management of the fund are you reviewing or analyzing?

Mr. Dunn: You had probably heard earlier from the ministry that the initial program, when it was launched, was looked at by internal audit because there were accusations that people who were not eligible for it were receiving payments. At that time, we thought we'd let the internal auditors complete their work, and then we would pick up the work after it. The program has, as you've just mentioned, Mr. Chase, substantially expanded. We are presently under way right now completing that audit, and there's nothing I can share with you right now. I would have to ask you to wait until our report comes out in October 2009 and is available to all Members of the Legislative Assembly, but we do expect to be able to report on that total use of those dollars – and I believe it might be in the $120 million range now – in our report of October 2009.

Mr. Chase: Thank you. I look forward to that report.

The Deputy Chair: Mr. Drysdale.

Mr. Drysdale: Thanks. Good morning. My question is a little general. In reading your business plan here, you refer to consulting with Albertans. I just wanted to know: how often does the Auditor General consult with Albertans and determine the services that are being delivered?

[Mr. MacDonald in the chair]

Mr. Dunn: Being delivered by our office?

Mr. Drysdale: Yeah.

Mr. Dunn: Yeah. Well, by the nature of our office's involvement in all these organizations – and there is a listing of the extensive organizations at the back of the annual report, and it's at the back of all ministry ones – we get involved in virtually all of those entities. Through there, we're talking to those who are managing those entities, together with the oversight and governance people. We see that as an element of consulting because we are hearing what their challenges are in how they're running those businesses, and we take into consideration the matters that they have raised with us as to whether or not we should be completing some work in those areas.

By way of example, in the postsecondary institutions, as we deal with all the various institutions, the universities and colleges, we realize that they're challenged in a couple of common areas. Those might be information technology upgrading and compatibility. So we look at the matters around information technology. If it's a challenge to all of them, then we'll look at an audit in that regard. Also, investment and investment planning and management: we look at those, and we advise and consult with the department as to whether or not we'll undertake an audit in that area. That comprises a substantial amount of when we do our interaction with the public.

We also, obviously, receive comments from the public, unsolicited comments that they provide to us on a fairly regular basis. We look at the merits of those comments as to whether or not we would follow up and complete an audit on that. But if you're looking to: do we actually carry out a survey and just address the public at large? No, we do not. The only survey that we have carried out: for the first time we surveyed the MLAs this year – and we thank those who did respond – to pick up their comments as to where we might complete audit work.

Mr. Drysdale: I guess my supplemental is: do you correspond with the general public to report on your work? I mean, you do your reports, but do people write in to you and say: you know, I'd like you to look into this matter? Do you correspond back and forth?

Mr. Dunn: People call; they write e-mails and old regular mail, yes, and we reply to all of them. But we do not reply as to a conclusion. We just reply that we will consider what they have shared with us as to whether or not it deserves our completing an audit in that regard. Any matters as to a conclusion which is public reporting are contained only within our public reports, which are submitted first and foremost to the Legislative Assembly. We try to avoid at all possibility making public any conclusions we've arrived at or recommendations we'll make outside, other than our public report, which goes to the House and thereafter through the House through to the media at that time. By way of example, the management letters that we have which are anchored to all our audits are confidential. They are not made public, and they are not subject to FOIP.

9:20

The Chair: Thank you.

Mr. Kang, please, followed by Mr. Vandermeer.

Mr. Kang: Thank you, Mr. Chair. The new royalty regime has become a kind of moving target. On page 110 of your annual report in the outstanding recommendations section you list a recommendation 10 from page 119 of your 2006-07 report that the Department of Energy improve the planning, coverage, and internal reporting of its royalty review work. There have been a number of swift changes to the royalty regime in the past few months. In light of the dramatically changed economic situation, what impact does the failure to implement those improvements have when changes are being made so rapidly to the royalty system?

Mr. Dunn: Thank you for the question. We are following that up right now. As you appreciate, within the Department of Energy's annual report they have certain performance measures, and they have certain targets. Historically within the performance measures they had described that public policy was that the royalty regime would receive on behalf of Albertans the fair share. Of course, the challenge that we had: how does one measure or describe "fair share"?

They had historically one performance measure which combined the three commodities. When you think of Alberta, those three commodities – natural gas is quite distinct from conventional oil, which is quite distinct from the oil sands, or what some may refer to as synthetic oil – have distinct elements within the royalty regime: you know, well attributions and all the rest of that, vintage, et cetera. You must keep those three separate, and in fact the department aligns itself in a separate way. But in the performance measure they put them all together, and it was a very blurred performance measure. It was very hard to understand what it was that was being received on behalf of Albertans, the fair share.

In addition, when they produced that measure, they didn't use an annual measure. They, rather, used a rolling three-year average, which meant that as you try to determine how much the royalties were compared to the net revenues, so net after operating costs, of the industry, it was difficult to understand what was happening in the current year because it was a three-year average. So our challenge to them was to segregate the performance measure into the distinct elements, those three, and try to report it on an annual year basis. They do have the information on the annual year basis.

Within that performance measure there was described earlier, some years ago, that fair share would be 20 to 25 per cent of the net revenue of the industry. Remember, you've got three commodities, 20 to 25 per cent. The preceding six years were below the floor. It gets masked in years when there's dramatic change. It gets masked when you use a rolling three-year average. So we recommended that they look at it by commodity by year. Thus, we are looking at that right now and how to clearly communicate with the Legislative Assembly and with Albertans at large.

Mr. Kang: Is there some kind of a time frame the department had put on getting around to it?

Mr. Dunn: This is not an easy thing to do. As I said, they had historically done it in a combined approach. Yes, they had to get themselves adjusted to get the data sets and information. We'll be looking at that now. As you are aware, all financial statements, the ministry financial statements, are normally completed on September 30. So by September 30 of 2009 we'd expect that they would have addressed this, or we will be reporting in October that the matter still is outstanding and has to be addressed.

Mr. Kang: Thank you, sir.

Mr. Vandermeer: I'd first like just to commend you on the work that you and your staff do. It is greatly appreciated by all Albertans, and I'm glad that you're doing it and not me.

On page 9 of the business plan there is an increase in spending towards technology services from what was actually spent in '07-08 to what was budgeted for in '08-09. What is the reason for this increase in spending?

Mr. Dunn: I'll start off, and then I'm going to look to Vivek for support. Technology services in the actual spend within our office is really comprised of two areas. One, the technology we use when we complete our work. That's the computers and the software that we use as we record it. We are trying to be paperless. I'll confess that we are not fully successful about being paperless, but we are trying to get paperless and get everything recorded electronically on the computers as our staff do the work around the province.

However, we do also use information technology specialists as we complete the work within the province. It's been a focus of our office for the last couple of years. That's why I'm going to turn it over to you, Vivek. We make use of information technology specialists, and we have, I believe, eight full-time individuals in your department now. We contract in a number of technology specialists as we look at the various features of all the organizations that we audit on a regular annual basis, the attest audit, but also on the special audits that we do on areas such as when we reported in October of 2008 on the information security matter.

Vivek, do you want to talk about why you have so many people and what they are all doing?

Mr. Dharap: Yeah. We have a staff of eight or nine people within the office that conduct routine ongoing reviews of information technology environments in support of our financial statement work. But we also undertake special systems work, like we did on the web application security and wireless security, for which we bring in experts in the field that have the credibility and the experience and can do the work a lot faster than we would be able to.

Mr. Vandermeer: The transfer of technology services over to Service Alberta's budget on April 1 of this year: how will this affect the future budgeting in your office? Will these funds be able to be put towards other areas?

Mr. Dunn: Yes, they will. In that case, that was really a change within how it was being reported by departments, and we were adopting what the departments were reporting. I have chosen purposely – although we're a small office, we should attach ourselves to the information system used by all departments and ministries. Some people have discussed with me that it would be easier if we had our own payroll system and our own accounting system, but thus we do not get personal hands-on experience with Imagis, which everybody else uses. The charges across are done on a pro rata basis, gauged generally by the number of individuals within the unit. The charges from Service Alberta have been treated now as a related party charge as services incurred by them, provided to our office, that we do not account for within our budget and thus are being supplied to us essentially free of cost.

You may have more numbers than I do at your fingertips there. I think it was about a $34,000 annual charge that our office was incurring that was being attached to our budget which we'll no longer be charged for. I believe that those sorts of dollars will be made available, therefore, for us to apply within our other office work.

The Chair: Thank you.

We'll proceed now to Mr. Chase, followed by Mr. Dallas.

Mr. Chase: Thank you. In the October 2008 annual report of the Auditor General of Alberta it is noted on page 360 that there are concerns around land reclamation on public land as managed by Sustainable Resource Development. There are a few recommendations on this issue, and it is noted that if the recommendations are not implemented, there could be significant costs borne by the public if companies are not responsible in doing the reclamation themselves as they're supposed to do. The Auditor noted that in the past 10 years no lands have been reclaimed with public funds. Connected with reclamation, of course, is reforestation. I have personally witnessed a number of failed attempts in that area in the Kananaskis. Did the Auditor find any incidents of this going back further than 10 years?

Mr. Dunn: On page 111 of the April '09 report if you look under Environment, you'll see the top line up there. We've been looking at financial security for land disturbances for many years in this office. In fact, it predates me. We originally had raised this back in '98 and '99. The matters that were of interest were not limited to reforestation. We were looking at any hard metal mining, oil and gas extraction, those where there's significant land disturbances, in that recommendation.

It's been a very difficult one for the department to address. You can see that we've repeated that recommendation twice, in the year 2001 and the year 2005. I believe that we are now following that up this year.

9:30

Mr. Saher: Yes. Just to supplement the Auditor General, we'll have a report on the department's progress with that long outstanding recommendation in our October work.

Mr. Chase: Thank you. I really appreciate your vigilance.

My supplemental: given that the Auditor's April 2009 report notes that this recommendation is outstanding, as you've just confirmed, are there any current cases of concern where companies may be at risk of not reclaiming lands, or is this recommendation more precautionary in a general sense?

Mr. Dunn: First of all, I believe that it's very real, and certainly in an economic period of decline it becomes very important. You're aware that there are some special programs under way in the province: the orphan well. There have been a lot of wells that have been abandoned by previous producers; thus, there came a public policy, a program, by which those orphaned wells were addressed. The cost has been passed over to industry.

There are other ones, including, Ed, the one that you did on gravel, which are reclamation around gravel disturbances. We did conclude there that the rate of security being deposited was insufficient to meet the current costs of reclaiming open pits because it hadn't been addressed for about a decade. It also affects any mining industries. So if you have a coal mine, whether underground or surface mining, those also have to be reclaimed. That's also an industry which has had ups and downs as to whether or not they're profitable at the time.

We expect that the department has taken a serious look at this recommendation. I'm led to believe in the meetings that I've attended that they are really considering how they assess the security, the merits, and the financial stability of the current operators to ensure that those current operators are capable of completing the environmental restoration as the current regulations require. Is that fair?

Mr. Saher: Yes. I don't think I can add to that.

Mr. Chase: Thank you.

The Chair: Mr. Dallas, please, followed by Mr. Kang.

Mr. Dallas: Thanks, Mr. Chair. On page 63 of the April '09 report your office recommends a centralized IT system as opposed to what currently is a decentralized system. I wonder if you could briefly share the benefits that you propose we would realize with a centralized IT support system.

Mr. Dunn: Okay. Service Alberta was here last week, and you heard some of the representations made by the deputy and his team.

It comes to a philosophy in one way: are you able to effect – that's both monitor and enforce – a common process? As you appreciate, the province of Alberta does run on a common platform, PeopleSoft, and as you've got different, essentially self-sufficient, autonomous types of ministries operating under the same common platform, we're looking at two things. One, the economies of scale: can you use common purchasing and common services, including cross-training and all that? Also, can you have a common set of security policies that you can monitor and enforce?

The difficulty with running what some have called a decentralized – we've used the term federated – model is that if you don't have a common set of security enforcement, you could end up with a weaker process at one ministry. The weaker process may make the other ministries more vulnerable even though they, themselves, have adequate security. I referred to that in my meetings with others as the tunneling effect, and that's why we looked at the web applications, a significant number of web applications. Should you have a weak system within a web application in one ministry, it is possible with the ingenuity of the hackers that will come out – they'll come through that vulnerability and go through that ministry into another one and thus expose a ministry, unbeknownst to it, to a great vulnerability.

We believe in a more centralized approach for both economies as well as security.

I'll turn it over to Vivek. Over the years you've been trying to preach, I think, about more centralized control.

Mr. Dharap: The report that we made in April exposed or identified the risks with not having a centralized environment. What happened in this case was that you had contractors that the ministry was allowed to hire and enter into agreements with and oversee, and you had a contractor that Service Alberta under their collective oversight was able to manage. The difference in the way the two contractors were managed highlights the risks inherent in a decentralized environment, where you don't have a common standard and you don't hold them to the same security policies, practices, and so on.

Mr. Dallas: Okay. Currently, for example, Bill 52, Health Information Amendment Act, referred to the field policy committee, discusses legislation around changes to the electronic health record. Albertans' expectations regarding the privacy of that information – the message is clear that it's absolutely paramount. Would adoption of this type of policy create a requirement for systems privacy that would be of the very highest order and perhaps create the essence of a requirement for overapplication for other types of information that would not deemed to be personal or sensitive?

Mr. Dunn: That is a very loaded question and a very difficult question. I'll share with the committee members that we are looking at electronic health records right now. We expect to also report on that in October 2009. That is the challenge. It is not just the government, the Department of Health and Wellness, and those others that are involved within the electronic health record field, but all of the practitioners and all of the different offices. It's the security element there.

We are also involved and have consulted with the Privacy Commissioner. The Privacy Commissioner has had a role in looking at the PIA. What are those called?

Mr. Dharap: Privacy impact assessments.

Mr. Dunn: Privacy impact assessments. He looks at the vulnerability of the health records from the practitioner's perspective. That is a matter that we'll be addressing, Mr. Dallas, in our current audit.

It's difficult to get the economies and efficiency and all the security with so many participants involved. It's a very, very difficult challenge to get all that when certain practitioners may believe in a more open system and maybe less secure operations. That might result in a higher level of security than some people believe necessary. Trying to balance all of the various participants' objectives and expectations is going to make that a very challenging program. That's why it's a very expensive program and across the country a very expensive program to try to establish.

With the current issues that are happening around the world, what's now known as the swine flu, electronic health records could be of great assistance to the medical practitioners. Some people may find that an invasion of privacy if it was somehow connected to people's personal well-being. Those are challenges that that process program has to address. We'll be looking at it, really, from an information technology efficiency and security perspective and, hopefully, report in October 2009.

The Chair: Thank you.

Mr. Kang, please, followed by Mr. Olson.

Mr. Kang: Thank you, Mr. Chair. On page 255 of your October 2008 report recommendation 25 stated that there was a need to have better accountability of the level of environmental benefits that came from the bioenergy program receiving grants from the Department of Energy. The department has accepted that recommendation, but it's still listed as outstanding in the April 2009 report, page 110. Do the measures that the department introduced provide an accurate assessment of the environmental benefits these programs bring?

Mr. Dunn: First of all, I'll address the comment about it being still outstanding. As you appreciate, we made this in October 2008. This will take a while for them to address. We use as a protocol rule of thumb permitting an organization approximately three years. If they have agreed to a recommendation, they can align their priorities within their office, require resources and attention, and they would have up to three years to satisfactorily implement and address it. The fact that it's still outstanding in April is kind of natural.

We do expect, though, that they will be addressing this recommendation. They have accepted it.

9:40

Mr. Saher: Yes. Just picking up on the Auditor General's point, I think it would be unrealistic to expect that we could have done a follow-up audit and formally in April concluded that this recommendation has been dealt with. Having made the recommendation, we do spend time asking the ministry to give us an implementation schedule: who's going to do what by when. If we think that that won't be effective or is too slow, then we will make a comment much earlier than the three-year period to suggest that we're not satisfied with the intended rate of progress.

Mr. Kang: Thank you, sir. Thank you, Mr. Chair.

The Chair: Okay. Thank you.

Mr. Olson, please, followed by Mr. Chase.

Mr. Olson: Well, thank you. I also want to thank you all for what you do. It's a little bit overwhelming to look through this volume of information. It's nice to know that there's somebody who can actually interpret it for us and put it in words that we can understand.

I want to ask I guess they would be some more general questions about what your office does. I've just been kind of scanning through your business plan, and I have some questions about the relative emphasis on systems audits as opposed to assurance audits. It appears that some of the input that you received from MLAs, you comment, has led you to conclude that there should be some further emphasis on systems audits. I guess I'm wondering whether that was the only input or whether there's some other factor that led you to that conclusion. Given that assurance audits are your core business number one, I'm wondering – it looks like you're going to be reducing some spending or at least a percentage of spending in the coming years while you are increasing some spending in systems audits. I'm just wondering if you could talk a little bit about how you reached these conclusions and also how you pick which departments to do systems audits on.

Mr. Dunn: Okay. First of all, I want to look to the Auditor General Act of Alberta. Quite often there's been a challenge about the mandate of this office. Is it the same as other offices? I've expressed a number of times that the mandate of the Auditor General of Alberta is as wide as any and as fulsome as any across the country. Some have said: it seems like your office is not as proactive or as sensationalized as maybe certain of our colleagues who maybe garner other press type of attention. Why isn't this office involved more?

Our office is challenged with the two audits as you see in the business plan. Section 11: we're the named auditor of all these entities. That is unique in Canada. The office of the Auditor General across the country is not the named auditor of all ministries, departments, agencies, boards, commissions. Thus, when you had the McCrank report, which named these 200 and something entities, we were out there auditing all these endowment funds, et cetera. A good example: in Ontario they don't audit the colleges, the universities, the health authorities, those types of things. So our mandate is very large and the allocation of resources to that is very important.

The other aspect, though, is what makes the office of the Auditor General different from a normal auditor. Those of you who are interactive with a normal auditor know what they do. They come in, they audit the financial statements, and they say, "Your financial statements are A-okay and in accordance with GAAP," and then they're gone. They don't talk about my business, my risk, my systems, et cetera. Section 19 of the Auditor General Act was written deliberately. If you look for a moment at section 19(2)(d) and (e), our office is compelled to report to you annually on systems by which the departments, boards, agencies, and commissions run their business. Are they efficient with due economy? So value for money. Do they have systems by which they can demonstrate effectiveness, so do they actually do what they've set out to do? That's a very difficult challenge. Never within the Auditor General Act did it say how much you spend over here and how much you spend over there. Because of the significance and size of the scope of all the entities involved, we are more skewed towards financial statement compliance audits. We're more skewed to there. It is a challenge for my role together with my senior management's role to ensure that we're efficient and effective on those attest audits, the standard audits, that we do not consume excessive resources. Thus, we have to set out budgets. We try and measure ourselves against budgets. We have performance measures whereby when we do a budget on an attest audit, are we efficient?

In the private sector, when I came from that role, we had a natural way in which we could measure our efficiency. It was called the revenue you charge to your client. If you were inefficient, you didn't collect all your hours and didn't get paid. That certainly sharpened your focus around the efficiency there. I have to make sure my staff are very efficient and effective on the job doing the attest audit. The rest of it now, what we have within our budget, will go to that section 19, where I am compelled to report to you on: do the government and the departments have effective and economic systems?

Alberta, again, is unique in that we're, I believe, the only jurisdiction or one of the few jurisdictions where the actual ministries, the departments report annually in an annual report. That puts a lot of additional auditing out there that other offices don't do. It's very good, but it means that that is a requirement every year. We must report, in accordance with the legislation of the province, by the end of June and for the ministries as soon as they're available so that they can produce all their annual reports. We've got to meet all those deadlines.

On section 19 what do we do? Again, I've mentioned that and shared it with you before. We try to look at those where there has been – through the course of our attest audit we learn about their business, but is there a vulnerability in running that business where there are new risks, emerging risks, changes, possibly processes that have not been modernized for many, many years that produce risk around the exposure of the asset to not being protected? So we looked at priorizing capital spend, deferred maintenance, those sorts of things. Are there revenue streams where we could be vulnerable, where we're not collecting the revenue to which the province is entitled? Are there vulnerable Albertans out there? We looked at seniors' care and PDDs and those sorts of things.

We try to allocate very carefully the residual. We had a target of about 30 per cent, and we're not achieving it. We're probably down in the low 20 per cent of our resources to the section 19 element of our mandate, which is to report to you where there are weaknesses in the system that produce those three Es in that the department or organization is not as efficient or economic as it should be, and thus there is a potential for loss of value for money. That's where we allocate the other.

Mr. Olson: Thank you. I have one follow-up. Maybe your comments are a nice segue into my next question. Again, reading through your report here, I noticed that you suffered from the same challenges that many other employers do in Alberta or have in recent years in terms of finding qualified staff.

Mr. Dunn: Yes.

Mr. Olson: I've been very interested just in my own constituency and moving around the province a little bit, speaking to employers in recent months. I'm surprised at how quickly some of those things are turning around. I have people telling me that where they couldn't find a warm body, all of a sudden they have a list of people. I'm wondering, particularly given the guests that we have with us today, whether or not you are now having an easier job. I see that as a strategic priority for you to be recruiting staff and so on. How's that going?

Mr. Dunn: This year is better than previous years. Exactly. We had a hard time on retention like all other employers. We do take in new students. We develop highly qualified individuals. They become very attractive to external, the private sector, as well as the public sector, and they hire them. However, retention is much better today than it has historically been.

The Chair: Thank you.

Mr. Chase, please, followed by Mr. Benito.

Mr. Chase: Thank you. I realize time is rapidly running out, Mr. Chair, if you could also put me on the list for the read-in questions.

This has to do with Environment. Recommendation 9 on page 97 of your October 2008 report states that modelling or other analysis should be performed to corroborate the ministry's ability to meet 2020 and 2050 greenhouse gas emission targets. Did you find that the ministry used such modelling to determine the targets, or were greenhouse gas targets created from some other means?

Mr. Dunn: Merwan, can you pick up on that?

9:50

Mr. Saher: Modelling was used. There was a very rigorous process that the Department of Environment used in producing the climate change plan. I think the essence of our recommendation is that there needed to be, we believed, a closer explicit correlation between the modelling and the targets that the government put out through its strategy. We were not suggesting that no modelling was used.

Mr. Chase: Thank you.

This is a follow-up which you've begun to answer. You also determined that cost-effectiveness wasn't always considered in determining the actions to achieve targets. Can you comment on what criteria the department did use in deciding which actions to implement?

Mr. Saher: I think the essence of what we are saying is that the criteria that we used were not clear. What we're saying to the department is that in coming forward with your targets, you have to be quite clear exactly which criteria you have used so that people looking in can assess on what basis you have created your target. At this stage I don't think I can go further in answering that question.

Mr. Dunn: I'll only supplement that pages 106 and 107 of that same report you're looking at we reproduced exactly from the department. At the bottom of page 107 it does show what happens around those intensity targets, and these are targets that are established by the department. All we're saying is that if you've identified 70 per cent achievement through CCS, how are you going to achieve the other 30 per cent? What is it that's going happen? That's the challenge that the department is going through. What is the other 30 per cent? Thus, back to the criteria: what are you going to use to evaluate that other 30 per cent?

Mr. Saher: If I could just quickly supplement. For example, in arriving at a target, you should have a view on the actions that you propose, what effect you are prepared to allow it to have on the GDP of the province. We were talking about issues of that nature, having a view of what was an acceptable effect on GDP. That, then, allows you to create a strategy or an action that will correlate with that predetermined effect that you believe to be acceptable.

Mr. Chase: Thank you.

The Chair: Mr. Benito, please.

Mr. Benito: Thank you very much, Mr. Chair. I'd like to start by saying that I know your department's job is not easy, and there are a lot of challenges ahead of you. I just want to wish you good luck, and how you're going to meet those challenges is just a test of time for your department.

My question probably is a matter of a point of clarification. For example, in my situation I can say that my assets – if I have two houses worth $500,000 each and I have two cars, say, a million bucks, that's basically the value of my assets. You just subtract the assets and the liabilities, and that will be the final assets of myself. Now, can you translate your consolidated financial statement 2007-2008 on what is the real focus of assets of Alberta? How much are the real assets or valuation of this province? Can you say that it's a $50 billion value for this province or $150 billion value?

Mr. Dunn: Okay. Very briefly, page 25 has a balance sheet, a financial statement. I believe where you're going is: what is the net equity of the province, remembering that at that time it excluded all the other nonconsolidated entities? When you get down to net assets, how much have we got in the way of assets in excess of our liabilities, and you see $49,186,000,000.

Mr. Benito: Thank you very much.

Mr. Dunn: That's the house less the mortgage.

Mr. Benito: Thank you very much for that information.

Mr. Dunn: Now, it will go up by $12 billion when you add everybody else in. It doesn't go down. That's going to be a real communication problem for all Members of the Legislative Assembly and all the government. How does this province, compared to all of our fellow Canadians, have this huge equity?

Mr. Benito: Thank you very much.

My supplemental question is about the mandate of your business plan 2009-2012. It says here that the mandate of the Auditor General is "to examine and provide independent reporting to the Legislative Assembly." I'm just curious: what is the process after you do your auditing of all institutions, departments, ministries? Are you supposed to get back to the Legislative Assembly, or is there a process that you have to report to the press, media, radio first? Are the institutions, government ministries consulted first about your results? Can you explain or clarify the process for me?

Mr. Dunn: Very simply, within the time, we report to you. The only public reporting that we have is those reports. That's why we chose to go semiannual versus just annual. You'll see within the Auditor General Act the requirement to report annually to the Legislative Assembly. We are continuously auditing. As you appreciate, most entities have March 31 year-ends, but there are a number with June, some with December, so we are always auditing. We report our findings to the management. We agree on the findings, come up with a management letter, which is confidential to that organization and our office until such time as we compile them and report publicly, first and foremost to the Legislative Assembly. So you will always get a copy of the information. We've chosen in the last couple of years to have a media release, but we send it first as a letter directly to you, which will outline what we plan to report on. We then release the information to the media about what we are going to report on. Once we've gone through the requirements of our act to make sure that all Legislative Assembly members have access to the report, we then meet with the media.

The Chair: Thank you.

Mr. Benito: Thank you very much, Mr. Chair.

The Chair: We have five members who indicate a wish to have written questions. Mr. Dunn, we're going to get started, and if you could respond in writing to the clerk, we'd be very grateful. We'll start with Mr. Mason.

Mr. Mason: No, Mr. Chair.

The Chair: Oh, okay. Thank you.
Mr. Jacobs.

Mr. Jacobs: Take me off.

The Chair: Take you off.

Mr. Kang: Referencing page 163 of the October 2008 report, has the Auditor General seen any indication that the department of health has taken steps to develop provincial mental health standards? The supplemental question is: was the Auditor General able to determine how the transition of the Alberta Mental Health Board under Alberta Health Services will impact mental health delivery in terms of costs, obstacles, improvements, et cetera?

The Chair: Thank you.
Mr. Dallas, please.

Mr. Dallas: Thank you. With respect to the discussion on consolidated financial statements and the proposed changes to take place, I'm interested in potential impacts. Given that discussion involved the likelihood or possibility of other jurisdictions using legislation to reduce transparency with respect to compliance, could you provide some examples whereby our ability to compare fiscal performance to other jurisdictions might be impaired?

The Chair: Thank you.
Mr. Chase, followed by Mr. Benito.

Mr. Chase: Thank you. Page 364 of the October 2008 report notes that systems need to be developed to verify quantities of removed aggregate materials, noting that problems could lead to an inability to plan for future needs and Albertans not receiving the correct benefit from the resources. Did the Auditor have any dollar values on how much potentially could have been misreported by SRD in recent years? Secondly, given that this recommendation is still listed as outstanding in the April 2009 report, what remains for the ministry to do? Has any progress been reported on this recommendation?

The Chair: Thank you.

Mr. Benito: My question is about recruitment and retention. You have noted throughout the business plan the need to recruit and retain staff to maintain the quality of your work. What would you attribute to being the biggest factor in not being able to meet your staff requirement? On page 8 of the 2009-12 office of the Auditor General business plan it notes that 78 per cent of employees expressed satisfaction working for the office. Could you elaborate on some of the reasons for their dissatisfaction? Thank you very much.

The Chair: Thank you.
That concludes this portion of the meeting. Mr. Dunn, on behalf of all members of the committee, to you and your staff, thank you. To our visiting delegation this morning, who will be returning to their home countries next month, June, we wish you the very best and hope you found our meeting informative this morning.

10:00

Now, item 5 on our agenda, out of session meetings, members were reminded at last week's meeting that it's the time of the year when decisions need to be made if out of session meetings are to be scheduled this fall. Last fall the committee held two days of out of session meetings in October with three school boards and ATB Financial. You have all received a list of out of session meetings held by the committee since 2006, and you were asked to consider your priority list for the year. I hope we have also remembered – or maybe we can do this next week – to bring our calendars, our Day-timers, or our BlackBerrys to the meeting to assist in tentative scheduling of these meetings if it is the wish of the committee. How would the committee like to proceed?

Mr. Mason: I would like to proceed next week.

The Chair: Okay. That's fine.
Now, in the back of the consolidated financial statements or this budget's fiscal plan or in each and every annual report is a list of the agencies, boards, and commissions. If you can have a look at that – I know you're busy – and if anyone has any interest in bringing forward any of those agencies, boards, and commissions this fall, please let myself or Mr. Quest know. We would be very grateful. Is that fair enough? Okay.
Other business. This is for information only. I would like to note that a memo was sent to all committee members tracking the speaking times for four previous meetings. This is for your information only. I would like to thank the clerk for providing that and getting that data together. Are there any questions about that information?
Seeing none, the date of our next meeting, of course, is next Wednesday, May 13, with Alberta Energy at the usual time here.
If there are no other questions, if we could have a motion to adjourn. Moved by Mr. Drysdale that the meeting be adjourned. All in favour? Thank you very much and have a good week.

[The committee adjourned at 10:02 a.m.]

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