

[Chairman: Mr. Oldring]

[10:04 a.m.]

MR. CHAIRMAN: Good morning and welcome to the fourth day of meetings of the Standing Committee on the Alberta Heritage Savings Trust Fund Act. Before I introduce our guests for this morning, I just want to outline the provisions for the tour of the Walter C. Mackenzie Health Sciences Centre this afternoon. For those of you who are taking your own vehicles, if you would proceed to the 114th Street entrance, which is north of Emergency. Once you enter there, you can ask for directions to the administration suite. At the administration suite, we will be met by Mr. Peter Portlock, who is the managing director of community affairs. He will be escorting us on the tour this afternoon.

With reference to parking there, there are provisions. The Mackenzie centre has underground parking and the entrance is on 114th Street between 83rd Avenue and 87th Avenue. If that lot is full, there is public parking at the Jubilee Auditorium as well.

MR. R. MOORE: Between 114th Street and what?

MR. CHAIRMAN: Between 83rd Avenue and 87th Avenue on 114th Street. We go in the 114th Street entrance.

If anybody is interested, if you want to take a cab over, we have some vouchers here for you.

We've also provided everybody with some temporary name tags for the tour this afternoon. We have ordered some permanent and more appropriate name tags for the committee, and we'll make those available to you as soon as we receive them.

MR. GOGO: Mr. Chairman, on the point of the visit, lunch is being served over there? Is that what you said?

MR. CHAIRMAN: That's right.

MR. GOGO: I would think, Mr. Chairman, that those who are driving -- I don't know whether it's a 20-minute drive at that hour, but I would suggest that the committee adjourn at 11:30 in order to get there, if that's in order.

MR. R. MOORE: I think that would be an excellent suggestion, Mr. Chairman.

MR. CHAIRMAN: Motion?

MR. GOGO: I would so move.

MR. R. MOORE: I'll second the motion.

MR. McEACHERN: I've got a few questions, of course, but unless other people have an awful lot of questions, I don't necessarily expect that we won't get them in. We'll have to sort of play it a little bit by ear, I suppose.

MR. CHAIRMAN: Is the 11:30 then agreed to for now?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Thank you.

Appearing before us this morning we have the Auditor General, Mr. Donald Salmon. Welcome to our meeting, sir. Perhaps you'd like to introduce the gentlemen who are with you. Then feel free to make some opening remarks, and we'll turn it over to question period.

MR. SALMON: Thank you, Mr. Chairman. We certainly would like to express a willingness to be here today and to share with you some of our views on the particular audit we have completed that's included in the annual report.

I'd like to introduce to you on my right Mr. Ken Smith, the Assistant Auditor General, and also on my left Mr. Jim Hug, an audit principal. Both of them are responsible for the actual heritage audit, as we have included this particular audit under division 2 of the office. I have brought them along in case anyone really wanted to get into some of the more detailed questions. I feel that probably with the agenda today and dealing with the audited report itself, possibly you will not want to delve too much into the technical side.

If I may, Mr. Chairman, I would just like to make the introductory remarks now and then open it up for any questions anyone would care to have. In looking at the printed annual report which you all have before you, we're of course dealing with respect to the audited statements. We're dealing with pages 37 through 52 of the annual published report.

Pages 1 through 36 of course consist of the Provincial Treasurer's Report and supplementary information supplied by management. The Auditor's Report itself is found on page 38, is signed by myself as the Auditor General, and states that the "examination was made in accordance with generally accepted auditing standards" and included tests and other procedures considered necessary. This is fairly standard language for the first paragraph of an audited report according to the Canadian Institute of Chartered Accountants procedures in their handbook.

Paragraph 2, however, is slightly different in that it talks about the the financial statements being presented fairly and the financial position and the results of operations in accordance with the disclosed basis of accounting. In the office of the Auditor General we have chosen to report in two different ways. Normally, if you can, you would report in accordance with generally accepted accounting principles. In this case, with the heritage fund we have reported in accordance with "the disclosed basis of accounting, considered appropriate in the circumstances." Those items considered appropriate are described in Note 2 to the financial statements, and of course the statements themselves are consistently applied with the previous year.

The Auditor's Report has made reference to Note 2, which discusses two items in (i)(a) and (b). The one in particular that we have discussed separately from this report is, of course, making references to deemed assets. We have felt that we could report on the financial statements in accordance with a disclosed basis without any reservation because the deemed assets are listed and have been reported in that way for a number of years. I believe it was back in 1978-79 that our office originally raised the issue in our annual report of deemed asset reporting and suggested that they not be included on the balance sheet. This was rejected at that time by the government, and we did not choose to report them again until last year's Auditor's Report, that being the year ended March 31, 1985. On page 61 of that report it was reported that, again, we felt that because of the way we were noticing the reporting concerning the heritage fund coming out, with the full value of the fund always being quoted at the bottom line of the balance sheet,

it would probably be wise to reconsider whether or not they really should be included as part of the balance sheet. We made a suggestion in that annual report as to what we felt could be done and the reasons why.

I believe it is still a current situation. As recently as Monday there was an indication in the Edmonton Journal in a particular editorial that there was still \$15.5 million worth, which of course included the deemed assets. I also noticed that where this annual report was actually discussed in the Journal on Saturday, they indicated that the annual report was released with unaudited statements. I would like to clarify that they are not unaudited but are audited, as indicated by our report.

Those are just two sideline issues that have come out just recently. If nothing is done, I think we will have to carry it anyway because there will probably not be any opportunity to make that change again this year. We will probably discuss this again in our coming report because of the nature of the situation. We think there is a way around it. We think it could easily be disclosing the capital projects as a schedule, and it would not have to be on the balance sheet. However, there is disagreement with the government on that.

We have also completed all of the auditing to our satisfaction and have had full co-operation. We have looked at valuations and have done all the things we feel we needed to do with respect to this particular set of statements to March 31, 1986, and are happy with that, so we have given that clean opinion this year.

Mr. Chairman, I don't feel that we need to discuss the statements page by page or in detail unless any of the members would care to ask us particular issues. We are prepared to try to give any answers they would like to have in understanding the statements themselves.

Thank you.

MR. CHAIRMAN: Thank you, Mr. Salmon.

MR. GOGO: Mr. Chairman, before we proceed, Mr. Salmon was talking about the Edmonton editorial. Unless my hearing is impaired, you said \$15.5 million; I think you meant \$15.5 billion. It would be important for Hansard behind you to record that accurately.

MR. SALMON: Sorry. Yes, billion. Thank you

very much, Mr. Gogo.

MR. McEACHERN: Mr. Chairman, I guess you sort of pre-empted my first question to some extent, but perhaps I would ask you to elaborate a little bit. My question was: are you satisfied with the 1985-86 reporting of the deemed assets in view of the past record? They did try to do it somewhat differently this year. I guess what you're saying is that that is still not quite adequate, at least when you look at the Journal reports.

MR. SALMON: Yes, that's a good question. I think it's adequately presented. I guess the concern we would have and do have is that with the deemed assets increasing each year, the relevance of the misunderstanding increases. Recently there has been an exposure draft by a committee of the Canadian Institute of Chartered Accountants called the public sector accounting and auditing committee which has indicated that as they have developed accounting and auditing procedures or are developing standards and procedures with respect to public sector auditing and accounting, there needs to be consideration taken into account where even by legislation it may require certain things. The Auditor has to be concerned whether or not it becomes misleading, and if it is misleading -- in other words if it were material enough that it would possibly even be greater than it is today -- the Auditor would have to consider whether or not to give a reservation in his opinion. Because that's in the wind, we feel that we still must discuss the issue, because it could become very well accepted across Canada that if legislation required things to be done in a certain way and it was maybe misleading to the reader, the Auditor would have to point that out in his opinion.

MR. GOGO: Sounds like the Estey report.

MR. SALMON: Well, it's a concern.

MR. McEACHERN: As a sort of follow-up question, you used the words "generally accepted accounting principles" which are the usual ones in your statements, but then this time you said an expression, something about a "disclosed basis for accounting."

MR. SALMON: Yes.

MR. McEACHERN: If that applied only to the deemed asset section, then perhaps you would indicate so. Before I leave the question with you, could that in some sense be applied also to the part of the portfolio which I was trying to get at in the last couple of days, some of the Crown corporations? For example, I'm thinking of the Alberta Opportunity Company, the Agricultural Development Corporation, and the Alberta Mortgage and Housing Corporation. It seems to me that to look only at the heritage trust fund side of issuing debentures and then recording some profit of 14 or 15 percent is also misleading to the people of Alberta in the sense that it then says that those three corporations are worth some \$4.5 billion. If you go to the statements of those three corporations, it also comes to that number, but at least to some extent it does so by injections from the General Revenue Fund of the province.

Those three corporations over the last four or five years have obviously lost a certain amount of money each year in bad debts because of the real estate problems we've had. I'm not at all knocking their social function, the purpose they achieve, and those kinds of programs. I'm merely saying that if those corporations are worth that much money, it's because they have been supported out of general revenue funds, at least to some extent, and by issuing new debentures out of the heritage trust fund, which again is a claim on the future of the taxpayers of Alberta because everyone is taking mortgages, or by general revenue, whichever route it might be.

From figures I've seen and the analysis we've got up to this point, I would think a reasonable estimate would be that those three corporations were only really worth about two-thirds or three-quarters of what they're claiming to be worth. I guess they're worth that much if you take the money out of general revenue funds and put it in there, but surely to then claim that we have assets to that value because we've got no part of heritage out of general revenues is giving a false value to the people of Alberta of what we're really worth.

MR. SALMON: May I comment?

MR. McEACHERN: Yes.

MR. SALMON: Mr. Chairman, I think that's a good question, and I think I understand what you're driving at. I think one has to take into account, though, the fact that each one of the corporations you talk about as well as the heritage fund itself, established by legislation, requires separate accounting. In our office we do a separate audit on each one of those organizations. If you take the Alberta Mortgage and Housing Corporation for one example, we do that unto itself and give an opinion on that particular organization. All of the evaluations of the assets they own — don't forget now; in housing they owe heritage. So on the asset valuations we have taken that all into consideration in issuing that opinion. Valuations have been reduced in accordance with the policies that have been established and so forth, and we've satisfied ourselves on those.

Where this whole picture you're talking about gets resolved, of course, is when Treasury puts together what we call the consolidated financial statements of the province. With those consolidations of the heritage and all of the five that are listed in the Alberta investment division of heritage particularly, all of these are offset. That's the only time you really get in the province — the inter-relationship of the General Revenue Fund, the investment that this fund has in housing, and so forth are offset. You get a netting of all of these interfund and corporate transactions that exist individually. Yet we must present them individually by legislation and so forth, and we really do take into account the valuations of all the assets of each one as well.

So you must take them individually, and then you take them in the consolidations and eliminate the inter-relationships between the GRF and the corporations.

MR. McEACHERN: I'm not quite sure how to frame it. What would be a shortfall if it was made up out of general revenues — where does that show up in our budget, and where does it show up in the \$2.5 billion planned deficit?

MR. SALMON: If the heritage fund itself were going to hold the investment per se as it is doing and there were some shortfalls in these corporations, if their legislation allows that, the shortfall would draw from the General Revenue Fund. Then it becomes a circle in a sense. That's true.

All of the inter-relationships would be eliminated by the consolidation anyway.

MR. McEACHERN: I guess I've had my three questions. I was about to ask another one.

MR. HERON: I'd like to focus my first question on your recommendation 32, noting that yesterday the Provincial Treasurer said that the qualifier you put in your statement is debatable according to generally accepted accounting principles. However, I would like to ask that when you report, let's say, in the consolidated statement or in the general statements, do you in fact show deemed assets in this way? In other words, is it consistent from statement to statement in your treatment of the assets? If it's not, I would appreciate hearing where the differences exist, particularly in looking at the message that we're sending out to Albertans. I think this is where recommendation 32 bears the most significance; that is, are we telling Albertans that we have a fund here, or are we telling them that we have a fund consisting of some assets and some securities that are convertible to cash over the short and long period? I would just appreciate your comments on that.

MR. SALMON: I believe that the financial statements disclose the Alberta Heritage Savings Trust Fund fairly well. I think each division itself is described and listed as to the type of investment it is. I think schedule 6 lists the capital projects division's investment — so called, you might say — with fairly good clarity.

The concern we would have is the potential of having the deemed assets increase and the misunderstanding that is created by the potential for, say, recovery of deemed assets to any measurable amount of dollars. There may be some value; I'm sure there is. I'm sure some people would buy Fish Creek park if they had the dollars and could see some money in it. But in effect, because it is a capital outlay developing Alberta in that sense, it's classified as deemed, and therefore we have some concern about that.

I think the value of the fund — if you take the commercial investment division, I believe those are fairly well described. Of course, Alberta is, within the Crowns and a few other small areas, not as great as the five individual entities we were just talking about. I believe

they're well described, but I do think that there's some misunderstanding, because you tend to talk about that bottom line on the balance sheet. In a consolidation, of course, it's all written out. It's not shown in the same way. It's all netted.

MR. HERON: So specifically, in looking in terms of consistency, there's a different treatment for provincial accounts from what there is in the heritage account?

MR. SALMON: Yes.

MR. HERON: What would be your best ballpark estimate if recommendation 32 were implemented by the government? What would be your ballpark estimate of the heritage fund that we would be saying is currently there?

MR. SALMON: The fund equity is \$12.692 billion, based on these particular statements.

MR. HERON: My other question, then, would deal with page 79 of your report, dealing with the specific performance measurement of the commercial investment division. I was wondering what purpose it would serve to have a relative performance measurement of just that part of the investment portfolio; that is, the part that has securities that have a ready market and it's very easy to establish values for them. I ask that question, given the complexity of measuring with an absolute rate of return the performance measurement. Clearly, it's influenced by many things: the complexity of dollar weighting or time weighting of the cash, capital gains, and cash flows. But there are firms that do perform this service at a very nominal cost. The last time I looked at a couple of the more significant firms, they had over 300 firms in their sample. I was just wondering what the popular opinion or the reluctance was to engaging, say, an independent performance measurement consultant.

MR. SALMON: Recalling back a few years where we actually got involved with this, as indicated in the report of 1982, it had to do with the concern in the Legislative Assembly about the purported loss in the heritage fund, if you recall. We also talked to a firm, possibly even a similar one, because they had over 300 various funds across Canada that they actually

examined themselves. My understanding is, though, that Treasury management felt that internally they had enough information that they could do that on their own and did not want to spend the dollars to go outside. Our concern, of course, at the time was that if the fund continued to rise, there would possibly be a need to examine those kinds of things in depth and to be assured that you were getting a fair return for your dollars in comparison to other funds, and so forth. But they had felt that they could do it on their own and have done a considerable amount of things, not publicly but internally.

Since then, of course, the dollar figure in the cash and marketable investments has gone way down. They also pointed that out to us at a subsequent time, that as long as that was happening, they really couldn't see the additional cost as well.

MR. HERON: Would you agree that this would be a useful measurement tool . . .

MR. SALMON: Yes, we felt it was useful.

MR. HERON: . . . even when all markets are sliding? It's to find that you're not sliding more than the next one.

MR. SALMON: Right. You just don't want to be out of kilter with them.

MR. R. MOORE: Mr. Salmon, there are a lot of questions surrounding the deemed assets, and the Member for Edmonton Kingsway started right off on it. It seems that there are those that think that the method of reporting is misleading, and I made note of a statement that bothered me. It was just stated by the Member for Edmonton Kingsway that it expressed a false value to Albertans.

You've reported it in the statement. It's money expended from the heritage trust fund, and I know it has to be accounted for. I think it's like anything else that you buy. You buy it, and it becomes an asset in one way or another. You own it; it's a question of ownership. Do you think that in our present method of reporting, the general public doesn't understand that this is an indication of ownership, that you've bought it like you buy a car? I know that I buy a car, and in my accounting and in generally accepted accounting principles they call that an asset. I

call it an expense. It's a direct expense, as far as I'm concerned. But I understand that. I take that statement and I understand it. The general public understands it. Do you think that it clouds it at all, really, to the extent that some people like to express the way we report it presently? I'd like to clarify that. You've put it out clearly here. In your statements we can see what it was used for. Do you feel that it's misleading in any way?

MR. SALMON: I don't think it's misleading at this point, because I think the financial statements disclose exactly what has happened. I believe, though, that if one were to examine the capital projects division investments under deemed assets, when you really look at a lot of those expenditures, you just have no way of getting a handle on it. I mean it's disclosed, so I don't have any problem. But the problem, of course, is that if you decide to call it assets and so you take it into account for the \$15.5 billion, it's pretty difficult to say that it's assets. If you start getting into the research area, the research is developing a lot of things and so forth, and that's where it's been spent. That's why I really do go along with the idea of disclosing. I wouldn't like to see this schedule 6 disappear, because I think it does tell where the funds from the heritage fund have been placed, and I think that's important information for the people of Alberta. It's the simple thing of whether or not it should be on the balance sheet. That's the simplicity of it.

MR. R. MOORE: All right. That leads to my second question, Mr. Chairman. We talk about generally accepted accounting principles, and they have been established over the years by the accounting profession. But over the years, our whole situation of doing business changes. So maybe we have this set of guidelines that are generally accepted, but we look at the other end of the stick here now. We see that you use the cost value in arriving at Alberta Energy shares. We know that the cost value that those were purchased at is not the true value, yet you put them in here and I hear nobody from any area saying: "Well, gee, these are worth about three times that value. They should appear in here at their actual value." That's the other end of the stick. So general accounting principles don't apply right across the board, if

you want to get into that area.

It again comes to when you put the cost value. Let's say those shares were to drop in value, like the real estate market. You know, you purchase something and you put it in at cost value — a lot of companies had it in their balance sheet at a certain value, but the real value was about 50 percent and they went broke. The generally accepted accounting principles do not bring that out. So what are we really talking about? Does it give an understanding? I'm just saying, should we apply accepted general accounting principles on one end because, you know, this is a misleading deal, but we don't apply them all over?

MR. SALMON: Mr. Chairman, may I clarify? On Note 2 of the financial statements, the Treasury management — and we've audited this, of course — "Summary of Significant Accounting Policies and Reporting Practices," we have under (i):

These financial statements have been prepared in accordance with generally accepted accounting principles, except as follows.

And then we have the two items I mentioned to you before.

Under 2(ii): "Other significant accounting policies are as follows . . ." I'd just like to make reference to one. These would be generally accepted. Under (f), which is probably where the member of the committee is referring:

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

So those have all been taken into account.

MR. R. MOORE: They've all been taken in there. Okay.

MR. SALMON: It was taken either way; that's right. By disclosing the accounting policies of the fund, the Auditor can then report as we have reported. It's really a case of whether the information is there to explain how those values were arrived at.

MR. R. MOORE: But when we go through here — we're coming back to what the general perception is. That is the area I wanted brought out. That area isn't clear to the public. In

general, the accepted accounting principles have been applied, and it isn't clear that we have adjusted. They think it cost, yet on the other hand, it's very clear to the public that Kananaskis Country is put in as an asset. They realize that they own it, it's a park there, and it isn't misleading.

I'm coming back to the misleading part of your process. I say that our present way is not misleading to the general public, because we know what's going on; it's there. However, that's just an opinion.

In your position overseeing these things, I'd like to look at the fund's investment activity. I think we're all charged with making sure that the fund meets the objectives the fund was set up for. In your area you're in a very good position to say, "Is it staying within the objectives for which the fund was set up?"

MR. SALMON: Mr. Chairman, I think you're referring to whether everything is in compliance. Yes, we would say that what has happened is within compliance with the policies and the legislative requirements of the Act.

MR. R. MOORE: And it's going towards meeting those objectives. Then it's on target, basically?

MR. SALMON: We're saying that we haven't found anything that is out of line. We would report it publicly if it was a noncompliance issue that is of significance anyway. In our current year management letter to Treasury management we have discussed deemed assets and the decline in valuations in a couple of instances where we were just raising a couple of issues with them. But nothing that's out of line; that's right.

MR. GOGO: Mr. Salmon, with regard to the commercial investment division on page 50 of the report, by any other description I guess one would term that in the normal terminology of a mutual fund, where group security is held with a certain objective. Mutual funds are classified in a variety of ways, as I understand: stock fund, growth fund, dividend fund, income fund, et cetera. Would your observation be that based on those terms, the commercial investment division would be known as a stock fund or a growth fund? Would that be a fair description of it?

MR. SALMON: Mr. Chairman, I would say that's probably a fairly good description, in light of the policy whereby -- what is it? -- I think under 5 percent is purchased out of any company and there is no control exercised by the fund over any of these investments. In other words, it's the market condition that prevails, and you take your profit or loss in accordance with how that company operates. That's the way this division is.

MR. GOGO: With that in mind, it seems to me that normally a mutual fund is faced with two major types of expenditures. One would be what I would call normal -- that is, the cost of purchasing and selling securities -- and the other would be a management fee. The management company involved would charge one fraction of 1 percent per annum or per quarter or whatever. That has a very, very significant effect on the income portion of a fund. My question would be: to your knowledge would there be any so-called management fee charged to that fund, or is this strictly in-house in terms of the Alberta Treasury?

Secondly -- and this would be the same question -- with regard to the brokerage fee paid for the purchase and sale of securities, certain rates are laid down by, for example, the Toronto Stock Exchange members. They average, depending on the size of the purchase -- but they're very significant. They could be 5 percent for a round trip in and out, yet there are brokerage houses -- one exists in Calgary -- where you pay a negotiated fee, a very small fee. Could you respond to the two questions: (a) if there is a management fee involved against that fund to your knowledge and, secondly, what type of brokerage fees they would be paying; i.e., would there be discount fees as opposed to the regular brokerage fees?

MR. SALMON: Let me answer the first question, Mr. Chairman, which I can answer. Mr. Hug might have knowledge from the files on the other one about how it's determined or whether there is a rate.

Note 4 of the financial statements gives the detail of the administrative expenses charged by Treasury management to the statement of income and retained earnings. The first part under 11(1) of the heritage Act of course is the direct costs that have been incurred, charging the cost of the annual report, et cetera --

things that are chargeable directly to the fund — whereas the latter one under 11(2) is a charge based on an estimate by Treasury management of the cost of operating the fund itself, which would include any of the management fee references you've made. It's been pretty well in the million dollar range.

You have to take into account the Treasury operations of all of the investment areas, including other Crowns. The investments of the Workers' Compensation Board are handled by Treasury, and they're on the market with a lot of stuff, and other funds as well. This is their charge to this fund, and I think that's where it's included. I don't know the answer to the percentages that you're talking about, unless Mr. Hug would like to comment.

MR. HUG: Mr. Chairman, I would assume that normal brokers' fees are charged, but I'm not too sure of the exact arrangements they would have with the brokers or their fees.

MR. SALMON: We've looked at this fee here as being reasonable. Whether or not it's the full — this is subject to some interpretation with respect to how you'd start to split some costs, because sometimes things are sort of in the pipeline, in the flow. You can't always identify it directly as heritage, and they've sort of shared those costs.

MR. GOGO: How would the committee find out about the brokerage fees if they can't find out from you?

MR. SALMON: We could find out; that's detailed knowledge that we'd have to particularly ask.

MR. GOGO: My final question, Mr. Chairman. I suppose not as a member of the committee but, let's say, as a layman one would assume in looking at the various divisions of the Heritage Savings Trust Fund — you look at the Alberta investment division, which is spelled out by statute; you look at the energy investment division, established in 1980, and the commercial investment division, established in 1980. The thought would automatically come to mind, to me anyway, that Alberta Energy Company, of which the Alberta investment division holds a very significant holding — is there any reason in your view why that would

not be included in either the energy investment division or the commercial investment division? It almost would appear that just by the use of the words "Alberta Energy Company" it would be found within the energy investment division. As an auditor, is there an explanation for that?

MR. SALMON: As an auditor we ask the question why certain things are included in certain spots. I believe our division was one of the earlier divisions, and Treasury has chosen to continue to leave it there. It really could be in the other one as well. It's strictly an internal policy decision as to where they want to leave it. I think it's always been in the Alberta investment division.

MR. GOGO: Just as a closing comment, Chairman, I only mentioned that . . .

MR. SALMON: It could be over the other one.

MR. GOGO: . . . with regard to your report about misleading the reader, et cetera.

MR. SALMON: My concern is in reporting under the disclosed basis and mentioning that the Energy Company one is the one we also say is not in accordance with generally accepted accounting principles. Just to make a comment on it, the reason for that is because the heritage owns 37 percent, the concern of the auditors was whether there was any undue influence on whether or not you should consolidate some value of Energy's equity into the heritage. It hasn't been done, and we're only putting it out there for purposes of information. We're willing to live with that, because we have no real knowledge of anything that isn't right. It's there strictly to identify the potential, and Treasury has gone along with that in their own notes.

MR. GOGO: Thank you, Mr. Chairman.

MR. McEACHERN: John, would it be in order at this time to ask the Auditor if they could come back with some kind of written statement about the answers to John's questions?

MR. SALMON: Yes, we made a note of that, Mr. Chairman, and we will submit something to the committee, so Mr. Gogo will have that.

MR. McEACHERN: And shoot us all a copy? Thank you.

MR. PAYNE: Mr. Salmon, representatives of the financial community, brokerage firms in both Calgary and Edmonton, have made representations to me to the effect that a lot of business is being placed with brokerage firms outside our province, notably in Toronto, involving transactions out of the commercial investment division as well as the section 9 marketable security transactions, I believe, with a resultant loss of potential commission income to brokerage firms here in Alberta.

I raised the matter with both the Premier and the Provincial Treasurer yesterday, and I do appreciate that these are questions of policy that do not directly concern you. However, I would like to ask: from your perspective as a professional auditor and as the Auditor General for the province of Alberta, do you see any disadvantage in administrative, financial, or operational terms to making greater use of brokerage firms here in Alberta as opposed to brokerage firms in Toronto and elsewhere?

MR. SALMON: Mr. Chairman, I think that's a good question. I'm glad you did ask the Premier and the Provincial Treasurer, and I hope they gave you the answers from a policy point of view, because I'm not getting into that at all.

I believe you'd have to examine it from the point of view of whether or not there's an additional cost in moving from the local scene to Toronto. I know that for many years Treasury has dealt directly with Toronto and had its connection, hookups, and so forth directly to the Toronto area. Yet potentially, I think that's a good question. If it's no more costly to operate locally and you can accomplish the same thing, it would make economic sense. Now, that's an offhanded, general comment and nothing to do with a policy statement at all as to what their decision has been.

We as auditors have not questioned that, because we have audited in accordance with the policies established and ensuring that they are meeting that and are within the criteria that have been set. We monitor it on that basis rather than to determine the economic side of it in that particular sense. We might think it in our minds but not necessarily comment on it.

MR. PAYNE: Mr. Chairman, although Mr. Salmon characterized his answer as "offhanded" and "general", I found it very interesting and useful, and I'd like to thank him for his comments.

MR. NELSON: Mr. Salmon, in the last year or two we've gone through some difficulties, a couple of bank bankruptcies and in particular the CCB, wherein \$5 million was paid back to the Heritage Savings Trust Fund from general revenues, which was discussed in last year's fund meetings. There were questions relevant to that regarding the appropriateness of it as to the real value of those shares that were purchased from the fund back to the general revenues of the province.

I'm just wondering if you could comment as to the appropriateness of that purchase in real terms as far as what the value of those shares may have been at that time. In effect, would you have audited through to Treasury the purchase of those shares into the General Revenue Fund and as to their ultimate demise or otherwise? Were they purchased just to ensure that the integrity of the fund was kept up and transferred into general revenues rather than having a loss shown on the heritage fund books?

MR. SALMON: Mr. Chairman, that's a good question. You're into current information about the General Revenue Fund. We are fully aware of this whole situation and what is happening with respect to the General Revenue Fund this year.

The policy decision to move it — and move it at the full value; we'll recognize that — out of heritage with the proper valuation being placed on the current year's General Revenue Fund ... We're still in the midst of that one, and we'll be satisfying ourselves that it is properly handled. At times it gets a little bit difficult for the Auditor to get into commenting on whether or not you can make a transfer in an investment, say, between this fund and the General Revenue Fund, because a policy is done to do that. We would be interested in full disclosure and in making sure there was no misunderstanding.

We get a little peace of mind from the fact that with consolidation everything comes together again and, really, you're operating because of the legislation, with the funds being

separate. If you didn't have the heritage fund legislation, it would all be in the General Revenue Fund anyway. So you get that argument, and that discussion takes place. What we would be concerned with, of course, would be the valuation. If there's no value to that, then it should be totally written off. That would be reflected on the basis of what that is in respect to when it comes out, and it's of course not out yet. But that does take place, and we are fully familiar with it.

MR. NELSON: I'm going to go outside of policy now. Should the value of those shares be strictly on the basis of a business decision relevant to the Heritage Savings Trust Fund, which is basically a separate entity from the General Revenue Fund? I'm questioning whether or not we should be purchasing into the revenue fund of the province from the Heritage Savings Trust Fund just, in my opinion, to cover the integrity of the fund -- to be purchasing loss items into the General Revenue Fund and covering them up so that they don't really appear on the fund statement as a loss, as per other questions relevant to the real value of that fund. I'm just wondering if that is a generally accepted accounting practice on a general business point of view rather than a policy point of view.

MR. SALMON: I believe I would have to suggest that it's probably more of a policy decision by the committee that manages the heritage fund, and then I'm in a position as an auditor to decide whether or not it's disclosed sufficiently to cover itself. It's true that the General Revenue Fund ends up with the loss and that this fund is kept intact with the \$5 million. I don't have any more comment, in view of the fact that the General Revenue Fund isn't out yet.

MR. NELSON: Mr. Chairman, I wonder if I could ask the Auditor General if he would follow that \$5 million through and give me a report as to ...

MR. SALMON: We're very familiar with what is happening, but I would be happy to give you something subsequent.

MR. NELSON: I would appreciate that to facilitate my inquisitiveness.

MR. SALMON: We'll make a note, Mr. Nelson.

MR. McEACHERN: Could you add to it the \$50 million from Northland? It's the same problem, is it not?

MR. SALMON: It's really consolidating it all.

MR. NELSON: That's a start, and certainly there may be others. I just like to kind of fish around a little.

MR. McEACHERN: My first point would just be adding on to his. Could you add the \$50 million for Northland, because I think it's the same problem, is it not?

MR. SALMON: There was only the \$5 million you're referring to that moved from here to the GRF.

MR. McEACHERN: But was the \$50 million in Northland not also covered by general revenue money?

MR. SALMON: When those financial statements come up, all of that will be ... There is \$50 million in here that was recovered.

MR. McEACHERN: Recovered from Northland?

MR. SALMON: Yes.

MR. McEACHERN: Oh, it was? I see. I thought it came from the General Revenue Fund.

MR. SALMON: No. It's only \$5 million we're talking about.

MR. McEACHERN: My mistake.

I thought it appropriate today, since we're going to the Walter C. Mackenzie Health Sciences Centre, to raise some questions about that. Momentarily I would go back to your 1980-81 report. If I remember right, the original cost of that centre was estimated at some \$115 million, and it has through the years grown to over \$350 million. Some of the reasons were outlined in your 1980-81 statement. I'll just read a few of them without reading them all.

Originally budgeted funds were

insufficient . . . and a major review of estimated costs . . . was required.

. . . systems designed to control the project were deficient and not adequately documented . . . lines of responsibility being poorly defined, non-compliance with systems and a general deterioration of controls.

Financial information in reports presented to the Board was, in some respects, inaccurate and unclear . . .

Architectural designs were prepared without reference to budget restrictions. And so on; there are about four or five more. Obviously, this wonderful Mackenzie centre -- and it is a wonderful facility -- was much, much more costly than originally anticipated. It would seem that your office made a number of these observations earlier. Could you give some kind of summary as to how the response has been to those problems? Do you think that over the three or four years elapsing since that time, they have been able to correct or resolve some of those problems?

MR. SALMON: That's a good question. Mr. Chairman, I'm familiar with that particular time. I recall the audit and the concerns we had and the need we felt to report it in our Auditor General's report. Subsequent to that report I think we became very involved with them in developing and helping to do some direction as to a monitoring system of the expenditure that was occurring over there. There was an implementation committee established that regularly met with senior people of the government. The Auditor General sat on that committee as well just to observe and comment and be part of the overall monitoring of those high costs.

Part of the concern that occurred was of course in a high inflationary dollar period when things were rapidly changing. As things settled down, as they got hold of that thing, with the committee involvement the Auditor General had and our close monitoring by the yearly audit, we were quite satisfied that things were controlled much better, and a lot of the weaknesses and problems that we reported at that time were eliminated fairly quickly thereafter. There was very good co-operation with the hospital and our auditing of the capital side of that, which we were doing along with the normal audit of the hospital itself.

If you haven't been over there, it's quite an impressive building.

MR. McEACHERN: We're going today.

MR. SALMON: Maybe you can decide whether it's worth all the millions that were spent there. It certainly is a beautiful facility.

MR. GOGO: On a point of order, Mr. Chairman, before the Member for Edmonton Kingsway asks another question. I'd be interested, in terms of your perception of the responsibility of the Auditor General before this committee on matters . . . It's just coincidence, for example, that Mr. Salmon was with the Auditor General's department, relating to the information we're talking about. Our new Auditor General who's with us could have come from Nova Scotia when he was hired in the past year.

MR. SALMON: Then I'd be able to say that I don't know anything about it.

MR. GOGO: That's the point I want to clarify, Mr. Chairman: as a witness before this committee, the area of responsibility of our Auditor General. I would not be uncomfortable if, for example, his response was, "I was not the Auditor General at that time, and therefore . . . et cetera." I wonder if it would be helpful to the committee to determine not the area of responsibility but the time frame of Mr. Salmon before this committee in terms of his responsibility. I guess what I'm saying is that if his answer to Mr. McEachern had been, "I was not the Auditor General at that time, and therefore . . ." that would be an acceptable answer to me.

MR. McEACHERN: Except that he was.

MR. GOGO: He was not Auditor General at that time.

MR. SALMON: I was Assistant Auditor General.

MR. GOGO: That's my point. I would hope that the committee would be cognizant of that fact if some of his responses are that way.

MR. McEACHERN: We only expect him to be able to tell what he knows.

MR. SALMON: If I couldn't have answered the question, I'd have been quite happy to say that I wasn't the Auditor.

MR. CHAIRMAN: A point well taken, Mr. Gogo. Thank you.

MR. BRADLEY: Mr. Chairman, on a point of order. We are supposed to be reviewing the '85-86 annual report, and I think to go back four or five years is perhaps off the point.

MR. McEACHERN: The Mackenzie sciences centre is still on the '85-86 report with quite a high value of money. We're talking about whether it's a deemed asset or not. I'd be a little disappointed if we restricted questions. I understand that somebody might not be able to answer or might not feel that they want to answer, but surely we need to be able to look at the whole fund for 10 years as well, in some senses, without dwelling on it.

MR. CHAIRMAN: I think the point that we're here to review the '85-86 annual report is well taken. Perhaps if you want to get on with your next supplementary.

MR. McEACHERN: But you would surely not restrict us from asking questions about earlier times.

MR. SALMON: Mr. Chairman, I hope nobody was concerned about my answer.

MR. McEACHERN: No, I thought it was a good answer, and I thank you for it.

One can't analyze the present year in isolation. I'm sorry, but my second question does have some reference to earlier times. The 1980-81 recommendations from the Auditor were something about suggesting that the government should set up an internal audit committee for the fund. There was another suggestion in another year that an independent analyst be hired to compare -- and I think this was referred to earlier -- the performance of certain aspects of the trust fund with private funds. There was also another recommendation in another year that we treat these hearings more like Public Accounts rather than as a sort of political exercise. In view of those recommendations through the years, could you offer your opinion as to whether there is some

shortcoming in your mandate that doesn't allow you to handle those things, or do you just see those things as being some changes that should be made extra to your mandate?

MR. SALMON: Mr. Chairman, I believe the three items mentioned are all items we have covered somewhat in other areas of the government in our own auditing of departments and so forth. The internal audit question is one we discussed generally a few years ago in the Auditor General's report. We continually monitor the situation with respect to internal audits. There are internal auditors in some departments. With the growing fund at the time we considered it, we felt that it might need some assistance because of the concerns that have been discussed in the Legislative Assembly about the fund, that possibly an internal audit would help them on a day-by-day -- more examining transactions that we couldn't handle because we were doing the year-end audit. We have now developed some software within the office with respect to the investment area that helps us to have a better handle on it than we maybe did at that particular time.

The internal audit question is, of course, a question of economics and whether or not it's of value. That's certainly a decision of policy of the individual department or fund or whatever it might be.

The question of the investment valuation was also raised at the same time, and of course we discussed that briefly just a moment ago. I don't really have any other comment on that one. All of these things would have been made in the past for purposes of potentially increasing the control and operation of the fund for management and to assist management. The decision as to whether to do it, of course, is the policy of the fund management itself. Each year we will look at it again and determine whether or not there are other concerns we should raise. That answers your question I think.

MR. McEACHERN: Thank you. I've been interested to note the delicacy with which you distinguish accounting things from political things. I suppose that's fair enough in a way, although I would note that the Auditor General of Canada has no such inhibitions. He seems to wade right in and make some pretty loud . . .

MR. SALMON: I don't mind what he does. I don't try to be like him.

MR. McEACHERN: I wasn't suggesting you should, necessarily.

MR. SALMON: Also, one must make very clear — and this committee too — as to my responsibility by legislation. I would certainly stay within my legislation in the kinds of relationships I have.

MR. McEACHERN: I was going to suggest that perhaps somebody with your knowledge of what's going on . . . For instance, a comparable example would be the scientist who says it doesn't matter what he invents or what he learns, that it is not his problem to cope with that — for instance, how to make an atomic bomb or something — that it's somebody else's problem to decide whether to use it or not.

I would argue that the person who has intimate and inside knowledge also has the right, as a citizen, to speak out perhaps more loudly and more clearly than others and make their points because they know. So I would wonder if you as an auditor shouldn't, as a citizen of Alberta, sometimes be prepared to stand up and say more clearly what directions we should be taking, to criticize more clearly, or to suggest more clearly political directions also. We should not, in a sense, turn you into a judge that says you've got to be apolitical. You are indeed a citizen of Alberta and have a right to speak out. I wonder how you react to that idea.

MR. SALMON: Mr. Chairman, I believe that if you were to examine our reports over the years you could probably tell the reasons why we approach them like we do, and I believe that since the Auditor General Act came in in 1978, we have been very careful to ensure that we have stayed within that mandate. I think there are times when one can comment about weaknesses and problems without getting into the realms of policy, but I do think that we must make sure that what we do report is what we are to report under sections 18 and 19 of our Act. It's quite clear, and actually gives us a fairly broad mandate.

The Auditor General of Canada has a different mandate, of course, and can discuss and comment on due regard for economy and

efficiency, whereas our mandate is in accordance with the systems that measure economy and efficiency. I think that's a clear distinction that all Members of the Legislative Assembly need to understand. Certainly we try to convey that and will continue to try to convey that within our report to ensure that that's the understanding people have, because it can become somewhat confusing if you try to relate provincial legislative auditors to the mandate of the Auditor General of Canada, which is slightly different.

MR. McEACHERN: Which is slightly different.

MR. SALMON: Yes.

MR. McEACHERN: Okay. Then a final question following out of this. I gather that nobody else had any questions? I realize this is a fourth one. If that's okay, I'd like to ask it.

MR. BRADLEY: As long as the questions are within the realm of the Heritage Savings Trust Fund committee. I think your last question wandered into the role of the Auditor General versus his role before this committee. So if you keep it within the Heritage Savings Trust Fund, I think we would entertain it.

MR. McEACHERN: Perhaps this one will bring it back, then, in a related sort of way.

In view of the amount of commerce, if you like, back and forth between the fund and the General Revenue Fund, do you think that setting up the heritage fund as a separate entity has made it difficult for us to establish the true economic position of the province? A sort of second supplementary question to that is: is it time to take a whole re-evaluation of that fund and where it's going after 10 years of operation?

MR. SALMON: Mr. Chairman, I believe the question related to whether or not we could understand the province's financial position. I believe that under the Public Accounts, where the consolidated financial statements are revealed — and there's an auditor's opinion on those consolidated statements — other than for the exceptions that are not included there by right of the exemption of section 2(5) of the Financial Administration Act, the consolidated financial statements do reveal the position of

the province. I believe that from my point of view as the Auditor General, though I also have responsibility to issue opinions on the various entities defined as provincial agencies, Crown corporations, et cetera, and of course the heritage fund is a separate one, and whether or not that should be examined is a matter for this committee and the government as a whole or the Legislature to decide. Certainly, as long as it sits there I will be the Auditor and do the best I can to present an opinion on the financial statements, and that full disclosure is given to those that need to know.

MR. McEACHERN: Thank you.

MR. CHAIRMAN: There being no further questions, Mr. Salmon, I want to say thank you again on behalf of the committee for being with us this morning. You'll be interested to know that this is the first instance of this session when we have been able to adjourn and all the questions have been answered. Thank you very much.

MR. SALMON: There were two things we have to get back to you on, but we will. We don't need to come back to do that. Thank you very much.

[The committee adjourned at 11:11 a.m.]