

[Chairman: Mr. Ady]

[10:01 a.m.]

MR. CHAIRMAN: Order. We have before us this morning Mr. Salmon, the Auditor General, and his staff. We welcome them here again this year. I know this is not their first appearance before this committee.

Just prior to moving on to the order of the business of the day, I'd like to give an opportunity to those who may have recommendations today to read them into the record.

MR. PASHAK: I've got five recommendations. The first is:

That a major review of the Alberta Heritage Savings Trust Fund be conducted and that the review include public hearings;

Secondly,

That the government of Alberta submit to the Legislative Assembly for its approval the annual financial plan for the Alberta Heritage Savings Trust Fund;

Thirdly,

That the balance sheet of the Alberta Heritage Savings Trust Fund not include deemed assets and the deemed equity represented by deemed assets;

Fourthly,

That the mandate of the Auditor General be expanded and include the evaluation of the effectiveness, economy, and efficiency of the Alberta Heritage Savings Trust Fund investments and expenditures;

And finally,

That all Crown and private-sector agreements involving the use of facilities provided by funding from the Alberta Heritage Savings Trust Fund include provision for the recovery of the capital costs of those facilities.

MR. CHAIRMAN: Thank you. Are there any others?

If not, to the Auditor General, we welcome you here today and appreciate your taking time to appear before the committee. The format is much the same as it has been in previous years when you've appeared. Each member is allowed one question and two supplementaries, and then they return to the bottom of the speaking order list. We would welcome some opening comments from you or your department staff, and then we will move to the question portion of our meeting. So we'll turn the meeting to you.

MR. SALMON: Thank you, Mr. Chairman. We appreciate the opportunity to appear again before the committee and to discuss the financial statements and our involvement as the Auditor. I have with me on my right Ken Smith, the assistant Auditor General and on my left Jim Hug, an audit principal. They are senior staff of the office responsible for the audit of the heritage fund.

The financial statements this year are presented in a similar fashion to last year. By the listing we have been receiving, I had expected that the Provincial Treasurer would have been here yesterday. Therefore, my remarks might have changed a little bit so there wouldn't be repetition. But seeing that he's not here, I would like to review just a little bit of the highlights of the statements themselves.

With the statements basically presented the same, the only thing I'd like to make reference to other than the changes is the fact that the Auditor's report contains a reservation similar to the one included in the last two years. There have been no changes in the way the Treasury Department has presented deemed assets on the balance sheet. It is interesting to note that the heritage fund is still referred to on occasion as reflecting total assets of over \$15 billion. In fact, reference to this figure was included in the public statement provided by the

Treasury Department when the annual report of the heritage fund was released October 4. So the misunderstanding, I feel, continues regarding deemed assets, and my reservation to some extent counteracts this confusion.

The financial statements clearly indicate the changes in the fund that have occurred in the '88-89 year. Some of the larger items we can make reference to are: the repayments to the Canada investment division from the various provinces, et cetera, of \$83 million; the Alberta division - the five provincial corporations - repayments of \$174 million; and in the energy division, Luscar Ltd., \$1.3 million was paid off in full. There are some others, but they're all of a minor nature. Maybe if there's questions, we can explain some of them.

Investments made in the Alberta division this past year: the increase in Millar Western pulp to \$69 million more, making the maximum of the debenture at the present time; also the \$30 million in shares in the Alberta Energy Company.

Generally speaking, the decrease in the financial assets is \$150 million. That is comprised basically of the capital project expenditures of the \$155 million that's listed on the schedule, and the others are just minor changes in the liabilities and cash. Increase in cash and marketable securities, with all of the transactions in the current year that's under review, were \$43 million.

Notes to the financial statements are similar to the previous year except note 4, which has provided an explanation of the amount of investment income of the fund generated from other provincial agencies and funds, and notes to schedule 3, Alberta investment division, has two new notes on page 43 of the annual report. Note (g) explains the participation in the joint venture in the Lloydminster upgrader project, and note (i) is an event subsequent to the year regarding the OSLO project, which was authorized in May 1989.

This year the audit of the fund went well. We had good co-operation from Treasury staff and management during the course of the audit.

With those brief remarks, I'd be quite happy to address any questions the committee may have, Mr. Chairman.

MR. CHAIRMAN: Thank you, Mr. Salmon, for a good overview. I know you've touched on some of the points that have been of interest in previous years.

I'd like to call on the Member for Edmonton-Meadowlark for the first question, followed by the Member for Ponoka-Rimbey.

MR. MITCHELL: Thank you, Mr. Chairman. I'd like to welcome the Auditor General and his staff to this committee and thank them very much for taking the time with us.

I wonder whether I could start with the issue of deemed assets. I do appreciate his persistence in reminding the government of their intransigence in using that term, that concept: that it is contrary to generally accepted accounting principles and, in fact, that it does mislead Albertans and perhaps the rest of this country as to what, in fact, are the assets of the heritage trust fund. I wonder whether the Auditor General could please explain to the committee what response he gets from the Treasurer to his repeated request that the Treasurer accept and follow generally accepted accounting principles and not use the deemed asset provision to obscure the actual asset figure of the Heritage Savings Trust Fund.

MR. SALMON: Mr. Chairman, as you know, this is an old debate, and we've been through this many times. It basically

comes down to the difference of opinion even legally as to the interpretation of deemed assets versus including them actually in the financial statements or the balance sheet particularly. I believe that the interpretation legally – from my perspective at least – would give them clearly the opportunity to remove the actual amount from the balance sheet. I think if the amount was removed from the balance sheet, then your confusion wouldn't be there.

But for the government to continue to discuss the fact that the moneys from the heritage fund have been spent on deemed assets, showing the schedule as they've done, I see no problem with that. My problem is strictly that the amount is shown in dollars on the balance sheet, and this is contrary to generally accepted accounting principles because it's inflection that there is a value there for the heritage fund. Because there is no value – these assets belong to other people or organizations or whatever, as I've explained – I don't think the amount should be there.

I have given them the way to correct it, which I think could then remove the reservation, and it's a simple change, but they have chosen to feel that the legislation requires the showing of the assets. Therefore, we're at sort of loggerheads.

MR. MITCHELL: There's no logical explanation; there's simply a political explanation.

MR. SALMON: Your interpretation.

MR. MITCHELL: They're trying to justify the sins of the past.

The second question concerns the state of Alberta Mortgage and Housing Corporation. This year they changed their accounting principles, and as a result we got a clearer picture of the state of that corporation, and it's not a very reassuring picture. My concern and my question is focused on the fact that Alberta Mortgage and Housing Corporation has an accumulated deficit of \$606 million this year – unfunded, unsecured, uncovered – and at the same time paid, I believe, something in the order of over \$300 million of interest to the Heritage Savings Trust Fund.

Is it appropriate that a corporation that is fundamentally bankrupt would be required to make payments on its debenture from the Heritage Savings Trust Fund? If so or if not, does that not raise serious questions and doubts about the quality of earnings of the Heritage Savings Trust Fund?

MR. SALMON: I believe it's interesting to note that in note 4 of the financial statements of the heritage fund, which was there last year, which is the segmented information on the net investment income, the Treasury has been willing to include (a) and (b), which do give a reflection of the amount of in-house generated income between the provincial corporations that have borrowed money from the heritage and the heritage income reported. I've talked about this before in the light of public accounts, and I guess from the point of view of the heritage financial statements, heritage has made an investment. It happens to be in a provincial corporation. The investment could be elsewhere, so there is a return coming back in the way of income.

If you go back to the housing side of it, housing is paying for that return not only through their own funds but also generated from paying a cash payment going from the General Revenue Fund to the housing to pick up the cash deficit occurring on housing. The legislation that presently exists – at least the

interpretation of that – provides for the housing corporation to continue to carry the noncash deficit on their financial statements.

The thing that gives me comfort is the fact that when we consolidate in the consolidated financial statements of the province this investment, the debenture debt that housing has and all of these investment transactions back and forth disappear, and the figure you see in the consolidated financial statements does not have this type of grossing up, you might say, that you're talking about. But then if you take the heritage corporation itself and talk about it as a legislatively developed entity which has invested money in some other provincial agencies, these figures are what has been generated in actual dollars. So it just comes back to the circle and the fact that the consolidated statements actually end up with the right figures.

MR. CHAIRMAN: Final supplementary.

MR. MITCHELL: Absolutely.

I would like to pursue the organizational structure of the heritage trust fund's investment management and just ask for your insights into whether you think it is appropriate for an internal government Treasury department group to be managing financial assets of the heritage trust fund in the way they do – stocks, bonds, and investments – or whether, based on your experience in these matters, it would be more efficient and overall better that those assets be managed through private-sector investment groups which would be subject to competition and accountability on the return that they earn, and in the process of doing this, of course, reduce government costs.

MR. SALMON: As you probably are aware, Mr. Chairman, this is a question that is fundamental to the operation of the Treasury Department and how they have chosen to use this investment management committee to operate. They have staff fully involved in the investment field not only of heritage but also the General Revenue Fund as well as Workers' Compensation and the pension fund area particularly. Whether or not they chose to go with the private sector or whether they chose to go Treasury, the Auditor sort of backs off on that and says, "Well, we'll make sure that the operations are such that those individuals who are operating there are following the guidelines and the systems developed, and if they're not, we're certainly willing to report that to them and identify areas that may be improved." But whether or not that should be operated by somebody independent of the government, that's certainly a question of policy.

MR. CHAIRMAN: Member for Ponoka-Rimbey, followed by Member for Calgary-Forest Lawn.

MR. JONSON: Yes, Mr. Chairman. Because the income from the Heritage Savings Trust Fund is now going into general revenue and there isn't that natural accumulation in the value of the fund from year to year, we seem to have a lot of focus on the value of the fund, and there are different versions.

One of the things I'd like to ask the Auditor General about is what seems to me to be a mixture in accounting practices through the report. On page 40, for instance, where we are talking about cash and marketable securities, the market value of those items is shown. The same where we are talking about the commercial investment division on page 44. However, we do not show the market value, for instance, of the Alberta Heritage

Scholarship Fund and the investments that they have and the value of that fund. Why do we have that difference in approach through the report?

MR. SALMON: You talked about the scholarship fund, the \$100 million?

MR. JONSON: Yes.

MR. SALMON: Okay; the \$100 million - and there's \$300 million in the medical fund. We have to remember, Mr. Chairman, that the \$100 million and the \$300 million, if you want to talk the medical fund as well, are both items listed in the expenditures of the heritage fund in the deemed assets. Those particular funds are established in financial statements of their own, which I am the auditor of and sign the report on. Therefore, they are not part of the overall investment of the financial assets of the heritage fund.

The heritage fund cash and marketable securities and the commercial division and so forth are actually the liquid assets of the fund available for use at any time the investment committee so chooses. Because it's good accounting to display market values, that's what they're doing.

As far as the other divisions, of course, they've chosen to use the accounting policy of cost, and that's probably the most reasonable basis at the present time for those. That's fully described in note 2 to the financial statements.

But we have to be careful not to mix up dollars that still exist but don't really belong to the heritage fund in the way of the scholarship fund, because there is a separate set of statements included in public accounts for that \$100 million.

MR. JONSON: Well, Mr. Chairman, there is still that difference about deemed assets and the rest of the investments, but anyway . . .

On the same theme, Mr. Chairman, I'd like to ask, then, what the rationale is for not, for instance, listing the market value of the Syncrude investment.

MR. SALMON: The Syncrude investment is within the Alberta investment division, and none of the investments in that particular division are quoted. Market values are not quoted because there is no really good way in which they can determine the market value unless an extensive study was made, because they are not marketable in the normal fashion of shares and so forth on the market. Therefore, it's been because of that, and not spending additional costs determining any value beyond cost, that they've chosen to use that particular valuation. I suppose if a study were made, they could determine what the Syncrude investment was worth, but it would cost some money.

MR. CHAIRMAN: Member for Calgary-Forest Lawn, followed by Member for Wainwright.

MR. PASHAK: I'd like to follow up the questions that were just asked by the Member for Ponoka-Rimbey and try to get a sense of what the actual immediate liquidity, if that's a proper expression, of the Alberta Heritage Savings Trust Fund is. Perhaps we could do that by going through each of the schedules, and if the Auditor General would just point out what in those schedules could be immediately transferred into cash if the province should basically need that to meet some other requirement.

MR. SALMON: Anyone would expect, Mr. Chairman, that schedule 1 is cash and marketable securities, basically. Turnaround could be rapid. There is a note at the bottom of that schedule marked (a) which talks about the market value, and that is connected to the short term, and that's pretty obvious. There is some generated paper that's Alberta paper - in other words, there can be promissory notes and this kind of thing from the General Revenue Fund as an immediate source of income rather than going to the market immediately. Other than that this is pretty liquid. The other's liquid too. All you have to do is get the GRF to go outside rather than to the heritage.

As far as Canada division, of course, that's provincial, and there's a steady flow of repayments as well as the interest. That's been a good investment over the years, and there are very high interest rates in some of those debentures. They're not replenishing those, so when they're being paid off, then the money is left in the heritage fund for other usage.

When it comes to the Alberta division I believe we've pretty well exhausted that one as far as the provincial corporations are concerned and the interrelationship between heritage and the five. The five provincial corporations are different. Two of those are commercial entities in a sense: AGT, of course, being a profit-oriented Crown corporation, and the Alberta Municipal Financing Corporation, which is primarily investment in the municipalities and having repayments coming that way.

It's the other three, the innergenerated ones, that receive money from heritage and are paying back and then getting money when necessary from the General Revenue Fund.

There are some smaller investments, including of course the Syncrude project, that we talked about. If you wanted to really know the value of that, I think there'd have to be a study made and marketable conditions would have to be determined: whether or not you could find some companies that would invest and buy that 16.74 share percentage of the Syncrude project itself. That would take some effort.

As far as Ridley Grain or these others, again they are peculiar in their own investment right, and whether or not the market was there would be dependent upon whether someone was willing to reinvest themselves.

Of course, common shares in the Western Bank and the Alberta Energy Company could be sold or disposed of, I suppose, if the policy was such to do that. The shares in energy, of course, are marketable. I suppose that would flood the market, though, if you put too many on, because there's some 19 million shares. I just comment on these because we look at values and look at the things as we do the audits. That's generally the Alberta division.

Commercial division is straight transactions from investments in equities and so forth. They'd be marketable and could be done with whatever they want.

Then we're moving into the capital projects division. Of course, the first schedule, number five, is venture capital, and I want to comment on that one. It's straight investment from the department to this particular organization. Someone, I guess, could decide to give \$200 million to the heritage and then you'd have it back. I don't know. The rest of it - I don't even want to comment on deemed assets. They don't own it.

MR. PASHAK: Thank you very much. I would have liked a kind of approximate total of what that would have added up to, but I'll go back and review the transcript and add up those numbers myself. I think it would be in about the \$6 billion range.

Another question would have to do with transfers from the Heritage Savings Trust Fund to the general revenue account. I know there is approximately \$208 million that is provided out of the General Revenue Fund to support the Alberta Agricultural Development Corporation, the Alberta Opportunity Company, and the Alberta Mortgage and Housing Corporation. So when we're looking at the total amount transferred, which is about \$1.25 billion, it seems to me if we're really looking at the net contribution of the Alberta Heritage Savings Trust Fund to the General Revenue Fund, we should be looking at the difference there. Would it be accurate to say that the real contribution of the Heritage Savings Trust Fund to the general revenue account would really be just approximately \$1 billion rather than \$1.25 billion?

MR. SALMON: Excuse me, Mr. Chairman. Are you picking up the \$1.25 billion on the income statement of the earnings? Because that's \$1.25 billion. I don't know where you are.

MR. PASHAK: That's right. All of the earnings, whatever earnings there are . . .

MR. SALMON: All the earnings come to general revenue.

MR. PASHAK: . . . are supposed to be transferred to the General Revenue Fund, yet there are transfers from the General Revenue Fund back to corporations that are spawned by the Alberta Heritage Savings Trust Fund, like the Alberta Mortgage and Housing Corporation.

MR. SALMON: You're talking about paying for the deficit.

MR. PASHAK: Paying for the deficit. So the real contribution of the Alberta Heritage Savings Trust Fund to the General Revenue Fund should be the amount of profit generated by the Alberta Heritage Savings Trust Fund minus transfers from that fund to these corporations that are spawned by the Alberta Heritage Savings Trust Fund. Is that . . .

MR. SALMON: Don't forget that the payment to the - let's take housing. Payment from housing from the General Revenue Fund is for the cash deficit. That cash deficit is not comprised only of the amount due to the heritage fund; it's also comprised of the operating costs of the housing as well. In other words, if you could identify it - but I mean it's a mixture.

The other thing that has to be taken into account is the fact that there are repayments of debentures coming from those organizations back to heritage and then new debentures being issued, so money flows directly to and from the heritage to housing as well through that method and increasing their debt or decreasing their debt depending on what the debentures do. So there's a netting that has to be taken into account. There is also the operations of the housing itself that the GRF could also help pay for through the deficit.

MR. PASHAK: Could the Auditor General then take us through just a description of what is considered profit on the part of the Alberta Heritage Savings Trust Fund for the purpose of transferring moneys to the General Revenue Fund? Is interest, for example, that's earned on debentures considered profit, and is all of that transferred to the General Revenue Fund? Is interest on shares that are held transferred, or does any of that money that's earned that way - are there obligations

that it must be further reinvested within the fund itself?

MR. SALMON: Mr. Chairman, note 4 on the financial statements, called Segmented Information, is the net investment income earned by heritage from the various sources of investments as they're listed there both from the cash and marketable securities all the way to the capital division investments, which is Vencap - up to \$10 million there - giving you your \$1.23 billion. That's the amount that's gone to General Revenue Fund. So it's the earnings on everything that's been invested by heritage. No earnings have been kept at all in the last three years, I think it is.

MR. CHAIRMAN: Thank you.

Member for Wainwright, followed by Member for Edmonton-Centre.

MR. FISCHER: Thank you, Mr. Chairman. I would like to ask concerning the marketable securities. They do change a little bit with the stock market moving and so on. Has that been an effect at all on our credit rating? What is it in our heritage fund that does affect our credit rating? Which departments?

MR. SALMON: Are you talking about the provincial credit rating for borrowing?

I do know that as they've issued prospectuses to go to the market to borrow, as they've done under the General Revenue Fund, the investment companies are interested not just in GRF, of course; they're interested very much in the heritage, and they're interested in the consolidated financial statements as well - but primarily in heritage because of heritage's offset to the GRF situation. Because of the nature of these types of investments with respect to commercial investments or the cash and marketable securities, which are liquid types of things, I'm sure that has some effect. Now, I'm not privy to the actual negotiations that go on with Treasury and the investment companies that are willing to loan to Alberta, but definitely the financial statements have gone. They've analyzed them, and they claim they understand the interrelationships of all of this business of provincial agencies and so forth. So I know they have discussed this in detail, and I've seen the explanations within the prospectuses themselves.

MR. FISCHER: Thank you.

My other question might be a little bit off, but Ridley Grain Ltd. - are they keeping up with their payments coming back, the interest owed, and honouring their agreement?

MR. SALMON: With respect to Ridley Grain, they are paying interest, as much as they claim to be able to, but there is a shortfall. That shortfall of interest is not being accumulated as accrued interest, but it is noted within the file and in this document as to what that is. In the financial accounting policies they are indicating that they are recording to the amount received rather than accrued.

MR. CHAIRMAN: The Member for Edmonton-Centre, followed by the Member for Lacombe.

REV. ROBERTS: Thank you, Mr. Chairman.

I just have some questions pertaining to how the investment divisions do proceed, particularly with respect to expressing the interest rates for the various investments. I've been looking

through, and I just can't quite see the base upon which certain investments of the fund are made by Treasury, and whether that is, in fact, in the best interests of Albertans or if there's a better way. I've been struck, as I've read about the Alaska Permanent Fund, for instance, how the people of Alaska have gone about mandating - I think it's a board almost, that goes about investing their Permanent Fund in a very strict way and are given some guidelines and a certain mandate that there shall be this kind of return on the dollars invested. I think it has to be very clear in terms of what criteria they use and what interest rate is shown, and they're very up front about that with the people of Alaska.

I should just point out the segmented information that, in effect, the investment return from the fund is somewhat down. I guess I just have some questions about how accountable government is in terms of the criteria with which they invest these huge sums of money, particularly with other provinces and in the commercial division: whether, in fact, interest rates at least shouldn't be shown; there should be greater clarification about the whys and wherefores of investing in certain provinces and why and at what rate.

MR. SALMON: I believe, Mr. Chairman, that's a fundamental question of the basis on which the operation of the heritage fund exists, and that is: the investment committee makes the decisions as to what's invested, entering into various types of investments at various types of rates, depending on the timing and so forth of the nature of the investment. The concept of the Alaska fund, as I understand it - my own reading - is somewhat different, because it has been established by legislation and separated from the government itself. Although maybe the overall concept is to benefit the citizens of Alaska and this report indicates from the government that this benefits the citizens of Alberta, the basis and the operations are somewhat different. And, of course, to recognize that if it's to benefit Albertans but not maximize the investment rate of return, because the spending of the dollars tends to reduce the fund at the present time, that will have some effect on the rate of return every year.

REV. ROBERTS: Have you made any recommendations so that you know, or we know, at least the interest rate? I know it's going up and down. I'm not sure, for instance with various provinces, what investment has been made and at what rate and when it's coming to maturity. I tried to follow that one schedule, but there seemed to be lots of missing information. I'm just wondering, to make reasonable judgments about how well it's being done, whether more information needs to be shown there.

MR. SALMON: Are you talking about the Canada division?

REV. ROBERTS: Yes, for example.

MR. SALMON: If you go to page 15 of the annual report, the breakdown of the transactions for the year is shown by provinces. I don't think there's any place shown in the annual report or note (a), which is on the bottom of page 41, that describes the interest rates of the provincial investments from 9.5 to 16.3. If you're looking for the particular investment by a particular debenture or bond, I don't think they've shown that. So it's really showing the minimum and the maximum amounts based on the transactions themselves.

REV. ROBERTS: Limited disclosure.

MR. SALMON: It's similar to normal investment disclosure publicly. I suppose, if you were looking for what the investments were in Newfoundland, that's a more detailed question. It's not in the annual report.

REV. ROBERTS: So we proceed on trust in the good Treasurer and his people to be . . . We've had some questions about that lately.

MR. SALMON: They may be kind and give it to you.

REV. ROBERTS: Yeah.

Now, again this might be a bit of an unfair question, but just as a final thing . . . In the Alberta investment division I see it's over a billion dollars in Alberta Government Telephones. With all the talk of them and this government perhaps proceeding to sell off AGT into "advanced global telecommunications" or whatever, am I to understand that they would at least be able to get \$1.98 billion for it? Is that the investment to date? What's the value of AGT if they were to privatize it?

MR. SALMON: I think the financial statements for AGT are out for the current year; in other words, I think their glossy is out. I believe I've seen it. It's a December year-end. As far as I'm concerned - I'm also the auditor of AGT - certainly with the magnitude of that operation at the present time and the bottom line being a profit, including, I believe, even in the consolidation of all of their other subsidiary companies as well, this is probably a pretty sound investment, even if it did go privatization.

MR. CHAIRMAN: Member for Lacombe, followed by Member for Calgary-Fish Creek.

MR. MOORE: Thanks, Mr. Chairman. This is one agency of government, or one branch of the government, or whatever you want to classify it, that seems to be the most maligned operation there is. There seem to be so many innuendos and misunderstandings about what goes on, and how the fund is managed. We hear it from all quarters, and I find that very surprising when we look at the financial statement. It's very clear; it's out there, and I don't think anything could be more precise in saying what this is doing, but it's just a phenomenon, I guess, that goes around this heritage trust fund. Now, I think when all this goes on, there's a question as to the management of the fund; there's always that doubt of whether the fund is being properly managed. I have always said, and I think that's generally accepted, that the rate of return is a good way of evaluating the management processes. The bottom line of anything tells the story.

I note on page 28 of the annual report it states that the heritage trust fund's rate of return for '88-89 is 11.1 percent. Now, I'd like to hear from the Auditor General: in his judgment, is this a good rate of return on an investment?

MR. SALMON: Mr. Chairman, I think one has to take into account, in thinking about that rate of return figure, that the Treasury has included in the supplementary information to the financial statements an indication of the possibility that that rate of return takes into account the interest from all of the organizations, including those in the Alberta division and so forth and the Canadian division as well, which were those provincial

debentures from outside of Alberta. If you see the trend, it's slightly less, but possibly with the times, calculating all of these together, it's probably not a serious change, because the fund has been capped in the last three years and not generating additional income to invest, and utilizing some in the capital division. I suppose I could say it's reasonable, although I don't give an opinion on this rate of return. I have avoided that because that's part of the supplementary information.

MR. MOORE: Well, Mr. Chairman, I appreciate the position of the Auditor General, but I can say it's a good return and it would indicate that the fund wasn't too badly managed. However, because of these innuendos about the fund and how the accounting goes on, has the Auditor General looked at other accounting procedures of such funds as the Alaskan fund, similar funds, to see if our accounting procedures could be improved here, or does he feel - well, I know he feels they're adequate, but could we improve there?

MR. SALMON: Mr. Chairman, we haven't done any research elsewhere. Certainly in our involvement with the audit and working with management and staff of Treasury in the development of the financial statements and in the development of the accounting policies, we've been quite satisfied with the disclosure and the willingness to make amendments where we have encouraged those amendments to be made. We feel that the disclosure and the basis on which we've reported are satisfactory, of course, except for the deemed assets. Otherwise, we would include other things in that report. So you can't always compare, because you have to be careful of going into the United States where there's a different basis of accounting to some extent. Generally accepted accounting principles in Canada are not necessarily equal to or the same as the United States. We may get some views from the point of view of valuation of investments, but we have felt that the work that has been done has been adequate.

MR. CHAIRMAN: Member for Calgary-Fish Creek, followed by Member for Edmonton-Meadowlark.

MR. PAYNE: Thank you, Mr. Chairman. Despite the fact that the Member for Edmonton-Meadowlark and I have got along very well this morning, I would like to recall that he appeared to press the Auditor General to report the rationale given by the Provincial Treasurer for his position in the matter of reporting deemed assets on the balance sheet. Given the fact that the Provincial Treasurer will likely be meeting with us in this Chamber two weeks from today, I suggest we allow him the opportunity to speak for himself - heaven knows, he does that quite well - rather than asking the Auditor General or indeed any one else to describe arguments personally advanced by the Provincial Treasurer. On that subject, I took some exception to the Member for Edmonton-Meadowlark's editorial comment that the Provincial Treasurer's approach to the deemed asset reporting question is based on politics not logic. In my experience - I note that the chairman is waving his hand, and I'd like to assure him I'm close to the end of my preamble. In my experience, however, Mr. Chairman, the Provincial Treasurer is a consummately logical person in matters related to his academic and professional expertise, and I look forward to his attendance with us and to his explanation of his position on the issue and the broader policy questions I'm confident he'll be prepared to address.

MR. MITCHELL: Point of order . . .

MR. CHAIRMAN: Hon. member, would you please ask the question.

MR. PAYNE: Yes, I'm now at the question, Mr. Chairman.

MR. MITCHELL: Why doesn't he just ask the Treasurer to spend more money in his riding outright instead of with this roundabout . . .

MR. PAYNE: Mr. Chairman.

MR. CHAIRMAN: Hon. Member for Calgary Fish-Creek.

MR. PAYNE: Thank you. I admit freely to having very little expertise, if any, in accounting matters, and to that extent I envy the Member for Edmonton-Meadowlark's background. Frankly, I'm a lot more comfortable with an Aristotelian syllogism than I am with the jargon and technical minutia of auditing standards. However, at the clear risk of demonstrating my lack of expertise in this area, I'd like to ask the Auditor General perhaps a naive question regarding his note to the Provincial Treasurer on page 32 of the 1988-89 annual report of the fund. In the second paragraph of that letter he indicates: "Deemed assets represent amounts expended which are not recoverable by the Fund." Now, although government or political policy would probably never provide for such asset liquidation, I suppose it's technically possible that rail hopper cars or the reforestation nursery or even Fish Creek park would have no problem at all in finding willing buyers, and hence have inherent recoverable value. I'm wondering if the Auditor General would care to comment, and if in fact I am being naive, I hope he'll be gentle in his reply.

MR. SALMON: When *Hansard* comes, I want to read that again.

Mr. Chairman, I like the creativity of the accounting discussion that has just been given. Interestingly enough, more than likely, if some of these things were to occur in such a fashion - and again this is strictly my say, here; I'm not talking policy, because I don't know what it is there - some of these things would end up back in the General Revenue Fund rather than in heritage. Just because of the nature of some of those assets, the recoveries may end up going back there.

But when it comes down to that aspect of being able to sell, that is not what the Auditor General is driving at in his reservation. I'm driving at the implications as they presently stand at the end of each year. The fact is that the parks are now in the hands of either general revenue or the government as a whole or in some other organization that has been established, or they have actually been an expenditure. If you take the expenditure on the irrigation works of the province in the various irrigation districts and so forth, those are there and included within those financial statements themselves, and it's really that separation and that logical disclosure by entity that, as I indicated in an earlier question with respect to the scholarship fund and the heritage fund, interestingly enough, you could probably close those down. It wouldn't be politically very wise, but you could get \$400 million back as soon as you close down the medical and scholarship funds, because the money is there. But it certainly isn't heritage money unless heritage wanted to operate the scholarship fund themselves. It's been separated out, and that's really the basis.

It's logical that the Provincial Treasurer and the Auditor General have this argument in some ways, because of our professional backgrounds being similar, and I think sometimes he probably enjoys it.

MR. PAYNE: Well, Mr. Chairman, I'd like to suggest that I also enjoy it and find it very stimulating and look forward, as I say, to the Provincial Treasurer's session with us in a couple of weeks' time, at which time I'm sure he'll be more than prepared to articulate his view.

Given the extent of my first question preamble, I will cease and desist from any further supplementaries, Mr. Chairman.

MR. SALMON: Mr. Chairman, I need to make one clarification. In note 2(b) of the financial statements under the "Summary of Significant Accounting Policies and Reporting Practices," written and prepared by the Treasury Department, in the last sentence of (b) it says: "Amounts expended, not recoverable by the Fund, are included in the determination of Fund equity . . ." et cetera. So there is an admission that some of them are not recoverable.

MR. CHAIRMAN: Thank you.

The Member for Edmonton-Meadowlark, followed by . . . I have to look at my list. Go ahead, Edmonton-Meadowlark.

MR. MITCHELL: I can keep going.

MR. PAYNE: It's Fish Creek, Mr. Chairman.

MR. MITCHELL: He's looking over my shoulder.

I would like to pursue further the question of Alberta Mortgage and Housing Corporation and its status. Could the Auditor General please confirm that the Alberta Mortgage and Housing Corporation is, in fact, bankrupt? No matter how you add it up, any company which has an acknowledged deficiency of over 20 percent of its total assets must be bankrupt. Could the Auditor General please confirm that?

MR. SALMON: Mr. Chairman, I can't confirm that statement. That's a very blunt and straightforward statement. One has to consider the aspect of the support of the government to that organization. If the support of the General Revenue Fund weren't there, the housing corporation probably would have to do something. But with that support and the fact that it exists and the assets that do exist, as Auditor I and my staff have worked hard to ensure that the kind of valuations they have within those assets are reasonable and in accordance with generally accepted accounting principles. We're pleased that the financial statements are now in accordance with GAAP and not some special methods of valuation that had existed in prior years. We've had positive support from them in working along those lines, and other than the fact that at the present time they're carrying that deficit and when the cash is needed GRF supports them, it really is a supportable process. With that in mind I wouldn't use the word that you've used.

MR. CHAIRMAN: In your supplementary, hon. member, would you please stay to the actual accounting principles that the Auditor General has used as opposed to asking him for judgmental decisions and hypotheses and so on? So please have your questions a little more pointed to the accounting principles involved.

MR. MITCHELL: I find it difficult to accept that you would want to limit the manner in which I can ask questions. I'm asking on the heritage trust fund. It is my role to ask them as I see fit and as Albertans would like to see them asked, and I believe they have a serious concern about this particular corporation and its relationship to the heritage trust fund.

Would it not be more appropriate from the heritage trust fund's point of view, in looking at the status of the Alberta Mortgage and Housing Corporation with a deficiency of over 20 percent of its total assets, not to see this artificial support of that corporation, which clearly undermines any kind of market logic, but in fact to call the loan and to protect their interests? Should they not simply call the loan?

MR. CHAIRMAN: Hon. member, I really think that question is more appropriately asked of the Provincial Treasurer or the Premier. But to ask the Auditor General to make that judgment . . . He's told you that good accounting principles have been followed as far as Alberta Home Mortgage, that corporation, is concerned, and for you to ask him to make a judgment on that I don't believe is within his mandate nor something that should be directed to him but rather to the Provincial Treasurer when he appears on November 15.

MR. MITCHELL: Mr. Chairman, a point of order. In fact, the Auditor General frequently makes judgments about what should and should not be done with Alberta's assets in any number of his reports. He's made a judgment, for example, on a legal interpretation of deemed assets, which is in fact written right into the report, and I'm asking him to make a judgment, if that's what you want to call it, on whether or not the Alberta Mortgage and Housing Corporation debenture from the Heritage Savings Trust Fund, under responsible, reasonable business practice, should be called. The fact is that this company is bankrupt, and I'm asking for his judgment, knowing what he knows about business and about government investments, as to whether or not it would be practical and reasonable to call that loan.

MR. PAYNE: Speaking to the . . .

MR. CHAIRMAN: On that point of order, Member for Calgary-Fish Creek.

MR. PAYNE: Speaking to the point of order, Mr. Chairman, if we ever need an example of an apples and oranges question, we've just heard it. I mean, to lump together a difference of view with respect to an accounting procedure vis-à-vis the deemed asset argument that we've entertained today and earlier - to compare that with the Alberta Mortgage and Housing Corporation question that the Member for Edmonton-Meadowlark poses today, those are not two peas in the same pod. They are not related whatsoever, and I would like to indicate my support to you, Mr. Chairman, of your earlier view that such governmental or political policy questions should be directed to the political masters, all of whom will be meeting with us in these chambers.

MR. MITCHELL: They are directly related. The only thing that those two things have in common is the fact that they are merely accounting manipulations. That is exactly my point. There is nothing more than an accounting manipulation that keeps Alberta Mortgage and Housing afloat and allows this

Treasurer, in some kind of mysterious way, to say that his heritage trust fund is earning what he says it's earning, because it's not. This company is bankrupt, and it has no right to be paying a return on that debenture.

MR. CHAIRMAN: Hon. member, I really believe that it's a policy decision on the part of the Treasurer and the government to continue Alberta Home Mortgage. Now, the Auditor General has made his statement on his position on the deemed assets.

MR. MITCHELL: I'll withdraw my question.

MR. CHAIRMAN: Thank you. Would you please couch your question more directly in language that would pertain to his responsibility.

MR. MITCHELL: I've had one question, and I'm . . .

MR. CHAIRMAN: You've had one question.

MR. MITCHELL: Thank you very much.

Could the Auditor General please comment on this proposal that I would like to make, probably as a recommendation. Would it be possible for the Auditor General to compare returns, for example, on the stock and bond portfolio with returns achieved by private-sector money management groups such as a mutual fund group or a life insurance group or a pension group – seek out portfolios that are comparative in their objectives and so on, in their risk profile; compare the results, the success or lack of success of our Treasury Department management of similar funds in the heritage trust fund, the stock and bond portfolio; and report that comparison so that we have accountability and that we can instill in this process some of the competitiveness that you would find in the private sector?

MR. CHAIRMAN: Hon. member, I'm not sure that that question is appropriate, because you're giving the Auditor General a mandate that he really doesn't have; in other words, does the Auditor General have the mandate to go out and explore the private sector and then make a recommendation to the government to change their procedure. Can we . . .

MR. MITCHELL: There's nothing to do with the government. I'm just saying: would he make such a comparison with private-sector money management groups in managing similar kinds of portfolios and report that in his report? Surely he has the power to report what he wants to report and wouldn't have to check with anybody. I'm asking him whether he would report such a comparison so that we could say: "The heritage trust management group earned 25 percent on their stock and bond portfolio, and every private-sector group only earned 12 percent. Gee, they are fantastic, and they should be recognized." On the other hand, if the reverse were true, we'd want to see that as well, because we have no way of knowing whether these are good money managers or bad money managers, and I believe that the public should see very clearly in this report whether they are or whether they're not. There is so much effort to obscure . . .

AN HON. MEMBER: Question.

MR. MITCHELL: . . . the results of this fund in any event, with respect to deemed assets, that we've got to . . .

MR. CHAIRMAN: Hon. member, could we do this then? We'll ask the Auditor General if that is within his mandate.

MR. MITCHELL: And if it is, would he do it.

MR. SALMON: Mr. Chairman, I would like to give just a little bit of background from the audit perspective, and that is that the money management group of Treasury in their own work actually do some comparisons in the pension area with other pension funds, with some of the other investment areas as well. I don't believe in this particular situation they're actually doing it, although they're using the same kinds of guidelines in relationship to that, and we're aware of those.

The biggest problem in the heritage area is to find a comparable fund, and that is something that's not easy to do. You do find that different investment houses actually do their calculations and their inclusions of bonds and so forth in these studies a little bit differently. A number of years ago, under special assignment, my office, the former Auditor General, did an examination of this nature because of a special request by Legislative Counsel to resolve an issue of a supposedly \$60 million loss in the heritage fund in 1983; I think that's the year. At that time there were some comparisons looked at, and again it was very difficult to find one that was similar. It was only within that special report that any mention of rates of return or comparisons was given. And then, of course, that was done because it was that special request and fit the logic of where we were auditing the heritage fund.

As far as my own inclusion of that kind of information, these financial statements and this annual return are prepared by Treasury. We audit the financial statements and the notes. We do not audit the supplementary information; we compare it and look at it and see if it looks reasonable, but it does not come under my actual opinion. That's normal, standard procedure for auditors involved in annual reports and in financial statements.

It's a good question about that rate of return. They've chosen to give the rate of return that they've given; that's a Treasury Department decision. It was a good question to ask the Provincial Treasurer, if he could add to and give you additional information. For us to include it in our annual report doesn't make a lot of sense because it separates it from this, and we certainly could not insist on that kind of information being in here.

MR. MITCHELL: Of course, the . . .

MR. CHAIRMAN: Do you have a final supplementary, hon. member?

MR. MITCHELL: Yes.

Of course, the Auditor General does comment on the validity of facts, figures, and assessments made by the Treasury in their financial statements. Would it not be appropriate, just as the Auditor General has commented on the lack of validity in utilizing the deemed asset concept, to comment on whether or not the returns specified by the Treasurer are appropriate or inappropriate so that Albertans can be certain that they're not being manipulated politically and that, in fact, there is an objective evaluation of that kind of return, which is what the Auditor General is here to do? Would it not be appropriate, therefore, for the Auditor General to put such an evaluation in a note or in his actual letter – at some place in his audited document?

MR. SALMON: Mr. Chairman, if we were doing our management letter and we found some weaknesses in the system and some information that should be looked at that wasn't being looked at, that would be disclosed in our management letter to the Treasury when we finalize the heritage audit. They would reply to us and decide whether they were going to do it. We would then choose, based on that, whether or not we wanted to include it in our annual report, and that's the decision of the Auditor. It really comes down to whether or not the information is essential to the proper disclosure of this information in the heritage fund. The Auditor has to stay away from implications of involvement in the policy or in the political aspect of what should be or shouldn't be. I don't like to get into those arguments. But it is a case of - it's that simple - whether or not this kind of information is essential to understanding the fund, and that would be something that I'd have to weigh.

MR. CHAIRMAN: Thank you.
Member for Calgary-Forest Lawn.

MR. PASHAK: Thank you, Mr. Chairman. My question is very similar to the question put by the Member for Edmonton-Meadowlark. Based on my knowledge and understanding of Vencap Equities Alberta Ltd., I have some difficulty justifying the transfer of moneys from the Heritage Savings Trust Fund to that organization. I think I would personally appreciate having some opinion about the operation of that company from the Auditor General. Is there anything in the legislation, the Auditor General Act, that would prevent the Auditor General - for example, doing an audit of that company with respect to, say, value for money - expressing an opinion with respect to whether or not Vencap Equities, as it's currently operating and financed, meets the original objectives for which money was transferred from the Heritage Savings Trust Fund to Vencap?

MR. SALMON: Mr. Chairman, Vencap Equities Alberta Ltd. is not a provincial agency, it is not a Crown controlled organization, and it is not subject to audit or examination by the Auditor. This is an investment of \$200 million that has been given from the heritage fund. Certainly any interest in the reasons behind this particular investment is something that is more logically raised with the Treasurer, because we are looking at determining whether or not the value's there and whether or not the actual agreements are being followed and so forth. This note we've examined, we've examined the documentation, and we've examined the actual arrangements that have been made with this company, but we really are not involved because it is a straight investment out of heritage. Why it was ever put in as a capital projects division investment I asked once, but that's where they've chosen to leave it. It really could easily have been, as far as I was concerned, in the Alberta division as a straight investment.

MR. PASHAK: I guess my next question would involve an opinion. I would like to know if there's some way that the Auditor General could be authorized to do what it is that I'm looking for, but I guess that would involve an opinion on your part.

You mentioned that our investment in Syncrude, the shares or interest that we hold in that, is not marketable in the same way that shares are generally marketable. Would you explain what the difference is there, and why we couldn't, if the province wanted, sell Syncrude for whatever reason, and why it wouldn't

be the same as selling other share holdings?

MR. SALMON: Well, you have to recognize, Mr. Chairman, that in the commercial division they're actual shares traded on the market and you could sell them tomorrow. This Syncrude project, which is explained in note (h) to the Alberta division on page 43, is actually a participating venture where they own 16.74 percent of the actual project. It's more in the nature of an investment in that particular company by the government in the nature of \$511 million. Therefore, because it's, as I say, an investment in a particular company, it's not on the market. You'd have to find a buyer. So it's a little different than your shares and so forth.

MR. PASHAK: That's fine. Thank you.

MR. CHAIRMAN: The Chair finds a difficulty in that the only person left on the speakers' list is the Member for Edmonton-Meadowlark.

MR. MITCHELL: I'd like to, Mr. Chairman, pursue further the question of the liquidity of the fund and what, in fact, its value is. I wonder whether the Auditor General can confirm what he said earlier. Would it be possible for the Auditor General at this time to put an actual market value on that fund? For example - to assume, of course, that there isn't a value for the deemed assets, so we set those aside - to try to assess what the value of the debentures with the eastern maritime province would be if you tried to market those and so on and so forth within a reasonable period of time; say, four to six months. Would it be possible to come up with a figure?

MR. SALMON: I suppose someone could do that; I don't think the Auditor General should do that. But if someone decided to put their heads together and seek out the possibility of a sale of the Canadian division or parts of the Alberta division, I suppose that could be done. We haven't chosen to try to determine that. We've really looked at them by divisions and looked at the accounting policies to determine whether or not it was being properly shown, that those they've chosen to show at cost are shown at cost, and the marketability of some of these things. Obviously, you could determine the marketability of the Alberta Energy Company shares because you could find out what the stock market says they are worth today, and you could probably sell them. But, you know, there are a lot of assumptions and a lot of decisions that have to be made if someone were to do that.

MR. MITCHELL: So what you're saying, in fact, is that to the best of your knowledge nobody's done it, and certainly we're not aware of what it would be, and it's not a publicly publicized figure. So we don't know what the market value of the fund is in any kind of a responsibly assessed way.

MR. SALMON: Well, Mr. Chairman, you have to take into consideration the policy, and that is that the Canada investment division is one in which they are holding till maturity, and the Alberta investment division is similar. They're investments that have a long term rather than liquidity tomorrow. You have to take into consideration the cash and marketable securities, which are liquid, and the commercial division, which is also liquid. But the rest of them are long-term investments. If you look at it in that perspective, you have to look at it differently than if you're

going to talk about disposing of them tomorrow.

MR. MITCHELL: My final question is this. The Treasurer frequently adds up the trust fund as this asset that he offsets against accumulated deficit, which of course in any other word is debt, and says, "It's okay; it all nils out." He says that over the last number of years we've probably accumulated a debt on our operating expenses, on our general revenue expenses, every year of about \$10 billion to \$11 billion plus interest; now it's probably \$12 billion. Then he says that that's okay because it nils out against the heritage trust fund assets. But, in fact, we have no way of knowing whether it nils out against the heritage trust fund assets because, one, they're not short-term and liquid - even if we knew what they were worth, they're not short term and liquid to be nilled out, to wash this debt off - and two, we don't in fact know what they're worth.

MR. SALMON: Mr. Chairman, you have to take into account again what I said before. If we were going to talk about the consolidated financial statements of last year - I can't talk about the March '89 ones because they're not out yet - last year the consolidated financial statements showed net assets of \$7 billion. Now, that's a public figure I can discuss. I can quote that. That included taking the heritage fund into being, and that left \$7 billion in the consolidated financial statements of the province on the basis of the consolidated methods used. That eliminated the transactions between the provincial agencies and heritage, et cetera. As far as the figures from the Provincial Treasurer he's quoting, I don't know, but I just mention that one figure. Of course, that figure will be different this year because of, again, results of operations of the various entities. The consolidation will reveal that when the public accounts are released, but it's still in the black.

MR. CHAIRMAN: Thank you. To the Auditor General, thank you.

MR. MITCHELL: I have another question.

MR. CHAIRMAN: You have another question? You'd like another set of questions?

MR. MITCHELL: I would.

MR. CHAIRMAN: Okay.

MR. MITCHELL: Thank you. To the Auditor General. I wonder whether the Auditor General could give us a precise accounting of what the actual write-downs of asset values have been with respect to Alberta Mortgage and Housing Corporation. It's very difficult to follow that. It seems on the one hand that they have write-downs of \$369 million, I think, this year, but we can't tell whether those are accumulated write-downs or whether those are actual one-time write-downs for this year. I wonder whether there's any way that the Auditor General could clarify that.

MR. SALMON: Is this a question coming out of public accounts and the financial statements of the housing . . .

MR. MITCHELL: It is a financial statements question with respect to Alberta Mortgage and Housing Corporation. But of course it's very relevant to the status of the Heritage Savings

Trust Fund, because who knows what that status is if there's really low-quality earnings in such a huge portion of its investment.

MR. SALMON: I acknowledge, Mr. Chairman, that the accounting policy of the housing corporation has changed over a number of years, and therefore it's maybe difficult to go back and analyze the various financial statements. It is possible, though, if one looks carefully at that, to come up with a figure. I couldn't just tell it to you, I think, because you've got provisions and write-downs and so forth, and it would be hard. If this question is wanted, we could easily produce the answer to that one based on financial statements, because it is public information.

MR. MITCHELL: Could I confirm that you would do that? [interjection] Well, I'm just confirming that he would actually provide that information to the committee and to me.

MR. SALMON: If he could distinguish the years that he's after. Or is he looking for a particular period?

MR. CHAIRMAN: Perhaps you could handle that directly with the Auditor General.

MR. MITCHELL: Yes, I will handle that directly.

I wonder whether the Auditor General could give us some idea of what the implications for a sale of Alberta Government Telephones, or "advanced global telecommunications," as we hear now, would be . . .

MR. MOORE: Point of order, Mr. Chairman.

MR. CHAIRMAN: Point of order.

MR. MOORE: This has nothing to do with our heritage trust fund. I've listened patiently to political speeches. We're supposed to be here asking questions and what have you. I've listened to political speeches, and now we're getting into the hypothetical sale of Alberta telephones. I think we're all very busy in our lives; the Auditor General is. Let's carry on with the business of the committee and conclude the day's proceedings in an orderly fashion.

MR. CHAIRMAN: Could I ask the member to direct your question . . . If you have one on Alberta Government Telephones, please make it relevant to the responsibilities of the Auditor General.

MR. MITCHELL: Has the Auditor General been asked by the Treasurer to assess the implications of a sale of Alberta Government Telephones for the debenture held by the Heritage Savings Trust Fund with Alberta Government Telephones?

MR. CHAIRMAN: I'm not sure that that's a valid question.

MR. SALMON: Well, I can answer that. No, I haven't had any discussions with the Provincial Treasurer on it.

MR. MITCHELL: Would the sale of Alberta Government Telephones have implications for that debenture?

MR. CHAIRMAN: Hon. member, I really think you're

stretching the mandate of the Auditor General on a judgmental decision of policy.

MR. MITCHELL: Who do we ask? I mean, who do we ask anyway? Deloitte Haskins & Sells and get their opinion? I mean, this is the people of Alberta's Auditor. I have a right to ask our Auditor the implications of a decision that we've heard about, that's been talked about, that's been rumoured, and that might have implications, if for no other reason than to note it in the Treasurer's mind for the future.

MR. CHAIRMAN: Hon. member, you are dealing with just what you said: rumours and things you've heard about. The Auditor General has said that he has not been asked to do any kind of an assessment. From there I'm not sure where his responsibility would project beyond that, if even that far. Now, if the Auditor General cares to make a comment.

MR. SALMON: Mr. Chairman, earlier I believe I did say that being the auditor of AGT and knowing that AGT is in a profit position, this investment is sound. I did say that earlier.

MR. MITCHELL: With respect to that . . .

MR. CHAIRMAN: Hon. member, you've had a question and two supplementaries.

Member for Calgary-Fish Creek, followed by Member for Calgary-Foothills.

MR. PAYNE: Thank you, Mr. Chairman. As reluctant as I am to interrupt the flight of Edmonton-Meadowlark, I would like to ask the Auditor General to turn to schedule 1 of the '88-89 annual report. Mr. Chairman, you will recall that earlier in our deliberations today the Auditor quite properly drew to the attention of the Member for Edmonton-Meadowlark, I believe it was, that there are great differences in potential liquidity of investments in the various divisions of the fund. With particular regard to the cash and marketable securities liquidity, I seek clarification from the Auditor General as to the term or period of the various instruments held in the cash and marketable securities division; that is to say: which can be redeemed overnight and which are locked into 30-day or 90-day or even longer terms? I need to get a better feel for the liquidity of those particular securities.

MR. SALMON: Mr. Chairman, cash or marketable securities are basically instruments that can be disposed of immediately. You can rest assured, however, that some of the marketable securities can be extended into one- and two- and three-year terms just because of the nature of the debenture or the security such as they've got. The midterm money market stuff can be up to two years and even longer. But it's still liquid, if they so chose to dispose of it; it's that kind of paper. Also, the bonds can be a little longer. If you've got bonds, government of Canada bonds can be disposed of, but they can also have maturity dates down the road a ways. The price, of course, will be affected by those maturity dates. Provincial bonds are the same way. Of course, that's internal to some extent, but pretty well anything that Treasury has included in the cash/marketable could be disposed of tomorrow.

MR. PAYNE: Just to be sure that I'm understanding the Auditor General correctly, if I could focus just briefly on the

guaranteed investment certificates that are noted in both the midterm money market securities and the short-term money market securities. Is my understanding correct that these GICs, if it was deemed to be useful, could be all liquidated out tomorrow?

MR. SALMON: They've probably got some restrictions on those particular ones.

MR. PAYNE: It's those restrictions that I have a particular interest in, Mr. Chairman.

MR. SALMON: Well, it's certainly not a long, long term, you know. They're pretty liquid stuff. With GICs you can go up to five years.

MR. PAYNE: I'm sorry?

MR. SALMON: I said GICs can go in various terms.

MR. PAYNE: I appreciate that. It's not the long end of the term that is the focus of my question, it's the short end of the term, to get a better grasp of the liquidity of these investments or these instruments.

MR. SALMON: Usually, if there's an instrument that's got some type of a long term, there's some kind of a penalty if you move faster. Again, we'd have to look at the individual certificates to see what they are.

MR. PAYNE: I take it, then, Mr. Chairman, that the bottom line is that at least these securities, those in the cash and marketable securities, are indeed in a very liquid position.

MR. SALMON: That's right.

MR. PAYNE: I take some reassurance from that.
Thank you, Mr. Chairman.

MR. CHAIRMAN: Member for Calgary-Foothills.

MRS. BLACK: Thank you, Mr. Chairman. I just have two quick questions. On page 15 of the report, under the Canadian investment division, one of the transactions shows Hydro-Québec receiving \$303 million, and I'm wondering what the terms of repayment are on that investment. I don't see any repayment or redemptions coming through.

MR. SALMON: Hydro-Québec?

MRS. BLACK: Yes. On page 15.

MR. SALMON: I don't have the specifics of those particular ones. The years are varying. They vary - I don't exactly know what the extension is right at the moment. But payments in this particular year, if they were due, have been made, and there were no payments due from Hydro-Québec in 1988-89. In other words, none of their debentures became due in this particular year. Every one of the provincial investments under the Canada division have made their payments on time.

MRS. BLACK: And there's no interest on those that . . .

MR. SALMON: And there's interest being paid as well.

MRS. BLACK: Where does that go through? Into the interest income side?

MR. SALMON: Yes.

MRS. BLACK: Directly into that, so it wouldn't show up on this report. Okay.

The other question I have. On the front of the report, on the front cover, it says:

The heritage fund was established in 1976 with three objectives:

1. to save for the future;
2. to strengthen and diversify the economy of Alberta; and
3. to improve the quality of life for Albertans.

In your audit opinion, sir, do you feel that we have attempted to accomplish the objectives of the fund and that we are operating within those three objectives with the type of investments that we have gone into? Where are we with respect to this mandate is what I'm asking. There must be a mandate of the fund.

MR. CHAIRMAN: I believe that that's beyond his responsibility, to respond to that. His would have more to do with if the accounting principles surrounding those three directions were not adequate or in line with accepted accounting principles. But for him to make a judgment decision of the direction of the fund as being administered by the investment committee is beyond his mandate, unless the Auditor General sees fit to make some comment.

MR. SALMON: What we ensure to do, as the Auditor General, is to ensure that the policies established are followed properly. So you can take it from there.

MRS. BLACK: That answered my question, sir.

MR. CHAIRMAN: Member for Calgary-Forest Lawn.

MR. PASHAK: I guess it's a more general question than the one I asked earlier about Vencap, which is apparently outside your mandate, Auditor General. Is there anything in the current legislation that would, first of all, prevent you from doing a value-for-money audit of any investments that are made from the Alberta Heritage Savings Trust Fund? The corollary to that would be: is there any way that the Legislature or any of its committees could at least ask you to do a value-for-money audit of any of the investments that are made through the . . .

MR. SALMON: Mr. Chairman, it's a question on the Auditor General's mandate. If you take the Auditor General's mandate under sections 18 and 19 of the Auditor General Act, it allows the Auditor General not only to audit and give opinions on financial matters pertaining to the Crown as well the provincial agencies in Alberta but also to do systems audits that have bearing on economy, efficiency, and effectiveness. Those systems audits are designed to be within the organizations to which we are the auditors and do not expect the Auditor to follow public money beyond the actual payout of the organization and so forth. In other words, we would not go audit the investment itself when that investment was not within a provincial agency to which we're the Auditor.

MR. PASHAK: Just to flesh that out somewhat then. With respect to, say, our investment in Syncrude it wouldn't be reasonable, then, to expect the Auditor General to make a comment on whether or not we should maintain that existing investment with a view to economy, efficiency, and effectiveness.

MR. SALMON: We do an audit on the investment because of the ownership of 16.73 percent of Syncrude. We do an actual equity audit on that particular investment because it's really within the Department of Energy. That audit is done to satisfy ourselves on the value of that investment. In that particular case, because of the nature of the way it's held and the nature of the operations within Energy, where they have an actual section of Energy that monitors that particular investment, we've been doing some work in that area. So it's a little bit different than some of the other investments that are separate and cleanly away from the government. There is a connection to that because of Energy. The nature of the agreement involves access to that investment.

MR. PASHAK: Would it be reasonable to . . . I've got to watch it so that I don't really ask the Auditor for an opinion, but I could ask this question: would there be any fundamental reason why the Auditor General could not conduct an audit with respect to economy, effectiveness, and efficiency of investments if he were mandated to do that by the Act or by a committee of the Legislature?

MR. SALMON: Mr. Chairman, I'm talking on the basis of the way it is. I haven't been commenting on what it could be.

MR. CHAIRMAN: Hon. member, I would presume that anything could be incorporated into the Act, but it's not there today.

MR. PASHAK: I meant from a general accounting sort of principle.

MR. SALMON: For Syncrude itself, the province of Alberta is part owner of the project, based on this percentage. So we come through on this Alberta Oil Sands Equity side. There's participant involvement, and we're auditors of that particular participant involvement.

MR. CHAIRMAN: Thank you to the Auditor General and to your staff for being here with us today. That brings to a conclusion the list of speakers that we have who had questions prepared and came here to ask of your department. We appreciate your forthrightness and perhaps the difficulty that you encountered in trying to deal with some of the questions that probably were on the fringe of your mandate. Thank you for being here. We anticipate that your input today will be of assistance to members of the committee as they continue their deliberations for recommendations to be brought forth in our annual report. Thank you again for attending.

We'll accept a move for adjournment from the hon. Member for Ponoka-Rimbey.

[The committee adjourned at 11:30 a.m.]