

2:00 p.m.

Thursday, October 24, 1991

[Chairman: Mr. Ady]

MR. CHAIRMAN: I'd like to call the meeting to order and welcome our Auditor General this afternoon. We appreciate him coming to appear before our committee to answer questions the committee might want to put to him from the Auditor General's perspective. We'll give him an opportunity to give some opening remarks prior to the question portion, but prior to that, we'll digress for a moment to ask if any members have recommendations they would like to read into the record today.

The Member for Clover Bar.

MR. GESELL: Thank you, Mr. Chairman. I would like to recommend for the committee's consideration that an independent assessment be undertaken of each of the deemed assets of the Heritage Savings Trust Fund to determine the value and benefits to Albertans resulting from these investments.

MR. CHAIRMAN: Thank you. I'd ask that you submit a copy of that to the legislative secretary.

Are there any others? If there's no other business, we would invite the Auditor General to make some opening remarks. Perhaps prior to doing that, he would introduce the two officials from his department that he has with him. Then following his opening remarks, we'll move to the questions. [interjection]

Excuse me; you just want to be on the list? Thank you.

Auditor General, please proceed.

MR. SALMON: Thank you, Mr. Chairman. I have with me some senior office staff responsible for the audit of the fund. On my right is Jim Hug, an Assistant Auditor General, and on my left is Ken Hoffman, senior director of audits in the office. We're here to discuss primarily our responsibility, which is the financial statements. As you are aware from the annual report of the fund, they are on pages 37 to 56 of the report, which was released last week, and the Auditor's report is included on page 39. The balance of the fund's report is not subject to audit but has been reviewed by the office, and we feel comfortable with the financial information there.

The financial statements themselves are presented similarly to the previous year. The Auditor's report again contains a reservation regarding the deemed assets. The issue is essentially the same as discussed in prior meetings, and in my opinion that reservation to some extent has helped reduce the confusion regarding the size of the fund. You'll also note that the wording of the standard Auditor's report has changed in accordance with the new recommendations of the Canadian Institute of Chartered Accountants to more specifically outline the role and responsibility of the Auditor.

I would like to take a few minutes, Mr. Chairman, to comment on a few things. I'm sure everyone has reviewed and is aware of the contents of the statements, and we'd just like to mention a couple of things, particularly on matters pertaining to the statement of changes in the financial position, located on page 43. This statement summarizes the transactions which created the increase in the cash and marketable securities between the beginning and the end of the year, and the operating transactions on that statement show the contributions to cash from the operations of the fund, and of course it is the net income adjusted for accrual accounting entries as well.

The statement then describes the proceeds from disposals, repayments, and redemptions of investments of the various divisions. The primary change in the Canadian investment

division, of course, is the proceeds of about \$118 million from the province of Manitoba for debentures which were matured during the year. Of course, in the Alberta division the proceeds were primarily repayments from the five provincial agencies, and the commercial division had sales of investments of some \$154 million. The Alberta division also invested about \$167 million in provincial corporations - ADC, AOC, et cetera - and there was the investment that was well shown here with respect to Telus Corporation. The amounts that were transferred and expended at the bottom of that particular statement show the transfer of revenue to the General Revenue Fund of the full amount of the earnings in the year and also the expenditure of the capital division of \$150 million, which is broken down into various components in the back of the statements.

This year the audit, as usual, has gone well, and we've had good co-operation from management and staff of Treasury. We feel comfortable with the audit opinion we've given on the statements for the current year.

With those few remarks, Mr. Chairman, I'm quite prepared to try to answer any questions along with the help of my staff.

MR. CHAIRMAN: Thank you.

The Chair recognizes the Member for Edmonton-Beverly, followed by the Member for Calgary-Foothills.

MR. EWASIUK: Thank you, Mr. Chairman, and welcome to the Auditor General. I just want to clarify the exact position of the Auditor General relative to this particular fund. He's really talking about accounting procedures and such and really no impact on the fund in any other way.

Now, I want to go back to page 43, which you addressed, a statement of changes in financial position on the item "investing transactions." There we speak particularly about the Alberta investment division, and you alluded to the fact that there are a number of investments in this portfolio as well as the Crown corporations. I was wondering if the accounting procedures used here in the audit could be enhanced by this particular division being broken down into various components within that division so we could determine exactly who made what or whatever happened in each of those investment divisions.

MR. SALMON: Mr. Chairman, this particular statement, as I had indicated in the opening remarks, has been prepared by Treasury, and we examined that on that basis. If you were looking for specific transactions within each of the divisions in the investing transactions, Treasury has included on pages 22-23 the actual analysis of those changes in the year. I'm not sure if that's what is asked or not, but it certainly gives the detail, and maybe it would be cumbersome if included with the particular statement itself.

MR. EWASIUK: Okay. Thank you.

Also, Mr. Chairman, to the Auditor General: the cash and marketable securities are shown as a . . . I'm sorry; I just lost my page here. They're not shown as market value; they're shown as a possible profit or loss situation. I wonder whether it would be better for this committee and for the fund to have these cash and marketable securities shown in the financial statements as to their actual fair market value.

MR. SALMON: Mr. Chairman, they are not shown in the statements themselves, but they're shown in schedule 1 on page 48 with a market value of \$3.917 million versus a cost of \$3.8 million. The accounting policies listed in note (b) show that they

are the lower of the cost or market, and therefore those particular ones do include the market value against each investment.

MR. HAWKESWORTH: What was that last one?

MR. SALMON: They're included in the balance sheet at cost, and then in the schedule they're showing the cost or market.

MR. EWASIUK: A supplementary then, Mr. Chairman. I come back to your annual report. You've alluded in your opening remarks to the annual comments you make on the practice of including the deemed assets and deemed equities in the financial picture of the fund. Again, the Premier was here before us this morning and I think the Treasurer was here earlier this week, and both of them don't necessarily agree with your position. I'm sure you must know that as well. What can you do? What is your approach in trying to rectify this particular deficiency as you see it in the fund?

2:10

MR. SALMON: Mr. Chairman, I can't remember how many years it's been since the reservation has been included, and in the report today, because it's a different type of report as for the CICA, the reservation paragraph is the third paragraph on page 39. It's exactly the same except for the amount we have been including for a number of years. Without going into full detail, at least initially, unless someone decides to ask me this again, it's a very simple solution. Yes, they tend to disagree with me; otherwise, I wouldn't have the reservation. But the simple solution - we have given suggestions to them, and I'm not sure exactly why that consideration hasn't been taken into account at this stage, but I certainly feel, based on the solutions we've given, we could resolve it and not have the reservation by simply removing the dollar figures off the balance sheet. I have no problem with schedule 6. That's good; it's good stuff. We need to show that. We need to show the values of these costs that are classified as deemed assets.

I guess if I were going to philosophize just briefly, and I don't intend to do that - I'm a very factual person; I stick to the facts - I would suggest that generally I think we're winning in that there's a better understanding today as to the difference between financial assets and what the deemed assets are. But in reading *Hansard*, of which I am a fan just to know what's going on, I do see too many references to the fund value at \$15 billion. I have explained before that these financial statements show, if one were to look at note 2(b), the last sentence in (b):

Amounts expended, not recoverable by the Fund, are included in the determination of Fund equity and are shown as deemed assets.

"Amounts expended, not recoverable" is my whole argument; it's as simple as that. If they weren't on the balance sheet, I think there would be less confusion. It's coming. One day maybe they'll choose to take it off, and then I can remove this awkward paragraph that is in my opinion.

MR. EWASIUK: Thank you.

MR. CHAIRMAN: The Member for Calgary-Foothills.

MRS. BLACK: Thank you very much, Mr. Chairman. It's nice to be recognized at the front instead of at the bottom all the time.

I'd like to focus in on the deemed assets. I guess it's something I've been wrestling with since I've been on this committee. In your statement at the beginning of the financial statements, sir, you say:

The practice of including deemed assets and deemed equity represented by deemed assets on the balance sheet is not appropriate nor is the presentation in accordance with generally accepted accounting principles.

You then say further:

Deemed assets represent amounts expended which are not recoverable by the Fund and where assets do exist, they belong to other organizations.

Then if I switch to schedule 6 that's attached and see the breakdown of the deemed assets and go through the list and realize these are recorded at book value, investment value, I really wonder why we don't show, as in the recommendation put forward today by the Member for Clover Bar, what the market value today would be on these assets.

MR. SALMON: Mr. Chairman, that's a good question, and I certainly look forward to seeing whether or not the recommendation I heard earlier in the meeting could actually be achieved without being very costly. However, if you were going to look at the list - and don't forget, we said they're expended; they're now somebody else's assets or they're in such a way that they're in some other piece of legislation - let's talk about the two items that do have value. The two that have value are the Alberta Heritage Foundation for Medical Research Endowment Fund, shown right here, which happens to be \$300 million that was transferred to the endowment fund by the heritage, and then the proceeds, the earnings, are being expended by the heritage fund itself, and that's in a different set of statements because they just get the earnings. But the actual \$300 million is sitting in the research endowment fund and is included in public accounts. We can only look at the March 1990 public accounts on page 5.30 - I've got this right here; I was just looking at it today, and I made a few notes - and at that time this particular endowment fund, which we gave an opinion on last year, had a market value of \$432 million. Now, that's shown in that set of statements and then in public accounts, and there's the disclosure. To me it would make no sense whatsoever showing market value in the deemed assets because this is the expended part by heritage. So it's a classification list of the amounts expended, whereas in the endowment fund itself, it shows the \$300 million as an asset and shows them at the market value of \$432 million at the end of March 1990.

Now, you can take the Alberta Heritage Scholarship fund. It has been \$100 million expended by heritage, shown in the Heritage Scholarship Fund at \$100 million as an asset with a market value at the end of March '90 of \$153 million. Again, it wouldn't make sense to show the market value here when you show the market value in the scholarship fund.

The scholarship fund is a piece of legislation; the medical research endowment fund is a piece of legislation. That's where the assets are. You can't have the same asset in two places. I think that's my answer.

MRS. BLACK: Well, with due respect, Mr. Chairman, when you're showing a supporting schedule on a financial statement as basically a footnote to the actual dollar amounts, the market value does not form the financial statement. It provides a good comparison and realistic picture of what should be on the schedule.

I'd like to draw the Auditor General's attention to a couple of other items under deemed assets that supposedly would have no recoverable value if they did belong to other organizations. It was my understanding when we had the Minister of Recreation and

Parks in the other day that the lands we have as provincial parks that have been invested in from the heritage trust fund . . . I will look again at schedule 6, in particular under Public Works, Supply and Services and Recreation and Parks. Fish Creek provincial park, Kananaskis Country, the Capital City park: I'm sure that if a current evaluation of real estate value and investment potential were done on those parklands, they are substantially undervalued, and if – and I stress the word “if” – in the future the will of the people of this province would be to make changes, they certainly would be marketable and would represent far more than the \$44 million, say, in Fish Creek park. We're talking here of 3,200 acres of prime real estate land that has been dedicated as a provincial park in the city of Calgary. It doesn't take a lot of arithmetic to figure out that when lots sell between \$100,000 and \$150,000 a lot, 32,000 acres would bring in far more than the value of \$44 million from this fund.

So what I'm saying is that the statement is somewhat misleading that it's not recoverable and would have no increased asset value, and I think it would not be inappropriate to show a market comparison if in fact the will down the road would be to dispose of those assets. I guess what I'm saying is that all too often, sir, we seem to decrease in value but not reflect the increase in value of our assets. I'm wondering: is that a part of the generally accepted accounting principles we're talking about?

2:20

MR. SALMON: Mr. Chairman, I believe the question is relating maybe this particular park – and we talked about Capital City recreation park – as being a cost of \$44 million, and that's not true. The \$44 million is the cost the heritage fund paid out toward the development of the park; it had nothing to do with the land, nothing whatsoever. So if it were to choose to start thinking about land values, you're not talking about land values that were ever owned by the heritage or ever purchased by heritage. That's land that was there, and I think this is development costs of the parks. I think there's a mix-up about what's an asset and what isn't an asset, and I don't buy what I'm hearing.

MRS. BLACK: Well, I guess as a final supplementary, with due respect, I do believe there was \$27 million of the heritage fund dedicated for the purchase of land for Fish Creek park and the balance was in the development. If in fact somewhere down the road the will of the people is such that they choose to dispose of that park, surely there would be some form of gain on the sale of property that would be incurred and would be reflected in what's been called nonrecoverable deemed assets in these financial statements.

MR. SALMON: I believe the policy they are following presently would be such that the \$44 million would be returned if you sold the park, and the profits would go elsewhere.

MRS. BLACK: So they are recoverable then.

MR. SALMON: No, I didn't say that. I said that these are expended moneys, and you'd have to rethink the whole policy of what these are. Even the statements say they're expended moneys, so how can you say they are something they aren't? If they're not assets of the heritage fund, they must be assets of somebody else at the present time. That doesn't mean it couldn't be returned if someone decided to sell, but it isn't the heritage that really owns them at the present time.

MR. CHAIRMAN: The Member for Edmonton-Meadowlark.

MR. MITCHELL: Thank you, Mr. Chairman. I would like to draw the Auditor General's attention to page 52, note (j), which refers to the \$275 million in subordinated debentures of the joint venturers of the Alberta-Pacific pulp mill project. This morning the Premier was questioned on this issue and indicated to me that there would be a manual which would outline accounting principles, which would define the cash flow circumstances under which Alberta-Pacific would be deemed to have to pay the interest on that debenture, because that interest is not immediately forthcoming; it will be dependent upon, I guess, how well the Alberta-Pacific company is doing with that pulp mill. My question would be: have you seen any such manual outlining the accounting principles which would define the value Alberta-Pacific would pay the government under this debenture? Have you seen the agreement the government has signed with Alberta-Pacific, which is necessary before this loan has any value whatsoever?

MR. SALMON: Mr. Chairman, this particular transaction was subsequent to the year-end, and because this was a subsequent event, we made sure . . . Looking at the authorization for this particular matter, we did examine the authorization itself to work out a comfort from the audit point of view that what Treasury was saying in this note was correct. We have not seen a manual because it is of the current year and we didn't look at it further at this time. That's what we'll be doing at the end of the March '92 audit, because this is July '91. So we were satisfied with the note that this is what they have entered into, but beyond that we haven't done any more work at this stage.

MR. MITCHELL: Is it your experience that in fact there is a manual explicitly defined in cases of this sort that would not only define the cash flow requirements under which payment to the government would be dictated but would also define this interesting parenthetical comment which says “borrowing rate (subject to certain conditions)”? Is that a general practice of this government, that there would be a manual of that nature defining those features of this loan?

MR. SALMON: The only thing I'm aware of, Mr. Chairman, is my own involvement with Syncrude, when there was a very heavy, detailed manual as to how they would work out and calculate the value and so forth. We did a lot of work on that a number of years before Energy was able to take it over. Yeah, it could be done in this case too, and I expect the nature of this agreement is such that it's complicated enough that it's probably necessary. So it will be something we'll look at when we get to the end of the year.

MR. MITCHELL: My next question concerns the question of deemed assets. If after all these years of your pointing out that these assets should not be reported in the way they are reported, if after you state as adamantly as you have stated today that you simply disagree and you simply believe deemed assets should be excluded from the balance sheets, if after time and time again of doing that, this government simply refuses to listen to you, at what point do you simply refuse to put your signature at the bottom of the letter that covers these financial statements and which gives them a credibility which even you agree and clearly most of us believe they don't deserve?

MR. SALMON: Mr. Chairman, I do feel that with the reservation, there is, at least from my perspective, the ability to understand that there's some concern with the way it's presented. That paragraph triggers that, and so that's why we have to continue to include it.

Whether I would feel that it was such a thing that we couldn't issue the opinion, I haven't got to that stage yet. I'd have to wait and see. I'm still hopeful that that will change.

MR. MITCHELL: It will change after the next election. That's when it will change.

MR. CHAIRMAN: The Member for Clover Bar.

MR. GESELL: Thank you, Mr. Chairman. I wanted to ask about Crown corporation subsidies. There are some claims that the heritage trust fund financial statements include interest paid to the heritage trust fund by Alberta Mortgage and Housing Corporation, by ADC and AOC, the Alberta Agricultural Development Corporation and the Alberta Opportunity Company, without considering the general revenue funds that flow back into those Crown corporations. Now, I believe the heritage trust fund financial statements are accurate regarding the moneys from the investments, but nowhere – at least I can't find it – in the report is there mention, except for public accounts again of course, of the government's support of these corporations through the subsidies from the General Revenue Fund. It's like taking from the right hand to give to the left, I guess, to some degree. Could you, Mr. Auditor General, maybe give the committee your opinion about that matter, that practice?

MR. SALMON: Mr. Chairman, this is the circularization you're talking about, where it moves from one to the other? Yeah, we look at this very carefully, because really – and I've talked about this in the past – as far as we're concerned, we don't feel there's any need to have that part of it or any indication in the heritage fund, because the heritage fund has always received the dollars from the provincial corporations that they were owed, including all the interest. The debate as to value has to be made with management at the provincial corporation level, either housing or ADC or AOC, with respect to the value of their assets and liabilities. Then the difference that's of any consequence in the way of cash needs comes out of the General Revenue Fund. Because of that way, we feel that these heritage statements are fairly presented. We have no problem whatsoever with the way they're presented, and I have defended that same principle every year.

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I suppose if one really wanted to look at the circular business closely and that the values the borrowings and everything else are taking place at are at the fair rate you would go to the market on, you'd have to sort of do a miniconsolidation. That would be to take the heritage fund, the provincial corporations, and the General Revenue Fund and mesh them together and eliminate those interfund amounts, whereas we're quite satisfied with the larger picture of consolidation, which does it. It just brings in other organizations as well. But to really see the picture internally for those few, you'd have to do a mini, which of course we don't. It's not necessary because we ultimately do a consolidation anyway and eliminate those intercompany transactions. But we're satisfied with the values even in those corporations because we look at them, in relationship to the value of the loans and the needs for provisions and so forth, as an independent organization.

MR. GESELL: Thank you.

Mr. Chairman, I might have missed an earlier question – I believe it was Edmonton-Beverly; I'm not sure – with respect to the book value that we list in the annual report and the market value. Did I miss that response? If I did, I'll just leave it, but my

question is somewhat related. With that situation being there and the actual value – what I would call actual value, market value – not being recognized and your concern that you voiced with respect to the general statements about \$15 billion being in the Heritage Savings Trust Fund, with the comments that are made that the fund is decreasing, even though in my mind the market value is compensating for that to some degree, do those statements in your opinion translate into an effect on our financial standing, our credit rating for instance, in Alberta? I assume they will, but I'm just wondering. Is there a possibility for that to have an impact? If it does, it's of grave concern to me.

MR. SALMON: Mr. Chairman, I understand that anytime the government has gone to the market for borrowing – and we have been involved in the past at times with prospectuses in relationship to provincial borrowings – not only the General Revenue Fund or even the consolidated statements, for that matter, but the heritage fund itself is taken into account. Now, I believe that by showing market values on the investments, the cash and marketable securities schedule, as well as showing market values in the commercial division, it helps to give a little bit of an indication of the liquidity of the fund, even though in the other divisions they are shown at cost. In the Alberta division there are particular shares, common shares, that have greater value than the cost shown because they're on the stock exchange today. So there is that aspect in it that's not actually shown on the statements, but because they are considered long-term investments, there is no real requirement to show market. If anybody really wanted to know what the market was, you could look at your newspaper and tell what a share value is anyway and calculate it yourself. Therefore, in the presentation of the value of the fund as shown, yes, I think one would have to take into consideration the market values that are shown and those that could be shown. I guess our little talk on deemed assets was entirely different than that, because that was something else when it comes to market values.

MR. GESELL: I'll pass on my supplementary.

MR. CHAIRMAN: The Member for Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. Good afternoon, gentlemen. I know you've already been asked a question about note (j) on page 52 in the annual report in regards to what safeguards or what policy might be in place to monitor available cash flow from the Al-Pac project, and I heard your answer to that through the Chair. There's also a note in the annual report on page 51 with similar wording, note (b), in regards to a participating debenture with Millar Western Pulp Ltd. Seeing as that's now been an investment of the trust fund for a number of years, perhaps you could answer this question as it relates to that particular debenture. Inasmuch as the note describes that interest payments or participation payments would be paid on the basis of the company's available cash flow, I'm wondering, Mr. Salmon, if you would describe for us: what are the policies and procedures and safeguards in place to assure that the Heritage Savings Trust Fund is getting a true picture from the company of what its cash flow is?

MR. SALMON: One of the prime things, Mr. Chairman, would be the fact that this particular debenture would be shown on the financial statements of this company. Those financial statements are audited by a firm of chartered accountants, and Treasury has a copy of those statements, which we have also examined. This helps us to understand from that audit the value and any consider-

ations for concern with that value, as to what they are saying in those notes to the statements as well as in the opinion of the auditor. We examine that kind of information to satisfy ourselves – and of course it's the kind of thing that Treasury is accumulating – and we've been satisfied that at the present time this is a reasonable value for this particular debenture.

MR. HAWKESWORTH: I'm not sure what . . . I guess what I take the Auditor General to be saying is that the company hires an auditor; the auditor provides a review of the financial statements; the Auditor General reviews the auditor's work and assumes that that picture is a true one. I guess if I take the description as I understand it from what the answer was, it would be that. If I've misunderstood the answer, then I'd welcome any further clarification.

MR. SALMON: It's basically that, Mr. Chairman, except for the fact that of course we have the opportunity from our audit perspective to review the working papers or files of Treasury. There's correspondence of that nature in there, and it gives us a picture of some of the concerns or if there are concerns. It's the monitoring process that Treasury does which we then examine to see whether we feel it's fair.

MR. HAWKESWORTH: Okay. Mr. Chairman, perhaps I could move to my next question. That has to do with perhaps a bit of a follow-up to my colleague from Edmonton-Beverly. Your key job in all of this, as I understand it, is to ensure that proper disclosure and a true picture is given of the true state of affairs for the Alberta Heritage Savings Trust Fund. When we review the investment transactions, which are found in the schedule outside of the actual financial statements themselves in the body of the report, some of those and one in particular, the commercial investment division, give an indication of what was lost in terms of various transactions or write-downs during that particular year, but there's no other way that the shareholders or the people of Alberta can know what was lost or gained on significant investment transactions that occurred throughout the year. All we get is a net income figure which includes investment income and all the gains and losses on the disposals of assets lumped together. What I'm wondering is this: why is it not possible within this schedule to add one more column after disposals, repayments, and redemptions that would indicate what was either the capital gain or the net gain in that transaction and what the losses, if any, were on any of those transactions? Why couldn't that be done to give a truer picture of the operations of the fund over the past year?

2:40

MR. SALMON: Are we looking at the schedule on 22?

MR. HAWKESWORTH: Oh, I'm sorry. Yes, that's right. I should have said that; pages 22 and 23. Actually, starting on page 21 are the schedules of the investment transactions for the year.

MR. SALMON: One more column to break down the disposals, repayments, and redemptions?

MR. HAWKESWORTH: Somewhere in relation to that, perhaps right after that, which would provide anybody reading these pages with some indication of what might have been the net gain on any of those transactions or what might have been the loss that was experienced in the disposal of that particular asset.

MR. SALMON: Mr. Chairman, that's certainly something for consideration. Again this is Treasury's decision, to present this much information. Because we're examining it in relationship to whether it appears adequate, where we're saying, "Yes, it's adequate," it probably would help to give more detail to an individual reader if that reader was interested but maybe not be of benefit to universally publish. It may be a question that could be directed to Treasury in relationship to amending this or providing information to the committee. I don't know whether that's been done or not.

MR. HAWKESWORTH: Okay; fair enough. I appreciate the answer.

MR. SALMON: Mr. Chairman, you may also find that . . . If we're looking at the commercial division, this is an ongoing thing, and you've got lots of individual transactions taking place. Whether or not that would be a help, if you had a total rather than an individual transaction basis, it would be fairly cumbersome.

MR. HAWKESWORTH: No, I appreciate the answer. In fact, the Provincial Treasurer, when he was here, just on the commercial investment division – for example, the write-downs – did give us a list of the companies' shares that made up that figure.

Just the last question, Mr. Chairman. I don't know whether Mr. Salmon or our auditors have yet seen the review done by Professor Mumey at the University of Alberta regarding the Alberta heritage fund in 1990 and some of the arguments made by Professor Mumey in support of why it would be helpful in the disclosure of the financial statements of the trust fund to understand the market value of the fund. He says, for example, that market value is the best measure of the fund's potential for achieving its objectives since its value is based on the potential benefits from asset holdings; market value is also essential as a gauge of past investment success since capital appreciation or depreciation are important elements of that success. His bottom line is that the market value of financial assets of the Heritage Savings Trust Fund is closer to \$9.1 billion, or 18 percent less than what's portrayed by the financial statements here. It's a significant difference. I'm wondering if you would perhaps tell us why Professor Mumey's assessment is not the correct one, or why we shouldn't be perhaps more properly saying that the trust fund is worth \$9.1 billion . . .

MR. PAYNE: A point of order, Mr. Chairman.

MR. CHAIRMAN: The chairman will have to enter into this, I'm afraid. I'm not sure it's the responsibility of the Auditor General to go out and audit some professor's opinion and be prepared to come into the Assembly and give an analysis of that opinion. I'm not sure whether Professor Mumey is a chartered accountant or what his background is, but to expect our Auditor General to have at his fingertips a qualified opinion on Professor Mumey's work I think is expecting perhaps too much. Maybe the member could focus another question.

MR. HAWKESWORTH: Okay. Mr. Chairman, I'm not asking him to say whether he agrees or not. It's just that one assessment of the market value comes up with 18 percent less value for the trust fund than the financial statements would indicate. That's a big differential, and I'm just wondering why there isn't some perhaps greater emphasis on trying to determine what the market value of the fund actually is.

MR. SALMON: Mr. Chairman, I have issued an opinion on the fund; I feel the values are correct. I have not read this person's report nor do I intend to, because I've read enough in the papers to realize that he has a philosophy difference rather than an accounting difference. I'm not sure, but I think it's basically on this business of the provincial corporations and the values that are there versus the values in here. I think I've explained it sufficiently, based on the accounting policies that have been established for the fund, that there is no reason to reduce the heritage fund as long as we accept the policy and the process of having individual corporations established with financial statements by legislation and value them individually before we consolidate. When we consolidate, any of the matters pertaining to those losses, et cetera, are all taken into account.

MR. CHAIRMAN: Thank you.

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

MRS. BLACK: Thank you, Mr. Chairman. Again I'm pleased to see that the negativity of the opposition isn't going to be the front-runner today. They tried that this morning with the Premier, and it didn't do any good, because people know that this heritage fund is in fact worth \$15 billion.

Now, my question, sir, goes back again to deemed assets. I know I keep harping. These deemed assets really bother me, I guess, from the statement that I think they're worth an awful lot more than is reflected in the fund. You mentioned in your explanation - I believe it was to Edmonton-Meadowlark - the institute's generally accepted accounting principles as they pertain to public accounting. I know some proposals have been put forward, but last I heard, none had been accepted by the public sector as being workable. The first question I was going to ask you was if there was an update on that situation from the relationship in the presentation from the institute. I've seen their proposal, but has it in fact been accepted?

MR. SALMON: Mr. Chairman, may I clarify the question and see if it's talking about the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants?

MRS. BLACK: Yes.

MR. SALMON: Do you really want all this?

MR. CHAIRMAN: Be as concise as you can.

MR. SALMON: Okay. I have just been on the committee as a member for the last three years. My last meeting was just this week. I just got home Tuesday night. The committee has issued some statements suggesting standards for public sector. Those standards for public sector are still in the accepting stage, because if one were to look at the governments across Canada today, amongst the provinces and the federal government you find a very different base on which the financial statements are disclosed. If you took Alberta, you would probably say and I can say that Alberta is probably 90 percent in accordance with PSAAC; that's the PSAAC rather than PSAC, because there's now another PSAC kicking out there. That's because Alberta does consolidate and have what the Public Sector Accounting and Auditing Committee talks about, summary financial statements, which are our consolidated statements in public accounts.

That's a good step forward, whereas if you take a province -

and again it's within these walls - like Ontario, they're still in the Dark Ages in cash accounting, and I think we can be happy with how far Treasury has been willing to go with respect to accounting on an accrual basis and also to go for summary statements. We're still working on some aspects, and some aspects, of course, are things like pension disclosure and a few other things which aren't anything to do with the heritage fund, but those things we work at when we work on the public accounts side. If that helps to answer . . .

2:50

MRS. BLACK: That answers my question, that in fact some progress has been made. However, the overall presentation from the institute's public-sector accounting committee has not been ratified across the country but has been accommodated, shall we say, in part or to a great extent by the province of Alberta, more so than any other province. Well, with that in mind, then I guess for audit purposes my question would be: is the same audit procedure applicable in the public sector; i.e., validation of footnotes, et cetera, as there would be in the private sector?

MR. SALMON: Mr. Chairman, I can answer very clearly yes, because as the Auditor General and as a practising member, as a chartered accountant, I follow the generally accepted auditing standards, and we try the best we can to encourage the public sector to also follow generally accepted accounting principles. Now, where we feel we can live with something that's not, our tendency has been to report on a disclose basis where we talk about GAAP, or generally accepted accounting principles, except for, and disclosing those except for in note 2 to the financial statements. Primarily the only problem we have in Alberta as far as GAAP, or generally accepted, is concerned is the fact that in governments it hasn't made sense up to this point at least to charge depreciation or to actually establish all of your fixed assets in your balance sheet and then depreciate over the life of the asset. This is contrary to GAAP, generally accepted accounting principles, so we can live with a disclose basis on that difference because it's disclosed in each set we do. But primarily it's just a case of working on the individual accounting policies to try to get some uniformity. Really all it is to get some uniformity across Canada so that when you read one province versus another province, you have some similar accounting policies. That's what PSAAC would like to see in Canada, and I'm certainly an advocate of that, even though there are some very big differences that eventually will have to be addressed by all governments.

MRS. BLACK: In that same trend, Mr. Chairman, if I might.

MR. CHAIRMAN: This is your final supplementary.

MRS. BLACK: This is my final supplementary.

If we are looking for the consistency and uniformity with representation within the accounting package per se - not the preamble but the financial statements and schedules - then surely when we talk about the valuation and recognize the book value of our assets and also look at the book value, shall we call it, of our deemed assets, we would want to include our deemed assets, even though they're identified as deemed assets, on the same balance sheet as our other, more liquid assets at book value. If we then included a marketable value for our more liquid investment type of assets, we would do the same for our long-term, quality of life type of assets. Would that not be a generally accepted accounting principle, keeping in mind consistency and uniformity?



MR. SALMON: Mr. Chairman, that's a very interesting way of describing how the two types of assets are the same. Maybe we should advocate a new balance sheet of deemed assets, and then the Auditor General would not have to give the opinion on the deemed asset balance sheet. That might be the way we could go about it; I don't know. But I'd have to disagree with your comment when you said the fund had a value of \$15 billion.

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

MR. PAYNE: Thank you, Mr. Chairman. I hope the Auditor General would be prepared to consider an investment strategical question as opposed to an accounting type question. I ask the question on the premise that the Auditor General's involvement with and knowledge about a variety of private- and public-sector investment portfolios potentially could enable him to assist us in making a judgment about the fund's marketable securities. As I mentioned this morning in our discussion with the Premier, fully one-quarter of the fund's financial assets are in cash and marketable securities. Would the Auditor General be prepared to comment on the appropriateness of committing \$4 billion to such securities, recognizing that something like \$1.7 billion is invested in securities with terms to maturity between one and five years? To illustrate the question, even a reduction of 25 percent in our marketable securities could release \$1 billion to the other hard-pressed divisions of the fund, especially the Alberta investment division and perhaps the capital projects division. Would the Auditor General be prepared to share with us his opinion regarding a question that is admittedly related more to strategy than to accounting?

MR. SALMON: Mr. Chairman, it's not really the Auditor General's role to get into the policy of the fund, but I would make one comment. If additional dollars – and it's right back on my subject again – were expended on the capital division, you would have no return whatsoever on those dollars. At the present time the return on the dollars in cash and marketables is raising a lot of the dollars that are going into the General Revenue Fund to offset the operating costs.

MR. PAYNE: Perhaps the Alberta investment division would have been a better illustration for me than capital projects.

MR. SALMON: You could go to the commercial division or to the Alberta division if it was something that had a return on it and maybe do just as well. It would be a case of how liquid you want the fund. It's a policy question.

MR. PAYNE: Perhaps, Mr. Chairman, in fairness to the Auditor General I could rephrase the question this way. Based on his knowledge of and familiarity with investment portfolios across the land, private- and public-sector, how does this proportion of one-quarter of the fund committed to marketable securities as opposed to the other investment divisions compare with investment portfolios elsewhere?

MR. SALMON: I believe this is unique. I don't think you'll find a fund that has a similar mix in Canada with respect, say, to an Alberta division, Canada division, and so forth. One has to remember too – and I expect that the committee will make recommendations on this, because it's certainly not the Auditor General's place to do it – that the reason that the cash and marketable securities are higher is because of the sale of the shares

of Telus, which has given additional dollars. I expect that some policy matter would have to be decided as to whether or not it's the best way to get the maximum dollars for what you want to do by leaving it here, or is there a way to do it elsewhere? It certainly is something I'm not directly into. I'm interested in what happens, but I tend to look at it that way, more factual, rather than getting in to the other, and that's why you've got the \$4 billion. You would get more money from one of the Canada investment projects that automatically turns more money in to your market. As the Canada investment division disappears, which presently is sitting at over a billion dollars, if nothing was done with those dollars, you'd have another billion dollars in cash and marketable securities, and it will keep going that way as they keep coming, because you're not reinvesting in that kind of an investment.

MR. PAYNE: Yeah. I guess, Mr. Chairman, what compounds the difficulty is, as the Auditor General quite properly points out, that there really aren't any other funds around like the heritage fund. Not even the Alaska Permanent Fund has a quality of life section to it. So it would be difficult. Could I just leave on the table an open-ended request? If the Auditor General or his staff happen to come across any funds – you know; U.S., state, institutional funds – that have a mix of marketable securities to generate income and divisions that are in some way, structurally or in terms of objectives, similar to the heritage fund, I would really appreciate being apprised of those so that I could start to make some more legitimate comparisons. All I can do now is rely on my gut, and my gut tells me it's just a little too high.

MR. CHAIRMAN: Thank you.  
The Member for Westlock-Sturgeon.

3:00

MR. TAYLOR: Thank you, Mr. Chairman. My questions are on pages 22 and 23. Under Agricultural Development Corporation and the Alberta Opportunity Company, those two headings, you mention disposals, repayments, and redemptions. Since these two companies are certainly in a deficit or in a loss position, is that a redemption? Just what is that? How could a company be doing any redeeming or repayments if they're in as bad shape as they are, or is it the type of debenture?

MR. SALMON: If you're looking at the Opportunity Company or ADC, it's the debentures that are coming . . .

MR. TAYLOR: It's a general rule of thumb that you're not allowed to redeem when you're in a loss position, so I was just wondering what's going on.

MR. SALMON: As the debentures become due, that will be shown as a repayment. If you're just looking at page 23, they've had redemptions of \$34 million, and they had two issues, of \$28 million, back out as debentures that they've now borrowed, which are the two shown at 10 and 10.24 percent. That's just a way of showing the details of the net change in the debt.

MR. TAYLOR: Are you saying that they float a new issue to pay off the old issue?

MR. SALMON: I'm saying that they pay off when they're due, and if they need a new investment, a new debenture, they've got a new issue. I mean, Treasury loans it back to them.

MR. TAYLOR: So it's more circular accounting?

MR. SALMON: Well, that's part of the way it's working.

MR. TAYLOR: Just chasing the tail around the bush.

MR. SALMON: You could just put it back out at the same interest rate and get the money back from them rather than from someone else.

MR. TAYLOR: Then I can also ask: in the participation in the Syncrude project, the disposals, repayments, and redemptions, is that also a redemption? Are they redeeming debentures on the lot system or on a clock system? It's at the bottom of page 23. You purchased \$191 million, but you . . .

MR. SALMON: It's the flow through of the cash on the joint venture. I think that's what it is. It really comes in and goes back out.

MR. TAYLOR: Is that the cash profit, then, really from that joint venture, would you say?

MR. SALMON: No, it's not a cash profit. It's the difference between the cash in and the cash out on the project.

MR. HOFFMAN: It's a joint venture project, and there's a bank account that money flows into and flows out of. As they sell the oil product that they get from Syncrude, that money would flow into the account and then they would have to pay back the operating expense. It's just an in and out activity. The net difference is, if you like, a cash return to the fund.

MR. CHAIRMAN: Final supplementary.

MR. TAYLOR: Yes. Although it may not be at your fingertips, what is the stage of the Syncrude project debentures? I mean, how much of the original are retired and are they on sched? If they are on sched, what was the sched?

MR. SALMON: If you look at page 52, (i) . . . Oh, that's not the one. It's a joint venture.

MR. TAYLOR: I'm sorry. Just for clarification, because you mentioned repayments and advances, repayments are really the total cash flow through to the joint venture. Is it? I see. It's really not bond payments; it's total cash flow.

Thank you.

MR. CHAIRMAN: Thank you.

The Member for Athabasca-Lac La Biche.

MR. CARDINAL: Thank you very much, Mr. Chairman. My question is reasonably brief. It's on the recent restructuring of the Alberta Mortgage and Housing Corporation. As you know, in the past the corporation played a key role in maintaining programs and services through the heritage fund for a lot of programs, including over 42,500 homeowners; for modest-income families, 23,000; also 8,200 community housing for low-income families; 18,000 lodges for senior citizens; and many, many other programs. I just wonder: will the restructuring of the corporation, to your belief, enhance the delivery system so we can continue with these valuable programs?

MR. SALMON: Mr. Chairman, that's a housing question, but certainly the change means that they continue in the social housing

side. The mortgages they've disposed of are those that were more commercial, that they could put out to the private sector. That's really what's happened in the heritage fund. My understanding is that things will continue. We're just finishing off the housing statements themselves, so it appears that that will continue.

MR. CARDINAL: Yeah. My supplement on that was in relation to the finances. What implications does this have on the previous deficits by the mortgage corporation and also potential future profits as it will relate to the restructuring?

MR. SALMON: Again, Mr. Chairman, it's more likely to be a public accounts question, because we're into the housing side. I could answer part of it by saying that the whole process is being looked at very carefully in the way the statements will be presented this year. With the disposals they have eliminated some of their debt because they've been able to eliminate the debt with the sale of the mortgages. They either will continue as before with the debentures from heritage or otherwise if they chose to do so, and continue to build housing for social reasons if it's considered appropriate for the corporation.

MR. CARDINAL: Thank you.

MR. CHAIRMAN: The Member for Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. My first question has to do with note (h) on page 52, which basically spells out in a little more detail the OSLO operating agreement investments. We had the Minister of Energy here yesterday, and it doesn't appear that that project is going anywhere at the moment; it doesn't look like anything in the near future is going to keep it on track. In terms of a policy question for the Auditor, Mr. Chairman, to Mr. Salmon: at what point would you ask the Treasury Department, in preparing the financial statements, to write off that investment?

MR. SALMON: Mr. Chairman, the reason nothing like that is indicated here at all is because the engineering studies are still going on. Once those engineering studies are done and it's a case of looking at it in relationship to whether or not there's going to be a move and a production start-up and a possibility of the project going ahead, I think that's all debated based on how it is at the end of next year and the end of the next year and so forth; each year is looked at. Certainly we would encourage a write-off if nothing was going to happen, similar to one that was in one of the other situations where we looked at it again. It's just on the other side, so we don't need to talk about it here, but that's the kind of thing that happens. It becomes a debate at the end of the year whether or not the values are there, and they're most willing to talk these things through to be sure that we are coming up with the value. We as auditors weigh that very carefully to be sure that we're satisfied with the presentation they give. Right now they're still working, still finalizing, so it really isn't the time to consider the value.

3:10

MR. HAWKESWORTH: I appreciate that it's not the time. I'm just sort of asking more a policy question in terms of the process that would bring you to that conclusion.

MR. SALMON: It's a year-by-year thing.



MR. HAWKESWORTH: So it's year by year: just take a look at where it stands.

Again a policy question. If at some point a determination is made to write off any particular investment – but let's say this one in particular – how would that appear or be accounted for in the financial statements? Would it mean that any gain on some disposal of another asset would have to, first of all, go to cover off the write-off before the net investment income could be transferred to the General Revenue Fund? Just an internal matter: how does the fund itself finance or provide for write-offs or write-downs?

MR. SALMON: Yes; it just becomes a net of the income itself, which is shown on page 42, the third line on the statement of income, retained earnings, and transfers. It would be part of that write-down.

MR. HAWKESWORTH: That comes back to an earlier question I had with the Provincial Treasurer about there not being much in the way of detail provided for that particular line.

Mr. Chairman, my last question on this set. Page 34 of the annual report gives a financial summary for the Heritage Savings Trust Fund. At the sort of a bottom line it talks about rate of return based on financial assets. This might in a way perhaps make the Auditor General's point, but if any person were to state that the Heritage Savings Trust Fund was \$15.3 billion – what would that do to the rate of return if someone were to assert that the Heritage Savings Trust Fund was, in fact, a \$15.3 billion fund? What would that do to the bottom line in terms of the rate of return on that investment?

MR. SALMON: I assume that if you had the \$15 billion and earnings were the same, your rate would be down. I mean, that's a math question.

MR. CHAIRMAN: Hon. member, if you're really asking the Auditor General to do a simple calculation by changing the principal . . .

MR. HAWKESWORTH: If you were to assume it's a \$15.3 billion fund, we certainly couldn't allege that the fund also achieved an 11.7 percent rate of return.

MR. SALMON: But I believe that the 11.7 is based on the 12. I mean, it is. It's not on the financial assets.

MR. CHAIRMAN: Okay; thank you.

The hon. member for Westlock-Sturgeon.

MR. TAYLOR: I'm venturing into a field here that I'm not too sure of, but it's a question of value-for-money audits. It's getting to be kind of a catchphrase. It's like words like "this point in time," or "heretofore," or something. People talk about value-for-money audits. I think it applies more for operating companies than really it does for an investment thing like this, but can you tell me whether or not a value-for-money audit would be worth while in something like this?

MR. SALMON: I would like to turn that question around and have him tell me what he thinks "value for money" is. I can philosophize over value for money because that's right in my line of responsibilities of comparing mandates of legislative Auditors across Canada. A true value-for-money is defined in several ways. I could tell you – except that we don't use the term – that I have the value-for-money at mandate, but my value-for-money mandate

is based on systems auditing, which would be such that I would measure whether or not there are systems in place and whether or not those systems take care of the economy, efficiency, and effectiveness within the organizations or whether or not they're doing nothing in that regard. Now, there are such legislative Auditors who can actually comment on value-for-money, and there's a bit of a philosophy difference out there amongst auditors as to whether the Auditor really has the ability to comment on a value-for-money because he doesn't have the expertise. Well, you can hire specialists, you can hire engineers, you can do everything else, or you can hire one engineer to contradict another engineer or you can hire a doctor to contradict another doctor if you're in the health field.

So really it boils down to: in this case we have a mandate in Alberta to do systems auditing. We do first a test auditing, expressing opinion; second, we do systems auditing to ensure those systems are operating the way they should and whether they're cost-effective, et cetera, and we can do that by looking at whether or not things are happening the way they say they should happen. We are careful to not comment on things that management themselves should be doing. I think that in many cases management is in a better position to measure the effectiveness of something than the Auditor – you see, you asked for this – but the Auditor can add to that assurance by coming forward and looking at the kinds of assumptions that management has made and the kinds of systems they develop and how they're measuring their plan, their scope of what they're trying to achieve, with what they've achieved at the end of a year. Now, I think that in time, management – and I'm talking generally now, both government as well as the private sector – will be doing a lot more of this themselves, and Auditors will be attesting to some of the management representations that are taking place, but at the present time in Alberta we do not comment on straight value-for-money as to whether or not that's the wise thing to have done. The Auditor doesn't say, "That was a wise thing"; we comment on the decisions made to operate the policies to see that they're following the policies made. There's a slight difference there.

MR. CHAIRMAN: Hon. member, the Chair really is having some trouble. I think we're getting into some pretty abstract philosophizing on accounting principles that really isn't going to answer a lot of your questions as to whether the fund is adequately audited or not, so maybe the member could just pull back into something a little more focused towards the accountability of the fund.

MR. TAYLOR: The value-for-money then; just a supplement or maybe clarification on what he's already said. It's quite interesting. It might be a little too modern, Mr. Chairman, for the committee, but as he's mentioned, this type of audit is on in other provinces.

MR. CHAIRMAN: But we're dealing with Alberta here.

MR. TAYLOR: Yes, but this is why we're here. One of our mandates is to check the accounting system; it says quite clearly. So I'm just asking him on the system that he's using, which is very similar to the deemed assets; I mean, it's the same type of question only on a different area. I wasn't clear, though, whether or not in Alberta they're not allowed to do a value-for-money audit or whether you just have chosen not to; I couldn't tell.

MR. SALMON: Mr. Chairman, I do a value-for-money audit in relationship to the mandate, which is a systems-based mandate in

which you can examine the systems in relationship to economy, efficiency, and effectiveness.

MR. TAYLOR: I see.

Can I have another supplement? I'll move off a little more on the line; I think you'll be happier with this one.

In your systems . . . [interjection] I can't tell who's fulminating in the back there; there's always somebody burping back there. I've got an extra Diovol we could pass to it. Is it Lacombe?

MR. CHAIRMAN: Hon. member, could you just press on.

MR. TAYLOR: The next question is with respect to the systems audit that you're talking about doing. Would that be broad enough to cover whether the systems should encompass an independent board of directors like the Alaska fund has or not? In other words, would you consider your systems analysis audit broad enough to suggest other systems of operating the plan?

MR. SALMON: I think what you're suggesting is a suggestion to, say, manage the fund in a different way.

MR. TAYLOR: Yes, it's a system; that's right.

3:20

MR. SALMON: You have to be careful whether or not you end up with a system or whether you end up with a policy. That's the debate, the question, always in developing systems issues: to make sure that you're not into the policy side, because that really isn't the responsibility of the Auditor. I believe that our mandate is such that we can comment on those weaknesses in their systems and we can comment on the weaknesses in the operations of those systems. I would say that it wouldn't probably go that far. I'd just put it that way. That's stepping a little bit into the policy side, as far as I'm concerned.

MR. CHAIRMAN: Thank you. Are there no further questions from the committee this afternoon?

The hon. Member for Calgary-Mountain View has a question.

MR. HAWKESWORTH: Thank you, Mr. Chairman. Mr. Salmon mentioned just completing Alberta Mortgage and Housing Corporation's financial statements, the most recent annual report, and so on. I've got ADC; I've got AOC, I believe. I'm just wondering when members might be provided with the most recent financial statements for Alberta Mortgage and Housing Corporation. Do you know whether we'd be getting them in advance of the minister's appearance?

MR. CHAIRMAN: I can't answer that, but I'll endeavour to find that out for the committee.

MR. HAWKESWORTH: As this is the last chance we'll have before next week, I thought I might raise it before we adjourn this afternoon.

MR. CHAIRMAN: I'll see if I can do that.

Thank you to the Auditor General and his staff who have appeared before us today. I appreciate your patience with our committee in the questions that were put to you today and your very good attempts at giving forthright answers.

The Chair would entertain a motion for adjournment from the Member for Edmonton-Beverly. Thank you. All in favour?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Thank you. We stand adjourned until Tuesday morning when the Minister of Public Works, Supply and Services will appear before the committee.

[The committee adjourned at 3:23 p.m.]