

Standing Committee on the Alberta Heritage Savings Trust Fund Act

10:01 a.m.

[Chairman: Mr. Dunford]

THE CHAIRMAN: Good morning, ladies and gentlemen. I'll call the meeting to order at 10:01. Before we get started – just again the housekeeping – any recommendations to be read into the record this morning? Okay. Seeing none, then I would like to welcome Peter Valentine, our Auditor General, to the hearing this morning.

What I would ask, Peter, is that you introduce your guests, then, for the formal record of *Hansard*. If you would make opening statements of any duration you wish, except I would hope they would be less than 15 minutes in duration.

Then when we start with the questions, what we do is begin with a member from the Liberal opposition, then we'll go to the government side, and we'll just alternate back and forth. As long as they have questions, we'll continue to go until the two-hour time period is met or questions cease, whichever first occurs. When each member has an opportunity for questions, we've modified it a little bit from question period, if you've ever had the pleasure of watching that scenario. In this case each member is allowed three questions. They can tie them together as supplementaries, or they could be on three entirely different topics. However, we're trying to remain as nearly as we possibly can within the '94-95 report from the Treasurer on the heritage savings trust fund. We find that things work better if there's some flexibility on the part of the chair and on the part of the person providing the answers, but if it does get too far afield and you feel that this is not something you were prepared to discuss in this forum, then you just have to send us a little eye signal or whatever and the chair will intervene, then, as appropriate. The chair always reserves the right, of course, on hearing a question, to stop the proceedings to get a clarification of how that ties to the report.

So with that, if you'd like to begin by introducing your guests and proceed. We appreciate your being here.

MR. VALENTINE: Thank you, Mr. Chairman. Accompanying me today are my colleagues Jim Hug, Assistant Auditor General, and Suzanne Nickerson, director of audits. Jim and Suzanne are the senior members of my office who are responsible for the audit of the heritage trust fund, and they will be very much involved in the dialogue here today.

At the outset, I'd like to emphasize the distinction between the role of my office and the role of the management of the fund. Management is responsible for the operations of the fund, which include the preparation of financial statements and the development of the assertions that underline those financial statements. As auditors it's our role to provide an opinion on the financial statements as prepared by management. The objective of the audit is to provide an opinion as to whether the financial statements present fairly in all material respects the financial position, the results of operations, the changes in financial position, all in accordance with generally accepted accounting principles.

What is "material"? Very simply put, something is material if it could influence a financial statement user's judgment. It's not a fine line but represents a gray area between what is and what is not material. It's our responsibility as auditors to determine or gauge what users of financial statements would consider to be material. Within the limits of that materiality, we conduct our audit. It should also be noted that an audit is not a detailed examination of all transactions. Absolute assurance in auditing is not attainable.

Consequently, an audit will not necessarily disclose defalcations or other irregularities.

In conducting the audit for the year ended March 31, 1995, we had full co-operation from management. As a result, the audit of the Alberta heritage savings trust fund went extremely well. The audit was conducted in accordance with generally accepted auditing standards. In addition, it was conducted according to the original plan. We did not have to deviate from it. There were no amendments to existing significant accounting policies and reporting practices during the year; neither were there any new significant accounting policies adopted. The audit included a review of the investment system to ensure that all transactions during the year were entered completely and accurately, the confirmation of investments held at March 31, 1995, the testing of income derived from the investments held during the year, and the testing of market values of the investments at March 31, 1995.

The audit placed additional emphasis on areas assessed as having a higher risk. Specifically, this included the valuation of investments in Al-Pac, Millar Western, Ridley Grain, and Vencap.

The remaining investments consist primarily of cash and readily marketable investments. As these are publicly traded investments, their valuation is readily determinable based on current prices, and therefore less extensive testing is required.

I was able to express a clean opinion on the financial statements, which means that, in my opinion, the financial statements present fairly in all material respects the financial position of the fund as at March 31, 1995, and the results of operations and the changes in financial position for the year then ended in accordance with generally accepted accounting principles. My report is dated June 2, 1995. We've not performed any work on these accounts since that date. The report date for our audit of the investment returns is September 15, 1995, and that is also the date to which we reviewed the content of the annual report.

As Auditor of the fund I also have the responsibility under generally accepted auditing standards to review the annual report of the fund. While the work which we complete on the annual report is not the same as an audit, it is conducted in accordance with the standards prescribed by the Canadian Institute of Chartered Accountants. Our review consisted of ensuring that the audited financial statements were reproduced accurately in the report and that information contained in the report is consistent with the information that is disclosed in the financial statements.

I would like to draw your attention to the fact that this year management has made a number of changes to the annual report which expand the information previously provided on investment performance. For example, this year's report includes a comparison of the fund's return to the cost of debt over both a one-year period and a four-year period. This year's annual report also includes my opinion on the one-year investment returns for cash and marketable securities in the commercial division for the year ended March 31, 1995. The provision of an opinion on the returns, along with other changes to the annual report, are an excellent start on improved performance information, and management is to be commended for these improvements.

With these improvements there remains substantial scope for future developments. For instance, I do not provide an opinion on the performance of investments. To do so, appropriate relevant benchmarks would also have to be included along with the investment returns. As I noted in this year's Auditor General's report, released in October 1995, I believe there is a need to establish performance measurement criteria, or benchmarks, for the investments managed by the Treasury Department. I also noted that I

believe the performance measurement criteria should be established in relation to actual market performance. In particular, I noted that in the absence of establishing performance measurement criteria in relation to actual market performance, market indices can only be used as a point of reference for comparison.

I would also prefer performance measures to be included in the financial statements so that users can find audited performance information in one place, but I'd point out that this is a preference of my office. The disclosure made by management is a perfectly acceptable alternative.

Mr. Chairman, we would now be pleased to answer any questions that the committee members may have.

THE CHAIRMAN: Okay. Thank you, sir, for that.

I'll begin with Mike Percy.

DR. PERCY: Thank you, Mr. Chairman. Mr. Auditor General, staff, my first question relates to, actually, your annual report for '94-95 and your recommendation 37: "It is recommended that the level of acceptable investment risk be established for the Alberta Heritage Savings Trust Fund." That's page 178. In there you note that "the Canada Deposit Insurance Corporation has developed a comprehensive set of Self-Assessment Criteria" to assess risk, and you suggest that might be an appropriate vehicle for managers of the fund. Could you tell me what you think the salient points are of those self-assessment criteria and their applicability?

MR. VALENTINE: I'm going to have Suzanne answer this, Dr. Percy.

10:11

MS NICKERSON: I don't know if you've seen the criteria or not. It's quite a comprehensive set of criteria, which provides guidelines for management of primarily financial institutions to control or manage risk. It covers a whole array of areas that management needs to control, so I don't know that one could point out specific salient features. What we were suggesting is that management could use it as a guideline when developing criteria. I don't know if that answers your question.

MR. VALENTINE: We could certainly make the material available to you. We have it in the office.

DR. PERCY: I'd appreciate that.

A second question relates to this. In a sense one can view this as an assessment of the performance of Alberta Treasury in management, the fact that no such criteria currently exist. The reason I bring that up is that when I then look at the financial statements of the heritage savings trust fund, the '94-95 annual report, and I go to page 41, I note there's a charge there of \$747,000, which I imagine is in part the charge by Alberta Treasury to help manage the fund. The question relates to that then. I've got two left. The first is this \$747,000. Do you know how that figure was arrived at? And is that comparable to what a private-sector firm would have charged and who might have used more effective criteria such as you set out here? It's pretty clear to me that the Alberta Treasury has taken a very passive role in managing the fund by taking the TSE benchmark. You could have a computer do that, and it wouldn't charge you \$747,000. So I guess my question is: is that \$747,000 appropriate in light of the management strategies and in light of the type of recommendation that's here?

MR. VALENTINE: First of all, let me point out that the \$1,200,000 of administrative expenses, which are both direct and indirect, that the fund bears is a very nominal amount in the context of either asset value, where it's one one-hundredth of 1 percent, or gross revenues, where it's an eighth of 1 percent in total. Secondly, it's my understanding that this is an appropriate allocation of expenditures from the Treasury Department, but I'll let Suzanne expand on that.

MS NICKERSON: Right. The charges from the Treasury Department are recognized through the Treasury revolving fund. That's for all the investments managed by Treasury, so not just the heritage savings trust fund but other endowment funds, pension planning investments. We do audit the Treasury revolving fund separately as an individual entity, and we review the allocation of expenses to the various departments. So as far as are these actual expenditures of the department, we've looked at that through the audit of the Treasury revolving fund. As to whether or not these are reasonable compared to an external investment firm, I think that's best for management to answer. Certainly, as I say, we've reviewed the expenses in respect of the Treasury revolving fund. They're complete, they're accurate, and as far as they're faring as a reasonability, I think management can provide certainly a lot of information of what comparative costs for even a passively managed external investment fund would incur.

MR. VALENTINE: And I would point out, Dr. Percy, that the Alberta Heritage Savings Trust Fund Act in section 11(2) sets out the criteria for the allocation and the authority for it. If it were done in a way that was contrary to that legislation, then we would have to say something about it. We have said nothing about it.

DR. PERCY: I guess the issue really was one of value for money.

The final question relates, then, just to the issue of administrative expenses, estimated at \$275,000, et cetera, right at the endnote at the bottom of page 41. Could you tell me exactly what those expenses are and why they're not allocated either under 11(1) or 11(2)?

MR. VALENTINE: Well, those are expenses that are directly applicable to the joint-venture operations, incurred by the Alberta heritage savings trust fund and properly allocated to the joint venture.

DR. PERCY: Could you just clarify that? When you say joint ventures, could you be more specific in terms of the . . .

MR. VALENTINE: No, I can't, but we could provide you with that information.

Do you know it?

MS NICKERSON: Investments in Syncrude primarily.

MR. VALENTINE: Syncrude, I'm advised.

THE CHAIRMAN: Let's resolve that little item by providing you the opportunity to go back and perhaps check that. It's customary to then provide the answer to the chair, and we will circulate it to the members. If need be, then it forms part of our report.

MR. VALENTINE: The member may also want to direct the question to management when Mr. Dinning appears.

THE CHAIRMAN: I'm sure he will.

MR. DOERKSEN: I'd just like to ask a couple of questions to do with the scope of the audit. The first question relates to the work that you do with respect to write-down of investments. I'm assuming, if what I hear is correct, that management makes the decision with respect to the write-downs that it wants to take. What work do you go into to make sure those are reasonable and in accordance with accounting policy?

MR. VALENTINE: Well, the write-down arises as a result of the valuation of an investment where that valuation is less than the original historical cost or the previously written-down value. So the important thing to do is assess the reasonableness of the carrying value after whatever management provision has been made. It's in that assessment of the carrying value of the investment, which may be done by a determination of estimated future cash flows or may be done by an examination of a publicly disclosed market value or whatever the particular circumstance is.

I can point out to you that there is a distinction in the CICA handbook with respect to whether or not a loss in value is temporary or permanent. While temporary isn't specifically defined, it's defined by way of example in the handbook, and they speak of a period of three to four years where the existence of a value less than cost should then be recognized by writing down the value of the investment.

Generally accepted accounting principles do not allow you to write it back up after you've made a provision for a write-down. That becomes a new cost and the score-keeping starts from there. So it's important that the timing of the write-down be appropriate, that it is not in advance of the recognition of a permanent decline in value nor is it past the time that that permanent decline in value occurred. So the first thing one wants to do is determine: is it the appropriate time to recognize the loss in value? Then the next question is: what should the carrying value be? As I say, there are a number of means of arriving at that value, and sometimes you have to use the input of experts. For example, if you were valuing the investment in an investment fund that only had oil and gas properties in it and the reservoir engineers had concluded that the future value of the reservoir underlying those investments is substantially less than the carrying value, then you'd write it down, but you'd be relying extensively on the work of another professional, another expert, in determining the amount which should be ascribed to that investment.

MR. DOERKSEN: Okay.

MR. VALENTINE: So there's a variety of ways of arriving at value.

MR. DOERKSEN: Yeah. I think the most difficult job would be of course with the assets in the Alberta investment division, the ones that you've referenced in your opening comments: Al-Pac, Millar Western, Ridley, et cetera. Carrying along with that, with those particular kinds of investments or when the heritage fund management decides to invest in a corporation such as, let's say, the Canadian Western Bank, are there policies in place that you compare, too, to make sure that investment happens in accordance with government policy?

10:21

MR. VALENTINE: I think Mr. Hug would answer that, please.

MR. HUG: In the case of the heritage savings trust fund, to the extent that there are guidelines in place we would check on them.

For example, in the commercial division where there are equities acquired, there's a reference to the Canadian and British Insurance Companies Act, equities which would qualify under those guidelines. Therefore, to the extent that those guidelines exist, we do do that as part of the regular audit.

MR. DOERKSEN: Okay. Is it part of your role, then, to suggest when such policies should be in place, or is that outside of the scope of your audit?

MR. VALENTINE: Well, I think it's very much part of our role to ensure that management systems and processes appropriate to running the business are there and that they're working. I don't think it's our role at all to decide what the policy should be.

THE CHAIRMAN: Thank you.

MS CARLSON: Good morning, everyone. My first question will be from the annual report, page 27, with regard to the Prince Rupert grain terminal. It states in here that "\$34.3 million of interest was accrued and capitalized but not recorded on the Heritage Fund books." Could you give us an explanation of why that would happen and how you would expect it to be recorded?

MR. VALENTINE: Well, it's not recorded because it isn't collectible. It's not appropriate for a financial institution to continue to record interest when a loan is no longer collectible. The Alberta heritage savings trust fund is a form of financial institution.

MS CARLSON: Okay; a point of clarification on that then. But it was capitalized; right? So it should have been recorded at some point.

MR. VALENTINE: Well, initially the original loan with respect to the first mortgage bonds was \$106.3 million, and to date \$27.7 million had been capitalized. The trust fund had received repayments aggregating \$14.9 million, so the balance owing at the end of March 1995 was \$119.1 million. Now, as I understand it, the receipt of moneys is applied first to capitalized interest and secondly to principal, but we haven't received any more than the capitalized interest at this point. In fact, we received less than the capitalized interest. So we don't capitalize any more.

Do you want to expand on that, Suzanne?

[Mr. Doerksen in the Chair]

MS NICKERSON: Well, the interest is still due and owing to us; it's just that we don't reflect it on the books because we feel that only a certain amount of that loan is going to be recovered. So what you see on the books as at March 31, 1995, is what management felt would be recovered on the loan. To record the additional interest, which management does not think will be recovered, would be misleading to put on the books. You would only then have to write it off on the books. So we don't put it on in the first place.

MS CARLSON: I would have thought that you would have put it on and written it off then so that people could have seen what actually had transpired there. You never do that?

MR. VALENTINE: No. It's not in accordance with generally accepted accounting principles to capitalize interest once a loan has gone into the troubled category.

MS CARLSON: Okay.

MR. HUG: If I could perhaps just expand on that. On page 40 of the annual report is a summary of the accounting policies that the fund follows. If you go to the bottom of the page, note 2(f), it mentions that

investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability.

Okay? So in this situation where we don't have complete assurance that that income will be collected, it is not reflected as income of the fund until such time as it would actually be received.

MS NICKERSON: In addition, we still disclose in the notes that there is unrecorded capitalized interest, even though we don't put it on the face of the statements. So that information is there.

MS CARLSON: Okay.

MR. VALENTINE: I can tell you that that principle is true for every chartered bank in the country, every trust company, every lending agency of any kind whatsoever. It is true of them all. You can't capitalize interest that isn't collectible.

MS CARLSON: Yeah; okay. On that same page, when we take a look at Al-Pac, Prince Rupert, and Millar Western, would it be your opinion that the loan agreements as set out here would be similar to loan agreements that you would find in the marketplace where there's a prior charge by senior lenders?

MR. VALENTINE: I think you'd better ask management that question.

MS CARLSON: Okay.

THE DEPUTY CHAIRMAN: Before we move on to the next question, I just want to welcome the guests to the Assembly this morning. I just want to talk briefly to them.

What you're seeing today in the Assembly is a meeting of the standing committee of the heritage savings trust fund. Members of the government and opposition are asking questions of the Auditor General, who is seated here to my left, and his colleagues from his office. On this side of the House in the front row are members of the opposition. Immediately behind them are members of the government party. Now, they're not seated in their regular seats because this is a more informal committee of the House. We're glad you're here to watch us, and we hope that you learn something visiting us today. We pass on our holiday greetings to you. So enjoy.

So we're back now to Mark Hlady.

MR. HLADY: Thank you, Mr. Chairman. Having been the final sitting member on the Syncrude board of directors with the province's interest, I am a little interested as we close that off from the heritage savings trust fund. I had been involved a little bit I guess as they were going through the process – the final sale price was \$352.2 million. My question is simply: are you satisfied that the province received a fair market value for that sale?

MR. VALENTINE: Mr. Hlady, I've not examined the transaction yet. I won't be examining it until next year. So you may want to ask that question next year, same time, same place.

MR. HLADY: Same time, same place. Fair enough. Thank you. That's all.

THE DEPUTY CHAIRMAN: No more questions, Mr. Hlady? Okay. We then move back to Peter Sekulic.

MR. SEKULIC: Yes. Good morning. Thanks, Mr. Chairman. My question is general, and it's fairly broad. In terms of the investments – and I'm referring to the policy investments of the government and none in specific – when you undertake the audit, do you look for discrepancies between the investment and government policy for investments? That's the first question I'll ask.

MR. VALENTINE: Do we look for . . .

MR. SEKULIC: . . . any discrepancies between government policy on investments and the actual investment?

MR. VALENTINE: If there were some investment in the Alberta heritage savings trust fund that was contrary to the fund's policy or other stated or published policy of the Legislative Assembly, then we would comment on it.

MR. SEKULIC: It would now be commented on in this report?

MR. VALENTINE: Well, take it to its extreme. Supposing they made an investment that was not permitted under the law, then I would think that you'd end up with a qualified audit report. Then there's everything on the way down that path.

MR. SEKULIC: Okay. That's the first discrepancy I was after.

The second is: if there are discrepancies between government policy and industry standards, would you identify those when and if they occurred, and where would such be identified?

MR. VALENTINE: Well, I have trouble with industry standards because I don't know what industry standards means. Who sets the standards, and where are they compiled? I know what generally accepted accounting standards are because they're compiled in a book that tells me how to arrive at a conclusion in that respect, but if you were asking me the question what's an industry standard in the investment community, I don't know of any either regulatory or self-policing authority that sets out those standards. I suppose that if we saw something that was contrary to what a prudent man might expect, it might be worthy of an observation. The difficulty I have is that I don't know where the benchmark is.

10:31

MR. SEKULIC: Thank you. Those were my questions.

THE DEPUTY CHAIRMAN: Thank you.

Then moving over to Moe.

MR. AMERY: Thank you, Mr. Chairman. Good morning, Mr. Valentine. In your 1993-94 report you recommended a review of the Alberta heritage savings trust fund. A review has been completed, and the report was released in March 1995. I wonder if you could comment on the recommendation made in the report, as to whether it met your initial recommendation or not.

MR. VALENTINE: It's correct we asked for the review, and it's correct it's been done. Pages 23 and 24 set out 14 recommendations. We at this point have not yet matched those against all of the affairs of the Alberta heritage savings trust fund, but it would be on our agenda. Is there something specific you want to draw my attention to?

MR. AMERY: No, that's fine. Just in general.

MR. VALENTINE: I note that the very last recommendation is to disband this committee. I sort of chuckled at that.

MR. AMERY: Okay. Fine.

THE DEPUTY CHAIRMAN: No further questions?

MR. AMERY: Thank you, no.

THE DEPUTY CHAIRMAN: Okay.

MR. DALLA-LONGA: Good morning. I have a couple of questions. I would assume that your last day of fieldwork was September 15, according to your opinion, yet the financial statements are March 31. One of the questions: why would it take that long to sort of complete the fieldwork? Were there some problems with the audit? I mean, you indicated earlier that everything went smoothly, yet it appeared to take a little longer than it should have.

MR. VALENTINE: The opinion on the financial statements of the Alberta heritage savings trust fund is dated June 2, 1995, and it was the week before the published consolidated accounts of the province were finalized.

The opinion on the investment measures is dated September 15, and our review of the body of the annual report was made at approximately the same time. That was additional work that Alberta Treasury requested that we do.

MR. DALLA-LONGA: The additional work on the investment division?

MR. VALENTINE: On the investment returns. That report appears on page 54 of the document and speaks to

the Statement of Market Value Investment Returns of Cash and Marketable Securities and of the Commercial Investment Division of the . . . Fund.

That statement appears on page 55. That additional work was done later.

MR. DALLA-LONGA: Okay. Moving on. Another area of concern that we've had over the years, sir, is – I forget the exact name – the investments under the Alberta division, I believe the name is. Alberta Social Housing is one company, AOC. Some of these investments that the government has made, it is our understanding, make their payments back to the government, under their commitments that they have to repay certain obligations, by getting funds out of the general revenue fund. So it seems to go around in a circle, particularly in the case of Alberta Social Housing. I've always been curious as to why this is allowed to go on. It seems like it's a transaction within itself. Although we have the heritage savings trust fund on one side and we've got the general revenue fund and public accounts on the other side, one is buoyed up by the other. What are your comments on that?

MR. VALENTINE: Well, first of all, I'm going to have Mr. Hug give you some detail with respect to the answer to your question. But at the outset let me emphasize that the financial statements in the document we're talking about this morning are the financial statements of the Alberta heritage savings trust fund itself, and those financial statements include some transactions that are with other agencies or departments of government and some transactions which are with third parties. At the end of the day when the consolidation of these accounts is performed with the rest of the government's accounts and the consolidated accounts of the province are published, as they have been, the intragovernment or intracompany transactions are eliminated, which is exactly what one would expect to find.

Mr. Hug will give you some more details about the specifics of these items, which, for information, appear on page 46 of the annual report.

MR. HUG: At best I can reinforce what Mr. Valentine has just said, that the true answer is looking at the province's consolidated financial statements. It's at that level where your concerns are addressed about the interfund transactions. Any interfund loans, assets, liabilities are eliminated at that level, and it's there you get a true picture of the government's overall finances.

We have to express an opinion on the heritage savings trust fund, and in looking at those particular assets, we have to recognize that those organizations, the provincial corporations which you referred to, do have the capability of repaying those debentures to the heritage savings trust fund. In terms of the provincial agencies, you're quite correct. The general revenue fund is behind those organizations, and to the extent that there are deficits in those organizations, you have amounts accrued in the general revenue fund. So it's really the general revenue fund which is recognizing the deficiencies in those organizations to the extent that they have to be funded further. But, again, the true answer is taking a look at the consolidated picture.

MR. DALLA-LONGA: Well, I'm not concerned about eliminating journal entries and, you know, that sort of technical stuff. What I'm concerned about is the carrying value of the investment on the heritage savings trust fund. The question was asked earlier: why didn't you accrue the interest on the Prince Rupert grain terminal? I think the answer was that that's because we weren't collecting the interest or something. Well, the only reason we're able to collect our payments here is because the general revenue fund continues to supply the dollars to turn around and pay Alberta investment division investment.

Really, if the Prince Rupert grain terminal was to get money from the general revenue fund, then that means that you would have recorded the interest income. If you take this to real-life, outside experience, things like that don't happen in consolidated groups. One division can't support another division's investment. An auditor would have to write it off. I mean, I stand to be corrected by Mr. Valentine, who has certainly a lot more auditing experience than I do in this, but something seems to be amiss here in terms of what happens in everyday generally accepted auditing standards.

MR. VALENTINE: Well, if I could respond to that, Mr. Dalla-Longa, the market values are expressed in the financial statements in schedule 3 in this particular one that you're speaking of. Those market values are supported by outside opinions of entities qualified to do that. Do we rely on those outside independent opinions?

The assertion as to the market value as made by management: I underline that. You may wish to discuss the matter further with Mr. Dinning, but these financial statements are in my view prepared in accordance with generally accepted accounting principles, and those principles have been appropriately applied.

10:41

THE DEPUTY CHAIRMAN: Thank you.
We now turn to Shiraz.

MR. SHARIFF: Thank you, Mr. Chairman. Good morning, gentlemen and lady. I have a question with regard to page 45 on the Canada investment division. I'm just wondering. With respect to that page, the amounts of money that are being loaned to other provinces, would you have any concerns about the repayment on the debentures that we have?

MR. VALENTINE: You'll note again here that the market value is disclosed. The cost of these investments at March 31, 1995, was \$917 million. The market value is almost a billion dollars. Those market values were determined by the public marketplace. If there were concerns that I had that others had, I would assume that the market value would have been driven down. On the other hand, if there are concerns that others have that I don't have, that would be expressed the same way. That's really all I have to say. As a policy I think you have to inquire of management.

MR. SHARIFF: Okay. My second question is probably beyond the scope of your audit. However, I'll ask, you know, and if it's not appropriate, then we'll leave it out. I'm going to the purpose for which the fund was created. There were three objectives, and I'm referring to the third one, which is "to improve the quality of life" of Albertans. I'm just wondering if you have any thoughts about any way in which this can be incorporated in audits so that we know that the quality of life of Albertans is being impacted by these funds.

MR. VALENTINE: Well, one of the major objectives of the office of the Auditor General is to advance the use of performance measurement. This is a very new subject. It is easily done if one is measuring quantitative matters such as the internal rate of return on investment or the performance against the Toronto Stock Exchange index or whatever. It becomes more difficult to measure as you move to less precise things and issues which represent opinions of people as to whether or not a certain outcome is achieved. Those can be done by customer satisfaction surveys and the like. The question of auditing that becomes extremely difficult because we don't as yet have all the tools to do that with.

A critical part of the work that my office does is seeking those tools, and we don't do it in isolation. We're doing it with the other 12 legislative audit offices in Canada. We're doing it in concert with the Canadian Institute of Chartered Accountants, the Canadian Comprehensive Auditing Foundation, of which I'm a member of the board of governors. There is a lot of very interesting and dynamic work on that.

I'll just close by saying that last year and before I arrived in the office we published a document with respect to accountability, which is part of performance measurement, and that document has been received widely across the country, even to the extent of being accepted as a learned paper at the Learned Societies conference last year. I'll be happy to make a copy available to you. I would think the distribution occurred before your arrival in Edmonton.

MR. SHARIFF: Okay. I would appreciate that. Thank you.

THE DEPUTY CHAIRMAN: There is a survey that's taken approximately every four years that might be used to determine how people feel about the quality of life in Alberta.

Shiraz, any more questions?

MR. SHARIFF: No. Thank you.

THE DEPUTY CHAIRMAN: Okay.
Then Howard Sapers.

MR. SAPERS: Thank you. Good morning. My first question is a bit of a general one. The Alberta investment division, the policy investments part of the fund, somewhere between \$700 million and \$800 million invested in various projects. Some of those projects and investments have been sold off. Syncrude and some of the others have been sold, but there are still hundreds of millions of dollars tied up in that division. I'm just wondering if you can give me your opinion as to the irony, I suppose, of having still as an objective the diversification of the Alberta economy through direct intervention in these projects and the government's stated position about getting out of the business of being in business. In formulating your answer, I would hope you'd comment on whether or not there are any guidelines as Auditor General that you have provided or will be providing the government in terms of guiding their disposition of those other project assets.

MR. VALENTINE: Well, first of all, I believe you're in an area that is not in my purview. It's the policy of the government, and I would respectfully decline to answer the first part of your question.

The second part I might re-express as follows: is there a system in existence to ensure that dispositions are made with economy, efficiency, and effectiveness, and is that system working? The answer to that is: to the extent that we've looked at them, yes; otherwise they would have been reported in our report. That would be something we would continue to deal with as we examine the conclusion of a number of transactions. Syncrude, which Mr. Hlady made reference to earlier, is one that has now been concluded. Outside of this report there are some other dispositions that have been concluded that we will be looking at.

MR. SAPERS: Okay.

Yesterday, we had a bit of an interesting discussion with the Minister of Economic Development and Tourism, and part of that discussion centred on how closely public works tendering and contract letting procedures and guidelines are followed when money is used through the heritage savings trust fund to do things like provide for irrigation upgrading and other kinds of projects, either capital intensive or labour intensive. I'm wondering whether or not you have ever in the scope of your audit reviewed the contracting and tendering processes used to ultimately spend heritage savings trust fund money. I'm particularly thinking about things like construction, trucking, capital purchases, dam building.

MR. VALENTINE: That work would really be done not in the Alberta heritage savings trust fund but it would be done in whatever the administering department was. I believe it's agriculture that looks after the irrigation districts, which, as a point of record, my office no longer has any audit responsibilities for. That work would be done there. And do we do that kind of work? Yes, we do and we do some of it every year.

MR. SAPERS: Mr. Chairman, can I ask for a clarification on that response?

THE DEPUTY CHAIRMAN: Well, you can, although you had three questions in the last question. But that's fine.

MR. SAPERS: Thank you, Mr. Chairman. You've studied your senior member's skills well.

The agriculture under the irrigation project is one I'm particularly interested in, and of course initially your office did have audit responsibility for that.

MR. VALENTINE: For the individual 13 irrigation districts that is correct. At some loss to my office, that's true.

10:51

THE DEPUTY CHAIRMAN: I'd like to note also, again for a clarification of the purposes, that the minister of agriculture will be before this committee on January 24 of 1996, whereby you may want to ask a follow-up to those questions at that time.

MR. SAPERS: The specific point I wanted to clarify on that question, then, is . . .

THE DEPUTY CHAIRMAN: This point of clarification is now your third question.

MR. SAPERS: Oh, you're not going to allow me to actually – okay, Vic. It's okay. We'll have another round. We're here for a while. Make a note of that. We'll come back.

I want to ask you about a specific recommendation, sir, from last year's heritage savings trust fund committee report, and that recommendation was noted as recommendation 28. It reads:

Be it resolved that the office of the Auditor General be required to certify the reliability, appropriateness, and accuracy of the performance measures and data contained within the annual report of the Alberta heritage savings trust fund.

Now, that was agreed to by the committee and submitted to the Treasurer for comment. The Treasurer responded that the Auditor General in his 1993-94 report recommended that financial reports including supplementary performance information – the government has accepted this recommendation. I'm curious as to whether or not you believe that your recommendation and any subsequent action on that is in fact addressing the recommendation as put forward by the committee in 28.

MR. VALENTINE: Perhaps I could refer you back to my opening comments. The point was made that the annual report of the Alberta heritage savings trust fund includes a great deal more information with respect to performance measurement this year than it had in past years and that with respect to one particular area it now contains an audit report on some of those performance measurements. I think the committee should fully understand that this business of auditing performance measurements isn't a switch-on, switch-off thing. There is a great deal of work to be done in this area in order to provide us with the appropriate standards of examination. I'll use just a small example so that you have a clearer picture of it.

You might use both the Toronto Stock Exchange index and the gross national product indicator as elements of two computations that you would have in an annual report or in a performance measure. In the case of the Toronto Stock Exchange index you would not be upset with me if I told you I wasn't going to audit it. The reason that you're not going to be upset is that there are as many

people selling and as many people buying securities today who examine a purchase ticket or a sales ticket and do their own audit for their own transaction, and I suggest to you that the Toronto Stock Exchange index is probably something that gets more auditing than anything else in Canada.

On the other hand, Statistics Canada produces the gross domestic product indices. Every now and again you read in the paper where they had to adjust it two or three months later, and you kind of go, "Whoops." If I'd given my staff a raise on the basis of the original number and it dropped on the adjustment, then I gave them too big a raise. On the other hand, if I gave them a raise and it went up, then I didn't give them enough money. The point is that I don't know how we're going to come to grips with auditing the determination of the gross domestic product number because it's a very difficult thing to get your hands around. Yet we all use those numbers with gay abandon every day of the week.

We have to decide what we're going to do about auditing these things, and we have to do it in a context where the Auditor is comfortable with the expression of an opinion such that his professional integrity will not be attacked, because if his professional integrity is going to get attacked and he ends up on the wrong side of the courtroom, there isn't enough insurance that you can buy in order to protect yourself from it. So for me it's a marvelous challenge to be involved intellectually in the process of developing audit criteria around performance measurements, and you can be assured I'm going to push and push and push until I'm retired.

THE DEPUTY CHAIRMAN: Thank you very much for those comments.

MR. VALENTINE: Jim would like to add something.

MR. HUG: The question about the speed at which performance measures are being incorporated in the annual report. We've had discussions with the Treasury Department as to what is the best basis on which to report performance. Looking at the objectives that presently exist for the heritage savings trust fund – for example, the Alberta division talks about a reasonable rate of return, but "reasonable" is not defined anywhere. The commercial division talks about a commercial rate of return. In our annual report we also talk about that as the future of the fund is reviewed, there's a need to incorporate or develop more precise objectives which can be related to market indices and against which performance then can be more properly assessed. The feeling at the present time, given the way the objectives are stated for the fund, is that it's very difficult to come up with appropriate performance measures for the fund at this time.

THE DEPUTY CHAIRMAN: All right. Thank you.

MR. VALENTINE: It was a long answer, Mr. Chairman.

THE DEPUTY CHAIRMAN: They were very enlightening comments, and I was pleased to have been here to have heard them this morning.

Yvonne Fritz.

MRS. FRITZ: Thank you, Mr. Chairman. Actually, I agree with you. They were enlightening comments. My question falls along the line of your previous answer, and that was in regards to the annual report, where you'd indicated that you'd be working with the Treasury Department to define new objectives for the fund. I wondered if you could elaborate even further than what you did

previously with regards to what the broad objectives were, which my colleague Mr. Shariff had asked you about – for example, improving the quality of life for Albertans – and then as it moved on to the divisional structure of the fund, those objectives, and then what you were alluding to fits into the divisional structure.

MR. HUG: First of all, if I said that we would be working with Treasury in establishing objectives, that would be incorrect. It wouldn't be up to the Auditor to establish those objectives.

MRS. FRITZ: So are you evaluating? Is that what you meant? You'd be evaluating the objectives?

MR. HUG: Yes. Once it was felt that there were appropriate objectives against which measurement could be assessed, we would then be in a position to audit management's representations with respect to performance, which is what Mr. Valentine was just discussing.

MR. VALENTINE: It's the same separation between policy and the attest function. We're in the business of the attest function. We're not in the business of setting policy.

MRS. FRITZ: So what is the process, then, in the evaluation of the objectives? When I read this and by what you had said – I understand now you're not working alongside Treasury, but you're going to be auditing what they come forward with in regards to the overall objectives of the fund.

MR. VALENTINE: Well, in fact we do work alongside them because as they develop their objectives and decide how they're going to display that and how they're going to measure it, then the question comes to us: how will you provide an attest opinion on it? Does it present fairly? Is it the appropriate measure? If a measure was an inappropriate measure for whatever reasons that we concluded, then we would have something to say about that. Likewise, if the measures were changed every other year, because last year's measures weren't very favourably expressed this year, then obviously on the basis of consistency, which is one of our hallmarks, we would have something to say about that.

THE DEPUTY CHAIRMAN: May I just interrupt for a second. Mr. Valentine, I think it would be appropriate if you could briefly explain to the committee what you mean by attest. I think that's an important term to understand in the context of auditing.

MR. VALENTINE: The attest area is the area of auditing wherein one expresses an opinion on financial information, and the support for that exists in the body of knowledge which is known as generally accepted auditing standards. You use those standards in order to design those appropriate procedures for the purposes of arriving at a conclusion with respect to the opinion, and the opinion generally is that whatever it is you've examined, the financial information presents fairly in all material respects either the financial position at a point in time, the financial results for a period of time, and the changes over a period of time.

11:01

MRS. FRITZ: Thank you. One last question, Mr. Chairman.

THE DEPUTY CHAIRMAN: Yes.

MRS. FRITZ: Then when the Treasury Board actually defines the new objectives for the fund, what I hear you saying is that you're

going to ensure the policy investments actually meet the objectives. Is that correct?

MR. VALENTINE: No. We would then examine the performance measurements that they decided to use to display the performance of the fund with respect to that policy.

MRS. FRITZ: Okay. Thank you for that clarification.
Thank you, Mr. Chairman.

THE DEPUTY CHAIRMAN: Okay. We're now about to begin our second round, just so you're aware of what happens.
We now move to Dr. Percy.

DR. PERCY: Thank you, Mr. Chairman. My questions relate actually to the public accounts '94-95, volume 2, page 199. It's a nicer . . .

MR. VALENTINE: Sorry; the page number again?

DR. PERCY: Page 199, schedule 3, footnote (a).

MR. VALENTINE: Page 47 of the annual report, if anybody has only the annual report with them.

DR. PERCY: The question relates to the fact that when you look at the fund's investment in provincial corporation debentures, it amounts in 1995 to \$2.3 billion. Now you talk about the market value of these debentures, and they have market value either because they're guaranteed or there's a cash flow that comes on an annual basis from the government to the various agencies to pay the interest on those debentures. So they are tradable because they have a market value. My question is: one, you can look at them as having a market value, but on the other hand, from the perspective of Albertans as taxpayers, what is their value?

MR. VALENTINE: Well, my initial comment would be that I'm not a qualified valuator, and it would be inappropriate for me to express an opinion on the value thereof. [interjections]

THE DEPUTY CHAIRMAN: Second question, Dr. Percy?

MR. VALENTINE: If I could finish? I thought that Mr. Dalla-Longa might . . .

THE DEPUTY CHAIRMAN: Oh, sorry. My apologies, Mr. Valentine. There was some distractions from the committee members on the front bench. We're pleased to let you now complete your answer.

MR. VALENTINE: Thank you. What is important is that the accounting principles under which valuation is determined are expressed in these financial statements. We have looked at that, and we are happy that that presents fairly the financial position of the fund.

DR. PERCY: Okay. My second question is: since there are clearly liabilities on the part of Alberta taxpayers with regard to these assets – the flow of funds from the heritage savings trust fund; there's the guarantee itself – would it not be fair to say that this estimate here of \$2.3 billion as the market value is considerably in excess of what the value is of these assets to taxpayers, who also bear the cost of providing the funds to give these things this value? On a consoli-

dated basis, isn't their value much, much lower? Is this the simple way of putting it?

MR. VALENTINE: Well, on a consolidated basis, this doesn't exist.

DR. PERCY: That's right. Thank you for answering that. Yeah, that's right; on a consolidated basis it doesn't.

MR. VALENTINE: It eliminates on consolidation. It's an appropriate elimination to be made in preparing consolidated financial statements.

DR. PERCY: Yeah. So I guess my third question is: in light of the fact that on a consolidated basis it's a wash, why do we continue to value these in terms of the heritage savings trust fund? Taxpayers presume that that's the value to them of the fund when clearly there's an asset here, a set of liabilities there. In that sense I think it's somewhat misleading and overestimates the true value of the fund.

MR. VALENTINE: I think at the outset I stated that these financial statements are the financial statements of the fund, and on those financial statements we've been expressing an opinion. I guess it comes down to a point where you and I might respectfully disagree.

THE DEPUTY CHAIRMAN: Thank you, Dr. Percy. This has been an interesting debate on accounting theory.

I'd like to next move to Mark Hlady.

MR. HLADY: Thank you. Going to page 42 and looking at the financial statements, you have the full budget and the actual. Then I'm coming over into schedule 1 where it says: Cash and Marketable Securities. Is there a way that we could have a breakdown of what the budgeted would have been and then see the actual more directly to see where the increases have come from in regard to the cash and marketable securities?

MR. VALENTINE: Mr. Chairman, note 4, which I think Mr. Hlady is referring to on page 42, presents the budget for the income statement for the year '95 compared with '94. There are no budget disclosures for what the balance sheet might look at. You can go through the statement of changes in financial position and you'll see the source and use of all of the funds of the fund for the period. You'll notice that operating transactions provided a billion, two hundred million in cash. The investment was a recovery of investment of half a billion dollars, and there was a transfer of an amount to the general revenue fund and the capital projects division of a billion. At the end of the day there's an increase in cash of \$700 million, which, added to the cash and marketable securities at the beginning of the year, resulted in the year-end balance of \$6.7 billion. The budget should be laid against the income statement, and that's what note 4 does.

MR. HLADY: Okay. All right. Thank you.

THE DEPUTY CHAIRMAN: Second question, Mark?

MR. HLADY: That's fine for now. Thanks.

THE DEPUTY CHAIRMAN: That's fine for now? Thank you.
Debby Carlson.

MS CARLSON: Thank you. To go back to pages 26 and 27 again, do you review how these companies define cash flow for purposes of repaying the Alberta heritage savings trust fund investments?

MR. VALENTINE: Yes.

MS CARLSON: Could you provide us a copy of that?

MR. VALENTINE: No. You'd have to ask management for that. While we may review it and we would have sufficient working papers in order to support our opinion, we don't necessarily have all of the information related to a particular subject.

MS CARLSON: Okay. The other question. I'd like to refer to some discussion that went on here yesterday with the economic development minister. He was asked whether or not there's a current market value of what the Alberta Opportunity Company would be valued at if it were independent. He said no. Then he was asked if there were any plans to establish a market value, and he said:

Given the way that the company is funded from both the GRF and from the small business revenue grant, the ability to provide a market evaluation on the operation of the company I believe would not be worth while to undertake.

Yet when we look at schedule 3, we see that there has been a market value assigned to the Alberta Opportunity Company, and I'm wondering if you could tell us what factors came into establishing that market value and how it contrasts with what the minister said.

THE DEPUTY CHAIRMAN: If I could, Mr. Valentine, before you answer that question. The valuation provided, as I understand it, on the heritage financial statements is the valuation ascribed to the debentures, not the valuation ascribed to the Alberta Opportunity Company. It's a different question. I'm not sure if that is the role of the Auditor General in his examination of these statements or not. You may choose to answer or decline.

11:11

MR. VALENTINE: I think the question is properly addressed to management. I'm sure they'll give you the necessary details you need.

MS CARLSON: So you have no further comments on that.

THE DEPUTY CHAIRMAN: Okay. Then we move to Peter Sekulic.

MR. SEKULIC: I'll defer to Dan.

THE DEPUTY CHAIRMAN: Sorry. He'll defer to Dan.

MR. DALLA-LONGA: Mr. Chairman, I just have to go back to these investments, provincial corporate debentures. I talk to people, constituents, and they'll say, "Well, how much is in the heritage savings trust fund?" The figure varies, but included in that figure is this amount for these provincial debentures. Really, as an Albertan if I try to figure out in a very simplistic way – we're not talking to accountants necessarily in all cases that understand the debits and the credits. These amounts don't exist to my constituents. They're offset someplace else by a liability. At the very minimum, when we find out what the value of the heritage savings trust fund is when the

audited statements come out, shouldn't there be an asterisk somewhere – and I say this in a sort of figurative sense – that says, yes, but we've got \$2.3 billion that isn't really ours, that isn't really part of the heritage savings trust fund? Wouldn't that be a more appropriate disclosure?

THE DEPUTY CHAIRMAN: Before you choose or not choose to answer that question, Mr. Valentine, I just would like to point out that the second round of questioning is under way, and we seem to be moving to a vein of questioning which is debating accounting theory, with which Mr. Dalla-Longa is well acquainted. The Alberta heritage savings trust fund is . . .

DR. PERCY: It actually seems appropriate since he's the Auditor General. I hate to bring that to your attention.

THE DEPUTY CHAIRMAN: There was an independent valuation done of the fund about a year ago which went through and ascribed values to the fund, which of course has been publicly tabled. But I will ask the Auditor General. If he chooses to answer the question, he certainly may.

MR. VALENTINE: I'm not going to debate accounting theory here. I have had the opportunity to do that in other forums, and I'm regularly appearing on the campus at the University of Alberta to do that very thing with young, fertile minds and having fun doing it.

Let me comment that our office in the past has drawn readers' attention to the importance of the consolidated accounts of the province. Those accounts are subject to review in the Public Accounts Committee and should get an appropriate amount of discussion in that forum. This forum is limited to the statements of the heritage savings trust fund. My audit opinion is expressed on those statements, making comment with respect to the assertions of the management of this fund. I can conclude by saying that I believe this represents fairly the financial position of this entity.

I could at length go on and discuss a number of entities in Canada and in North America that have intercompany holdings of similar kinds of transactions which get eliminated on consolidation. The Hees group would be a very good example amongst others. The same sort of questions can arise when examining those financial statements. The question boils down to: is there the appropriate disclosure of related party transactions in here? I believe there is.

MR. DALLA-LONGA: Well, I would start by pointing out that I am very careful to keep my questions to the heritage savings trust fund, and I'm not here to debate accounting either. I'm here to ask a question I believe on behalf of some concerns that generally come up in discussions with constituents. I want to make it very clear that I'm not indicating that there's a problem with the financial statements, but I still haven't got it clear in my own mind how we can have this kind of disclosure. If my constituents are misinformed to believe that this money exists, then is there not a problem? Isn't the disclosure supposed to give information that would have an impact on what those people think? Right now they think we've got that money.

MR. VALENTINE: I defer to my previous answer, Mr. Chairman.

MR. DALLA-LONGA: No further questions then.

THE DEPUTY CHAIRMAN: All right.
Then Howard.

MR. SAPERS: To go back to where we left off, these would be three new, original questions, Mr. Chairman.

You expressed, Mr. Valentine, in your earlier answer the change in jurisdiction and responsibility in some program areas in expenditures made by the department of agriculture that you used to have authority to audit and now you don't. You expressed that as a loss to your department. I'm wondering if you could comment as to in what ways that represents a loss.

MR. VALENTINE: No, I didn't express it as a loss to my department. I said that we did that work at a loss. We were not able to recover from semicommercial organizations – i.e., the irrigation district – fees that were anywhere close to 20 percent of our cost of doing the audit.

MR. SAPERS: All right. Thank you for that. That represents a clarification.

MR. VALENTINE: So indirectly there was an additional subsidy to the irrigation districts from the Legislative Assembly.

MR. SAPERS: Right. Okay. Thanks.

Now, I'm trying to make this as specific as I can. There is a tremendous amount of money that is heritage savings trust fund money that is spent through a process of tendering or contracting. Are you satisfied that all of those dollars are spent in a way that is consistent with public works in terms of contract accountability?

MR. VALENTINE: Would you express that question again, please? Am I satisfied that all, meaning a hundred percent, point zero zero . . .

MR. SAPERS: Yes. That all of the heritage savings trust fund money that is spent through a contract or a tendered process is done so consistent with all of the guideline standards and performance measures and accountability that we find through public works.

MR. VALENTINE: I would have to say that the nature and the extent of our work is not a hundred percent, as you're well aware, and to the extent that any circumstances come to our attention where that would not be true, those circumstances would be disclosed in the annual report of the office. By the same token, each year we have, budget permitting, a plan of work such that in the course of time we would examine those kinds of areas in every department of government.

MR. SAPERS: My last question is about Alberta Social Housing. I'm wondering whether or not you have specified to either that corporation or to another entity within government what your expectations are in terms of a ratio of investment to be recovered or a floor beneath which you believe a sale would not be in the public interest as that corporation continues to dispose of assets purchased by Alberta heritage savings trust fund money.

11:21

MR. VALENTINE: I think, Mr. Chairman, that's a policy question. I would prefer not to answer it.

THE DEPUTY CHAIRMAN: That's quite fair.
We then move to Shiraz.

MR. SHARIFF: Thank you, Mr. Chairman. Mr. Valentine, as you are aware, a study was conducted with Albertans who came back with some recommendations about where the heritage savings trust fund should be heading, and one of their recommendations was that the fund should be more transparent. I'm just wondering if you have any thoughts about how the auditing process can help make the fund more transparent.

MR. VALENTINE: Would you give me the reference of that recommendation?

MR. SHARIFF: Page 9, number 4.

MR. VALENTINE: I'm trying, Mr. Chairman, to relate that to the 14 numbered recommendations of the report of the review committee.

THE DEPUTY CHAIRMAN: Perhaps the member has a way to clarify the question?

MR. SHARIFF: I was just wondering if you had any thoughts. It doesn't mean you have to have an answer.

MR. VALENTINE: That's a guiding principle. I'm now referring to page 23 of the review committee's report, and they indicate there were five guiding principles underlying the recommendations of the committee. Those five are repeated on page 9 of the heritage savings trust fund annual report. Then there appear 14 numbered recommendations. I don't think my office has any quarrel with any of those numbered recommendations. As I indicated earlier, we'll be following through to see what action is taken with respect to these recommendations and, where we think it's appropriate, making comment thereon. I think if you took the 14 recommendations, some part of some or all of them is what someone here is defining as transparency.

MR. SHARIFF: Thank you.

THE DEPUTY CHAIRMAN: Okay. We're now entering the third round of questions. I'd just remind the committee again that we do have a full two hours booked. So as long as the questions can continue in a vein that addresses the reasons why you're here, we'll let them keep coming. We'll try to monitor that carefully.

Dr. Percy.

DR. PERCY: Thank you, Mr. Chairman. I guess it was slightly over a year ago that the Auditor General's office put out a very good document called A Framework for Accountability. Now, in light of that document, A Framework for Accountability, and looking at the heritage savings trust fund and the proposed recommendations and possible changes, what are the mechanisms of accountability that you think are important in terms of changes that might occur?

MR. VALENTINE: Suzanne will make a comment on that.

MS NICKERSON: I think, as a start, we could refer you to the recommendations which we made in the Auditor General's annual report of this year, one being that as the objectives are redefined, we need to have appropriate risk policies in place. I think both last year and again this year we've recommended the need for appropriate performance measurement criteria to be established as part of the

setting of objectives. So in respect of those types of recommendations, those are the types of things that we should be seeing come through the heritage savings trust fund.

DR. PERCY: Okay. Thank you.

Second question. One recommendation that came through in various ways was the issue of transparency in terms of process and in terms of information. In light of the stress that was placed on that in terms of A Framework for Accountability, how could the recommendations of the Auditor General with respect to the performance of the fund be enhanced to provide greater transparency?

MR. VALENTINE: I said at the outset that we have not spent a lot of time with the review committee's report. You raise a good question, and perhaps you raise an opportunity to create a couple of pages of discussion in our next report. I think I'd like to leave it at that stage, if you don't mind.

DR. PERCY: A final question then. A Framework for Accountability focused much on process issues and mechanisms to ensure accountability: benchmarking, performance measures, and the like. My final question really is quite specific. What role do you see, for example, for the public in holding the operation of the fund? Do you see annual general meetings, as in the case of Alaska, where the fund managers are subject to public scrutiny and public questioning? I mean, on the issue of accountability there's both accountability within the Legislature but perhaps more broadly based for the citizens that actually own the asset. What would be your views on that in light of A Framework for Accountability?

MR. VALENTINE: Well, I'm not sure that I have a specific view with respect to the Alberta heritage savings trust fund. One has to understand the sanctity of this room, and its members are here because of a process that exists in parliamentary procedure, in parliamentary government. Annual meetings – and I've given this some thought – with respect to entities that form part of the government's consolidated entity would be an interesting information tool, but I'm not sure whether it would be appropriate to give someone a mandate to vote on an issue, because then I see it being a usurping of the authority of this House. And while I have a very strong interest in political science, Dr. Percy, I'm a rank amateur at the game.

MR. SEKULIC: Once again I have a general question. I guess the reason I'm asking the types of questions I am is because those are the questions my constituents will be asking me, and when I have to convey back to them, I'm certainly no accountant and I don't desire to do it in accounting terminology. It's the issue of transparency that I'm after. One of your roles as Auditor General is to express an opinion on the financial statements of the Alberta heritage savings trust fund. To an earlier question that I asked you, you explained that there weren't any industry standards that you were aware of on investments such as those that exist for generally accepted accounting principles.

On page 56 of the report, in the area of comparison of book and market values of heritage fund investments, the end of the first paragraph's last sentence states:

No attempt has been made to derive market values for project investments, which would have required extensive analysis and due diligence.

I guess when I've taped together all of those statements and I try to explain to my constituents about, let's say, loans or guarantees such as those issued for Millar Western Pulp or Prince Rupert grain, I'm

not sure. What assurances can I give them that there was another level beyond government, I guess a third party, which checked or that your office in some way validated the transactions, legitimized the process?

11:31

MR. VALENTINE: Well, first of all, the objective we have is to determine whether or not it's recorded at the appropriate carrying value. We do sufficient audit work, in our view, to support management's assertion in that respect. I'm going to let Suzanne give you some detail on that.

MS NICKERSON: Right. In relation to the policy investments which you're specifically asking about where we don't have market values, although we don't have market values, to be able to put an opinion on the financial statement, we have to assure ourselves that the values in the financial statements – that is, the amount recorded in the balance sheet – is going to be recoverable. We have done that work, so you have assurance that as at March 31, 1995, there is sufficient evidence to support the recovery of the amounts stated in the balance sheet.

Now, market values. Remember we talked earlier about there being a difference between a temporary decline in value or a permanent impairment. For the purposes of these statements we only reflect a decrease in market value if there's been a permanent decline. So when we're looking at those policy investments, we're looking for permanent declines in value.

Market value can change from year to year. It can go up; it can go down. Management has not actually come up with market

values for the policy investments, but what you can get from the statements is assurance that as at March 31, 1995, there was sufficient evidence to support the amounts on the statements as being sort of a minimum amount that would be recovered, that there was sufficient evidence that would support those values as being recoverable. That's not to say that subsequent to that time those values may change or that there may at some point in time be further evidence to support permanent decline in those values.

MR. SEKULIC: Okay. That's it.

THE DEPUTY CHAIRMAN: Okay. It looks like we've come to the end of the questioning. I want to just thank the Auditor General and his colleagues for being here with us today. We can't overemphasize the importance of the role of the office of the Auditor General and the assurance it gives to the public that our books are being appropriately scrutinized and commented on, and certainly the astute questions you heard today – I'm sure we may even see some notes reflecting some of those comments in your next report. Thank you for being here and for giving us that opportunity.

MR. VALENTINE: Thank you.

THE DEPUTY CHAIRMAN: So having done that, we'll adjourn the committee for today.

[The committee adjourned at 11:33 a.m.]