

Standing Committee on Legislative Offices

Friday, April 22, 1983

Chairman: Dr. Elliott

1:12 p.m.

MR. CHAIRMAN: Welcome again to our meeting, gentlemen.

One thing I would like to get out of the way is a little piece of housekeeping, the business with respect to the report prepared by the chairman last year. For the sake of the record, I would like to report that for this meeting I have the report prepared by Mr. Mack. It's his report. This meeting will show for the record that we've received it for transmission through the process of tabling. Does that make sense, Doug? Somehow the record will show what we've done; that'll make it simple.

Is there any question about the fact that we will table that report in the usual manner, or do I file it with the Speaker?

MR. BLAIN: No, you table it.

Perhaps for the record, you should have a motion to receive that report and table it in the Assembly.

MR. CHAIRMAN: We have our guidance. A motion, please.

DR. CARTER: I move that we receive the report and transmit it to the Assembly.

MR. CHAIRMAN: Thank you very much. Any questions on the motion? Those in favor? The motion is carried. That piece of business is out of the way.

The other note I have to myself is that we are here today to continue reviewing the estimates of the Auditor General. We will go right back to you, Mr. Rogers. If you can recall where your excellent submission of last week sort of bogged down with the time and we had to make some changes, we'll just let you carry on, please.

Is everybody with us? Does anybody have a problem with where we are?

MR. ROGERS: Thank you, Mr. Chairman. If there are any questions prior to the point where we picked up, perhaps it would be more helpful if they were dealt with first. If I recall correctly, we were on page 7.

MR. CHAIRMAN: I put a paper clip in mine that says we were dealing with pages 7 and 8. In fact, we were even looking at something on page 9. I'm sure with the questions, we'll soon pull it together. Did you specifically ask if there were any questions to this point? Is that where you would like to start?

MR. ROGERS: If there were any questions for the pages up to page 7, so that we satisfy any problems on the material on those early pages.

MR. CHAIRMAN: Very good. You hear the question.

MR. THOMPSON: Mr. Chairman, I regret the fact that I was not at the last meeting. In fairness, I don't want to stop Mr. Rogers' presentation at the present time. But I want it on the record that I want to ask questions on earlier things and make general statements.

MR. CHAIRMAN: John, the Auditor General has invited you to give the questions now. If you want to cover any questions on the first seven pages, now is a good time to do so.

MR. THOMPSON: I would like to make a few general comments first, Mr. Rogers. I am intrigued by your statement on the first page that the increase in full-time permanent salaries is due to an increase in salary rates and the use of a reduced vacancy factor. The vacancy factor was reduced from 5 per cent to 3 per cent, which sounds to me like you've increased your manpower. Is that accurate?

MR. ROGERS: Mr. Chairman, the actual authorized manpower of the office is 189, but at the time we made the previous estimates, we had to face reality. We knew we would be short a number of people for the first part of the year. To go back further, I think you're aware that we could not obtain chartered accountants, specifically, and systems people in Canada. I am including eastern Canada in that. So we were aware that . . . I'm sorry, I have to go back a little further.

In the fall of 1981, I went to the U.K. and hired a number of chartered accountants. That was, of course, with the knowledge that the energy agreement had been signed. We had every reason to believe that our staffing problems would be every bit as bad as they had been in previous years. Consequently, when we were preparing the estimates for 1982-83, it was with the full knowledge that we would be running with vacant positions for at least a good part of the year. We didn't know how long at that time because of the fact that when you hire anyone from the U.K., you have no way of knowing when they're going to arrive because of immigration; they have to sell their houses in a very bad market, and so on. Consequently, we were simply taking that into account.

We didn't want to have a 5 per cent vacancy factor, but we knew that it would be at least that. It actually turned out to be more than that. That's part of the reason why we in effect underspent. In '82-83 we were running with an average of 20 positions vacant out of the 189. As the year progressed, people came and filled positions, so that we ended the year with only four positions vacant. So in effect 3 per cent is reflecting the reality of our situation, because the turnover now is very, very low compared with what it was previously.

MR. THOMPSON: Mr. Chairman, I appreciate that. The thing that intrigued me was the way the statement was made.

MR. ROGERS: The phraseology, yes. But that is the situation and, as I say, we are still below our authorized complement of 189 positions.

MR. THOMPSON: A supplementary on the same subject, Mr. Chairman. Is it your feeling that with the present conditions in Canada, et cetera, you can fill your vacancies from Canada if and when they occur?

MR. ROGERS: In the foreseeable future, I believe we will be able to fill vacancies from within Canada, for as far as one can see ahead, I would say.

MR. THOMPSON: Thank you.

MR. MILLER: A further supplementary to that. I presume the 189 positions were arrived at a year ago or so.

MR. ROGERS: It was actually arrived at in '80-81.

MR. MILLER: In '80-81.

MR. ROGERS: We've held steady, and I undertook at the time we went up to that that I would hold it at that figure as long as I could. That was to Bill Mack and the previous committee.

I think we can hold it this one year, but I fear that we will have to reappraise it at the time we are looking at the estimates for '84-85. As a matter of fact, I've just had to issue a memo to all staff. If I may read it, Mr. Chairman . . .

MR. CHAIRMAN: Please do.

MR. ROGERS: Recent projections indicate the office will have barely enough staff resources to perform the audit work that must be completed during the coming summer. For this reason, the management committee is regretfully limiting the amount of vacation leave that can be taken between now and when the audit work on the 1982-83 Public Accounts is finished. Between now and the end of September '83, staff will not be able to take more than two weeks' vacation leave. Further, so that staff resources may be scheduled more effectively, all applications for vacation leave between now and September 30, 1983, must be submitted for approval by May 10, 1983. Exceptions will be made only in special circumstances and must be approved by an assistant auditor general. Where, however, approval has already been given for more than two weeks' vacation leave during the stated period, those arrangements will be honored. Leave of absence without pay and attendance at courses that are not immediately essential between now and the end of September cannot be expected to receive favorable consideration.

In order to get the work done, we've got to cut out quite a bit of the vacation time people had coming to them and ask them to defer it. Things are getting tighter in that respect.

MR. MILLER: In that regard, Mr. Rogers, is any thought being given to greater input from the private sector to handle this work?

MR. ROGERS: I think we're handling pretty well all we can handle right now. As you have seen, we have 35 contracts. That's the most recent figure. That will increase somewhat in the year. We are increasing the amount provided for private sector, and that is in addition to this.

MR. MILLER: That's in addition to this?

MR. ROGERS: Yes, that's right.

MR. MILLER: I'll bring that up after, because I have a concern about that aspect.

My other concern, Mr. Rogers, is -- I've noticed you have four assistants immediately below you, and they're here. How was that number arrived at, in view of the fact that most departments of government usually have a deputy and maybe, at the most, two ADMs?

MR. ROGERS: They are not ADMs in the normal sense. You'll realize and appreciate that our office is quite different from a department. That has been recognized in that we don't have a minister to set policy, and so on. That is entrusted to me, because under the Public Service Act the Provincial Auditor always has been both department head and deputy head. Therefore, I think the responsibility is perhaps a little heavier on us than in departments generally. Of course some departments have, as you know, more than one deputy, and there are also associate deputies in some departments.

The circumstances of our operation, though, are a little different, because we're also called upon by statute to publicly report on various government departments and provincial agencies. In effect, we're staffed to accommodate those responsibilities. The work of the office breaks down into four different sections; consequently, it was my decision to have the senior person for each of those four divisions be a member of the management committee. The management committee, including myself as chairman, makes all administrative decisions for the office. For instance, this letter is not signed by me. It's signed by Mr. Henkelman, who is in charge of the administration of the office.

This dates back a number of years, to the days when it was the Provincial Auditor's Office. It is an organization that is eminently suitable and is based on the way in which large public accounting firms in the private sector operate. Below these assistant auditors general, each in charge of a department, we have principals. Those principals carry out the same responsibilities with regard to an audit as partners do in a private sector firm. They are, in effect, partner equivalents. Each of the assistant auditors general manages, if you like, a segment of the work. Mr. Salmon manages the audit group, that part of the office that audits the provincial agencies, such as AGT and so on. Mr. Smith manages the audit people who are involved in the concurrent and ongoing audit of all government departments, and also the audit of the General Revenue Fund, which of course is a very significant part of the work.

As you know, we're involved very heavily in EDP, because of the computerization that has taken place within the government. That is a specialist area, and Mr. Wingate is in charge of that division. Also, that division is responsible for operating the office's computer. We in effect simulate the main payment system of the office and are able to detect any breakdown in internal control shortly after it occurs. We are thereby able to alert Treasury that there are serious problems that have to be looked at. That is something I believe Treasury very much appreciates. It is a part of our audit.

In addition to that, Mr. Wingate's department is involved in developing the uses of the computer that can make us more productive. One of our objectives is to be able to do a better job using less professional manpower, but using the computer to the fullest extent possible.

Mr. Henkelman is in charge of the group that prepares the actual financial statements of all provincial agencies, including the Heritage Savings Trust Fund and the General Revenue Fund. For the actual physical preparation of those statements, we have a number of word processors and clerical staff. But in addition to that, there is the scheduling of the office and the other duties that are involved in the running of any large public-sector accounting firm.

I think that's the best description I can give of the work of the office. It is outlined in the Auditor's report in some detail. As far as I am concerned, I am involved in making policy decisions, the kinds of things [inaudible]. Do you wish any further information?

MR. THOMPSON: Just quickly -- and I'm not an auditor, but I'm trying to figure out . . . You have 15 audit principals, which you say are the same as a partner in a private firm. You also have 19 audit managers. But I only see 80 people who are actually in the business of adding up the books. It seems to me, just as an old farmer, we have a top-heavy organization here. Now, possibly you can explain to me why you need so many managers for so few helpers.

MR. ROGERS: Well, we do a lot more than adding up the books, I can assure you. But I would also point to page 9. All our management is responsible for the scope and the review work on all these audits that are carried out by our agents. It involves a considerable amount of senior management work, because the work of the agent has to be -- first of all, we have to determine what the scope of the audit is to be to suit our mandate, that is called for under the mandate. During the planning stage, therefore, senior management is very much involved. Also, the review of the working papers and the review of the work carried out by the agent, have to be in sufficient depth that we can accept the opinion of the agent on the systems and financial statements of the agency that they are auditing on our behalf, so that I can in effect adopt the opinion. It is my opinion that is in the Public Accounts coming forward to the House, and it is the responsibility of the Auditor General to report accordingly.

I don't think the ratio of individuals is any different from the private sector. This is quite common in a professional organization. These managers don't just sit around seeing other people work. They are involved in the actual work itself. Would you like to comment on that, Don?

MR. SALMON: Just to add to that, possibly, the fact that the principals and managers in the office, as far as handling the workload that we have . . . In my particular division, we express over 120 opinions in a year. Of those, just over 30 are done by agents. Principals and managers in the office are very involved with those agents, because as legislation names the Auditor General as the auditor, in effect we are still doing those audits, but only at the senior level. The partner and the employees of the various accounting firms that are doing the work for us are very close to us as the work is progressing. Many times our senior people are involved in using the computer to help select tests and these kinds of things within these particular audits, and various computer tapes and so forth are brought to our office. Our principal or manager is involved in doing that, as well as in the commencement and finalization of the job.

Also, because we're the auditor, and the Auditor General has to sign the opinions on all those audits, if you'll take any on the list, you'll find that our senior people must attend a number of meetings -- exit conferences, meetings to approve the statements in their final form at the end of the audit -- and are not just letting the firm go ahead and do it, because we have the responsibility to convert that knowledge that they have gathered for us into our own knowledge so that we in turn can issue our own opinions. So it's an opinion to us from the firm, and our opinion to the organization, as all provincial agencies are audited by the Auditor General under legislation. That includes the irrigation districts in southern Alberta, where we're named the auditor and have to do all 13 irrigation districts.

MR. CHAIRMAN: For the sake of the tape, could we ask you to put your name on the tape now, please?

MR. SALMON: Salmon.

MR. CHAIRMAN: Thank you. I forgot to remind the group to state their names first. It helps with the interpretation.

Are we still on the same topic? John, did you get your answer?

MR. THOMPSON: Yes.

MR. CHAIRMAN: Thank you. Bud Miller. Same topic?

MR. MILLER: Well, I have a concern about auditing the auditors.

MR. CHAIRMAN: Okay, I'm going to accept that as a second question later on, because we have it coming up.

MR. MILLER: This is on the same question. If the Auditor General is hiring firms to do this work, and they have to have this amount of involvement with people on staff to be able to make sure that the auditors who are auditing are auditing to your satisfaction, it would seem to me, Mr. Salmon, that we're at the point where we might as well not even think of having the private sector involved whatsoever, if you're going to be involved that deeply.

MR. SALMON: No, no. Don't get me wrong on this. What I'm saying is that if you took -- well, let's use as an example the Glenbow-Alberta Institute, for which we have a firm in Calgary, Arthur Andersen & Company, doing the audit. We're involved initially with them in approving and accepting the scope they have prepared to do that audit. They then in effect do the audit, so all the in-between actual working hours are done by that firm. But we have constant contact by phone and meetings and, in the end, with review of their actual working papers. The time we spend is not with any of our field staff. It is strictly at the senior level, which saves us a tremendous amount of time. When we consider the number of hours these firms provide for us, without using our own staff, it is high. Approximately 20 per cent of the work of my division is done by the firms. We don't have the manpower to do that 20 per cent.

But when we talk about the senior people, they have to be involved. That's the distinction between having a team of four or five people out there for a thousand hours -- we don't have to put that out. The firm is actually doing that for us. But when it comes to finalization, that's where we have to double up, in a sense, because we then have to convert that opinion into ours. But the hours are much, much less. We at the senior level don't ever feel that you'd spend more than 5 per cent of the time on the whole job, on our side of it. So it's a tremendous saving to us in time. And that's why we have the dollars to pay the firm to do the work.

MR. ROGERS: If I could perhaps put that in another way. If you look at the "managed", which is the bottom line, I think that totals 140 out of 189. If we did all the work ourselves, then we probably would have to have something like 30 or 40 additional staff. So that instead of 140, we probably would be talking about 170 to 180 on the bottom line, with the same number of managers. Does that help in the understanding?

MR. MILLER: In other words, by paying \$864,000 last year to contract it out, if you had had 30 people, you wouldn't have had to pay that much.

MR. ROGERS: That is quite correct, sir.

MR. MILLER: So that works out to how much?

MR. SALMON: It's hard to do that, because you get various levels of staff. It's very difficult to average it out. I can talk rates if you want, but there are variations depending on the level of the staff that's on the job.

MR. ROGERS: You can talk a range of rates.

MR. SALMON: Basically, on the average, as far as CA firms, we are probably averaging around \$50 an hour on the work they're doing for us.

MR. WINGATE: If the question is, is it more expensive to use an outside agency, the answer is quite definitely yes.

MR. SALMON: It's more expensive to us, yes. But it does give us use of the private sector without having to have possibly an unmanageable size of staff.

MR. CHAIRMAN: John, I'll accept this as the last supplementary on this topic for now.

MR. SMITH: I was going to comment that one of the problems we face is that we have a very high level of audit activity required during one period of the year. In fact, most of the agency work that's done in Don's section is done at one time of the year. We just couldn't handle it if we had even another 30 people on our staff, because of that variation in the volume of work. In order to keep our staff down to a level where it's suitable to cover our year-round requirements, we have opted to go this way. If we didn't go this way, our schedule would suffer in addition to having perhaps to increase our staff beyond what we would need at other times of the year.

MR. ROGERS: It's a matter of keeping a balance, as much as anything.

MR. THOMPSON: Mr. Smith answered my question.

Mr. Chairman, I hate to be the star of the show, and I regret the fact that I wasn't here before. I also realize it was the legislative committee that made these grants, but I would like some explanation of why the Auditor General is putting grants out. That's page 3, Mr. Rogers.

MR. CHAIRMAN: Bill, before you answer that, let me ask a question. One thing I intended to do first was establish some time frames. If there is any question or concern about when we might consider this meeting over . . . We're going to lose one of our members at 2:15, 2:30, or so. Other than that, what is our termination time? Would somebody please guide me here? Do we have to be out of here by three o'clock? Three o'clock is our adjournment time, then, is it? Is it earlier, John?

MR. THOMPSON: I can stay all night.

MR. CHAIRMAN: You're with me. Bud, is three o'clock acceptable?

MR. MILLER: I'm tough. I'll hang.

MR. CHAIRMAN: You'll notice, Mr. Rogers, we didn't even consult you and your gang.

MR. ROGERS: That's all right.

MR. CHAIRMAN: That's what you call democracy.

MR. ROGERS: We're here at the pleasure of the committee.

MR. CHAIRMAN: Very good. We're all shooting for three o'clock, and we'll adjourn then.

MR. CHAIRMAN: John Thompson, did you ask your question?

MR. THOMPSON: Yes.

MR. CHAIRMAN: Thank you. Mr. Rogers.

MR. ROGERS: It is under the heading "Grants" because it is in effect a transfer payment. When the Comprehensive Auditing Foundation was first founded -- I was one of the participants of that founding -- the purpose of it was to pool the experience of the 11 legislative auditors' offices across Canada, including of course the provinces and the federal Auditor General, for the benefit of all. That is the purpose of the foundation.

As one of these what is called a "sustaining member" in the creation of the foundation -- all the legislative auditors except two became sustaining members. Also as sustaining members are the major firms in the accounting profession. The by-laws of the foundation call for -- what is it now?

MR. SMITH: One per cent of the current budget.

MR. ROGERS: I've played a little fast and loose with that, as you'll see by any calculation, simply because I feel that we have some added aspects to our budget that weren't contemplated when the by-law was established. Consequently, we pay somewhat less than the 1 per cent, because I don't see that any payments to public accounting firms should also be counted in the base for the computation of the grant, in view of the fact that most of those firms are also paying. So it seemed to me that there was a reason why we should decrease the amount we pay. That has been decreased, and I discussed this of course with the previous chairman, Bill Mack.

The reason we participate in this is because the foundation is dedicated to advancing the body of knowledge of auditing in the public sector in Canada. We obviously benefit from that. However, they also are involved in professional development of auditors in Canada in the public sector, and we obviously benefit from that. Consequently, although we do make a payment to them, while I cannot exactly quantify it we do decrease some of the effort that we otherwise would have to generate ourselves. It means that through the foundation, we get the results of the experience of the other legislative auditors in Canada.

The one on the university is a little different, in that last year, in agreement with the committee, we advanced \$2,000 to a special symposium that was being put on by the business school at the university here in Edmonton. Out of that came the thought -- and this was in discussion with Bill Mack -- that if we were giving any moneys at all from this budget for advancing accounting and auditing education and research, which is of prime interest and benefit to the auditors, it should perhaps be directed to Alberta universities. In line with that, there has just been created an accounting education foundation of Alberta. You and I attended the kick-off meeting of that.

MR. SALMON: We sure did.

MR. ROGERS: Mr. Salmon is on the board of governors of that foundation, which will be collecting donations from the various firms for the foundation to advance to universities for the development of accounting and auditing education, which is lacking in this province, from past experience. They will be able to get an accounting for the expenditure of that money, which of course will be available to all those who are participants in the foundation.

Is there anything you can add to that, Don?

MR. SALMON: No, I think you've covered it quite well. It's to be done within the province of Alberta. It's not going outside the province.

MR. ROGERS: That's right.

MR. SALMON: A very extensive study of accounting and auditing within Alberta was done, and it was felt there was a need for the foundation to develop and provide some funds for furthering the development of these particular fields in Alberta, because the universities are short and lacking in this particular area. This was the decision of the Institute of Chartered Accountants of Alberta, that they would set up the foundation.

MR. ROGERS: It is to promote the development of PhDs in accounting and auditing.

MR. SALMON: To get some well-trained people to lecture at the universities and so forth.

MR. ROGERS: That's right. It has an ongoing snowballing effect, if you will. People for all the firms, for instance -- until the recent economic downturn -- were coming from the east, because we were not developing people in Alberta. I believe in one year there were far more new members of the Alberta institute from the east than we had developed internally in Alberta.

MR. CHAIRMAN: I'm going to make a recommendation. I'm going to recommend that if we have any more questions on the first seven, eight, or nine pages of the report, we hold them to the end of our time period. I'm going to ask that you accept the suggestion that we ask the Auditor General to continue through now and finish giving his report. Thank you.

MR. ROGERS: Thank you, Mr. Chairman.

I believe we were discussing specific items here, and why the projected amount was less than the '82-83 estimate.

MR. CHAIRMAN: Mr. Rogers, you're going to have to do one of two things. You're either going to have to farm out the rest of the report or farm out your dessert.

MR. ROGERS: I'm going to keep the dessert. If you're going to keep me here all night, I'll have something to eat for supper.

I believe attention had been drawn to the fact that for conferences and professional development we had only spent \$40,000, whereas we were estimating \$104,500 for '83-84. I would point out in this regard that these estimate figures were developed last September, whereas the projected is a very recent figure. In this case, while we have cut back drastically on professional development -- and one can only go so far in doing that -- other items on this listing have gone the other way. We've got that diazo thing that's going to be more than we had understood, and I think there was something else.

MR. SMITH: The move of the office.

MR. ROGERS: Oh yes, we have to open a branch office in Fort McMurray, I'm afraid. This will be an office of one person, which will entail moving expenses of this individual, northern allowance, and other incidental costs. Also, the supervision of that person will entail [not recorded].

DR. CARTER: Did that sound reasonable? In about two years, I'll have one.

MR. ROGERS: After the end of the year, we have two years to audit. Otherwise we implicitly accept their figures. It is to recover any shortfalls in

royalty and is because the royalty in the case of Syncrude is 50 per cent of deemed net profit. It is the computation of that net profit that we're involved in.

DR. CARTER: On that point, does that mean that item 8 on page 9, Alberta Syncrude equity, won't be picked up by this office that you now propose to put in Fort McMurray?

MR. ROGERS: Syncrude equity is something else again. Syncrude equity is the government's own participation as a joint venture. For the audit of that, we rely on Peat Marwick Mitchell. The royalty is, as I say, the computation of the deemed net profit in accordance with the agreement. The word "deemed" is very meaningful in that case. It isn't the net profit, because there is no such thing. But taking a number of factors that are spelled out in the agreement into account, we arrive at a deemed net profit, and 50 per cent of that belongs to the government. Of course, we're dealing with quite large sums of money each year. We are actually working there on behalf of the minister. Until the agreement is changed, there is no way that can be put back to the department.

So we've been hit with these unexpected expenses. I am sort of thinking that some of these expenses should perhaps be charged to the department, that they are the beneficiaries of the work that we're performing for them.

DR. CARTER: On that particularly point, members of the committee, that's one of the things we've been talking about, because one or two of us have had casual conversation: are there different ways we can put some of these things back into the departments and charge them? So that's one example there.

MR. ROGERS: Because of the nature of the work. The rest of the work, I would say, couldn't be put back in the department, because it is auditing as proper departments do.

DR. CARTER: For example, on page 9, we have nine colleges. In that example, why can't we get that back into the college to put that into their budget system, to go back to Advanced Education or whichever way they're getting their funding? Is there some mechanism whereby we can change all this?

MR. ROGERS: The only problem is that we would have to bill out, of course. Then when the colleges paid, it would come into revenue. So we would still have to have the additional dollars.

MR. SALMON: When the money comes back, it goes into general revenue and we don't get to use that as far as our own expenses are concerned.

DR. CARTER: But what we're saying is something even more fundamental than that. We don't want you to do the audit. Get the University of Calgary -- they're not on this list. Get Medicine Hat college to do their own auditing, put it in terms of the estimated budget for the year, do it and then report that back through the whole system. We wouldn't require you to have the audit done for us if we changed the legislation.

MR. SALMON: Where's the advantage to the taxpayer in Alberta, David?

DR. CARTER: That's a good question. I'm here with the experts to get the answer to it. One of the real psychological problems for this committee is to have to look at page 9 and say: what the heck is going on; is there another way of doing it that is less expensive?

MR. ROGERS: I would suggest to you that it would be more expensive if you just leave it open. We are able to bring quite a bit of pressure to bear on the public accounting firms to get reasonable. For instance, we have told them that we are not prepared to go more than 6 per cent, and things like that, which I don't think individual colleges would have a great deal of success with. I certainly would say that it wouldn't be cheaper. I would also suggest it might be more expensive.

MR. CHAIRMAN: Bud Miller.

DR. CARTER: Could I just finish with one last one, because I know the avalanche is coming from over there. With the outside column on page 9, just looking at the thousands of dollars that are being shifted up and/or down, there's no 5 per cent showing there.

MR. ROGERS: No, it isn't across the board. We're talking about rates. The amount of work that's carried out, as with any professional job -- you know, it depends on how much work is actually done.

MR. CHAIRMAN: First of all, a general question. Did we get ahead of you unduly by jumping to page 9? It looks like there's some discussion involved here.

MR. ROGERS: As long as we can dispose of the page, it doesn't matter whether we do it now or later, Mr. Chairman.

MR. CHAIRMAN: Thank you very much.

DR. CARTER: Are we done with 7 and 8 so we can go onto 9?

MR. THOMPSON: Well, I've been waiting.

MR. ROGERS: Perhaps the only anomaly that I can really see that was an anomaly was the irrigation districts. But that ceased to be an anomaly when they started spending fairly large amounts of heritage funds for their work improvement, and so on. That seemed to bring them back to be more relevant, because of the public money involved.

DR. CARTER: So now they're all relevant?

MR. ROGERS: I believe they're all relevant, with the one exception of the work we do on the agreement -- which isn't on that list, of course. That is the royalty for the Department of Energy and Natural Resources.

This is based on the fact that where there's accountability to the House, where the House creates an entity and there is accountability back because of funding by public moneys, the reporting on that accountability is centralized in the one office. I think the advantage of that is uniformity as much as anything. There was a time when the colleges were audited by individual firms. One of the reasons we got involved was to try to get some uniformity in the reporting. There was no way in which there was comparability between the activities reported on the various financial statements of the colleges. I think you'll now find that that has changed.

MR. CHAIRMAN: Bud Miller, will you take your question and one supplementary now.

MR. MILLER: I tend to differ with you in regard to irrigation districts, recognizing of course that there is a lot of heritage trust fund money being spent. But I understand this is being spent through the Department of Agriculture and the Department of Environment, basically speaking. Here we have the irrigation districts. For all intents and purposes, they are private industry, as I am a farmer. How can you justify doing their auditing and not doing mine on my farm, because I'm a private individual? You're giving them a grant. If you're going to give them a grant, give me a grant.

MR. SALMON: I can't answer that last question. But about the irrigation districts, the provincial Auditor has been auditor of most of the districts for many years. A number of years ago, all the districts by legislation, under the Irrigation Act, named the Auditor General as the auditor of the district. My understanding of the reasons for that are primarily that the irrigation secretariat, which is the Department of Agriculture, would have a way in which they would have a commonality amongst the districts with having one auditor, and that there would be a better monitoring of the cost-sharing moneys that are going directly to the irrigation districts to upgrade their own irrigation works and so forth. Although there are some capital projects done through Environment, with headgates and so forth, each district is receiving funds as well to develop their own irrigation works. We have been involved in that auditing for a number of years. Although you're right that the irrigation districts do not come under the definition of a provincial agency as defined by the Financial Administration Act, which makes the Auditor the auditor of the district, it is strictly because we are named in the Irrigation Act as the auditor of the district.

MR. MILLER: Okay, but shouldn't they be paying you?

MR. SALMON: They do. We bill the irrigation districts.

MR. MILLER: But not fully.

MR. SALMON: Because you've got districts -- we have to do an audit. If you do an audit, you have to do certain things to come to a full, generally accepted auditing standard. Some of those districts do not have the funds to pay the full cost of the audit.

MR. MILLER: How do you know this? I'm not being facetious. I don't think that that's true.

DR. CARTER: By way of example, Bud, you were saying the other day that it cost \$45 an acre to water -- do you remember what you were talking about?

MR. MILLER: Down in the United States, the cost of water is \$25 an acre. Here it is \$5 an acre. They're getting subsidies till . . .

MR. THOMPSON: Let's get out of that here.

DR. CARTER: That's because you live in an irrigation district and he's dryland.

MR. SALMON: The costs of the audits themselves are much higher than the districts have ever -- they've been crying the blues about the audit fee for years, if you want to know.

MR. MILLER: It's typical of farmers to do that, so you don't buy that.

MR. SALMON: For years, the audit fee was set by order in council.

MR. ROGERS: At a very low rate.

MR. SALMON: And we had no control over it. The only way it changed was when the Auditor General Act came into being. We have tried to creep them up, and we've crept them up where some of the larger districts are almost at that point now. But the little ones are still down there. Even at 10, 20, and 30 per cent increases a year, they're still low because they were so low originally. We've been supplementing those irrigation districts for years, as you can see on page 14.

MR. THOMPSON: Mr. Chairman, just to save time I would like to have the Auditor General go into this subject in depth and report back to the committee on it. There's no reason for sitting here today, going back and forth and arguing on this. I have real problems understanding it. The Canadian Association of Youth Orchestras is qualified to be audited by the Auditor General; I think I could name 500 other organizations that could qualify too. But would you please -- I don't want an answer right now, but a written one later on down the road.

MR. CHAIRMAN: Thank you, John. I'll just ask one question. Does the Auditor General have any problem understanding the concern of this member?

MR. SALMON: May I just clarify it? I believe what he's after is an explanation of the audits that come under Section 12(b) of the Auditor General Act. If that's so, we can explain why we're the auditors of all those organizations that are presently listed under that.

MR. CHAIRMAN: Thank you very much.

DR. CARTER: If we could have the footnoting of their own legislation or orders in council that direct you to do it; the complete footnoting as to when it was that an order in council or piece of legislation directed the Auditor General to do it.

MR. SALMON: It's not orders in council, but there is authority.

MR. ROGERS: The ones we're talking about are the ones the committee has approved that we carry out. If you wish a review of those, we can write something up on each one of them.

MR. CHAIRMAN: The tape will show that we had three voices on at once there. The Chairman has been reprimanded three times for not reminding everybody to give their names. Somebody has to listen to that tape. They'll have no problem with the Chairman or with John Thompson, but on the tape the rest of you all sound the same.

MR. ROGERS: Mr. Chairman, could I just recap what I understand?

MR. CHAIRMAN: Please do.

MR. ROGERS: The committee would like an explanation of every audit that we carry out, as to why we carry it out, the circumstances of the audit, where we are not working under the Auditor General Act; in other words, where there is no direct accountability to the Legislative Assembly.

MR. CHAIRMAN: John Thompson, is that the question you're asking?

MR. THOMPSON: Yes. That takes in the Olympic committee; the whole works.

MR. ROGERS: Yes.

MR. CHAIRMAN: Mr. Rogers, I understand then that you have it correct. Will you continue with your report?

MR. ROGERS: If there are any other questions on pages 7 and 8 . . .

MR. CHAIRMAN: We're onto page 10.

MR. ROGERS: I think page 10 is fairly self-explanatory. If there are any questions, I would ask either Mr. Wingate or Mr. Henkelman, depending on the item, to answer.

MR. CHAIRMAN: It looks like we've accepted page 10.

MR. ROGERS: The additional pages are on forms provided by Treasury -- I think to give information that Treasury wishes -- and are repetitive of details of figures we've already seen. They are so that purchasing and other parts of Treasury and government services can have the detail of what we had in mind at the time the estimates were prepared. I think that takes us through to page 13.

Page 13 is an order that we are submitting to this committee. The order is identical to the existing order except the words in little two. I believe the present order says "revise on an annual basis" and we are asking if the order could be amended so that it reads "on a quarterly basis". The existing order was signed by the chairman of the previous committee, Mr. Mack.

MR. CHAIRMAN: You hear the request. Can we discuss the request and have the motion now? Would that seem to be the appropriate procedure?

MR. THOMPSON: I don't think we should pass any motions today.

MR. CHAIRMAN: Thank you. We'll make sure we ask the questions, though.

DR. CARTER: What is going to be the net effect in terms of the ramifications of doing it on a quarterly basis? Is it going to get more firms out there mad at us for changing and reflecting this?

MR. SALMON: It will mean that we can revise the fee schedule on a more frequent basis, as office salaries go up. It will result in a larger fee to certain of our auditees.

DR. CARTER: Is that likely to get their dander up?

MR. ROGERS: Any fee increase tends to. But at least we can point to circumstances outside our control. When salary increases come about, we do not control those increases.

MR. CHAIRMAN: Any other questions on this topic?

MR. MILLER: Just a short question, Mr. Chairman. Do you do this now? Do you take an assessment of what your costs are now on a quarterly basis? Or is this another job you'll have to do?

MR. SALMON: We've started it, but we have applied it pending approval of the committee. We haven't levied any fees based on . . .

MR. ROGERS: We keep track of our costs on an ongoing basis.

MR. MILLER: But you don't do an update. Is the update now being done on a quarterly basis or not?

MR. SALMON: Yes, this year.

MR. CHAIRMAN: Any other questions? Page 14 then. Any comments by way of introduction?

MR. ROGERS: No, I think this is the same topic we were just talking about, so we might as well carry on talking about it.

MR. SALMON: I don't have anything to add. I think we've gone into the situation of the reasons why we've been supplementing the irrigation districts over the years. Each year we have brought to the committee those organizations to which we have varied the fee more than 5 per cent. That's why those districts are on there. We're gradually cutting the number down, but we'll never get to that point unless a whole new process of funding took place in some of the irrigation districts to pay for the cost of the audit.

MR. ROGERS: Mr. Chairman, perhaps we could leave this over pending submission of the information the committee has already requested.

MR. CHAIRMAN: Thank you.

MR. THOMPSON: I just want to add one thing, Mr. Salmon. An irrigation district is a local government, like any other local government. If the rationale you use for paying these fees for the Aetna Irrigation District -- and believe me, I know they need the money. You could use the same rationale to audit the town of Hillcrest.

MR. ROGERS: If this committee were to say: Mr. Auditor General, you charge them what the cost was to you -- it would cause them to come back to the government, I'm sure, for the money, and we would get into that circular motion again. That is my feeling on it.

DR. CARTER: We thought that since most of them occur in the constituency of Cardston, it might just mean that the member wouldn't run again next time.

MR. CHAIRMAN: The tape will show that that was Dr. Carter speaking.

DR. CARTER: Could I just have the Auditor General explain the relationship between item 31 on page 9 -- this is just by way of example. The United Irrigation District: we have a projected figure for '82-83 estimate. What relationship does that have with United Irrigation on page 14? Is there none?

MR. SALMON: Mr. Chairman, I can answer that question. In a sense, there is none, because the list on page 9 is the cost of the audit as done by the firm of chartered accountants that we've hired. The list on page 14 is our calculated cost if we had done it ourselves. When we calculate the fee, we substitute the same level of staff as the firm and calculate it at our rates, as if we had done the audit, and then bill out accordingly. There's the difference.

MR. ROGERS: If I could comment on that: if we did not do that, it would mean that with a particular auditee we would charge them at one level when we did the job. Then when we employed an agent, up would go their fee. Then, if it reverted to us, down would go their fee. So we absorb the difference in effect.

DR. CARTER: Okay. That's it.

MR. SALMON: That's the reason. We do not feel that because we hire the agent, we should in any way impose the agent's cost on the organization when we are in effect the auditor.

DR. CARTER: Okay. But as a rough calculation, as a layman in the auditing world, I can take a fee based on schedule, \$7,797, and relate that back to the \$12,000 figure under United Irrigation District, 1983-84 estimate. And that would roughly show me how much more it's costing us to have that out with a private group.

MR. SALMON: If the years are right. I'm not positive whether I have the right year. But that's the idea.

MR. WINGATE: The years won't be right, will they?

MR. SALMON: They may not be right. I can't remember whether this is '81 or '82. This is '81 irrigation districts audits. So it's a year ahead. It would be December or whatever the year end was to December '81, because we have not yet billed for the '82 audits. So that's an '81 fee, but over here is an '82 fee.

AN HON. MEMBER: But the '81 is there as well, so comparability still exists.

MR. SALMON: In '82-83, right. That's comparable with '82-83. You're right.

DR. CARTER: On the projection or the estimate?

MR. SALMON: On the projection.

DR. CARTER: On the projection. So I'd really be comparing the \$7,800 back against \$12,093.

MR. SALMON: \$12,093.

MR. MILLER: Mr. Chairman, on that point, the fee recommended is \$1,800, on page 14. The fee based on the fee schedule, which would be your cost if you had to do it, is \$7,797. The fee you're paying is \$12,935. To start over, the \$1,800 -- what is that figure?

MR. SALMON: That's a gradual increase in the fee charged to the irrigation district from where the original order in council had set a fixed amount for many years. We have started to try to climb that fee up, since the orders in council are no longer required because of the Auditor General Act.

MR. MILLER: So that figure is now \$7,797.

MR. SALMON: No, that's our cost. But the fee for the United Irrigation District could possibly have -- I'd have to go back to history again. Four years ago, the fee could have been \$700 in an order in council that had been

sitting there for years. We started to creep it up as we took over as the Auditor General and then could set our own fee with them. We started at 10, 20 per cent increases each year to try to move it up.

MR. ROGERS: Up to March 31, 1978, the fees charged were set by the government as a matter of policy, and were nominal.

MR. SALMON: And we couldn't vary them.

MR. ROGERS: They were nominal fees.

MR. SALMON: They've been subsidizing them for years.

MR. CHAIRMAN: Do you have your answer, Bud?

MR. MILLER: Yes, thank you, Mr. Chairman.

MR. CHAIRMAN: Any other comments on page 14?

I'm repeating now, Mr. Salmon, but it said: fee recommended is recommended in the old legislation. Is that what you're saying?

MR. SALMON: No, that's our new fee.

MR. ROGERS: That's what we're recommending.

MR. CHAIRMAN: This \$1,800?

MR. ROGERS: Yes. That's up appreciably from what it was.

MR. CHAIRMAN: I see.

DR. CARTER: Isn't this a fun way to spend a Friday afternoon.

MR. CHAIRMAN: That's all right. It's worse on Saturday afternoon.

What about page 14? Are we through with it now? Can we go to page 15?

MR. ROGERS: You realize that we will give a complete story on this.

MR. CHAIRMAN: Yes, we understand there's information coming after page 14.

MR. ROGERS: Mr. Chairman, the same applies for the items on page 15, where we are requesting appointment as auditors of various organizations, realizing that these organizations have approached us, sometimes with the government having suggested it in the first place. They are all public service type situations, and very often we are already auditing the records involved or the records are situated where we are auditing, such as the Olds College Foundation.

MR. CHAIRMAN: And the purpose for the form to be signed is because it is under special authority.

MR. ROGERS: The wording of Section 12(b) of the Act is:

The Auditor General may, with the approval of the select standing committee, be appointed by a Crown controlled organization or any other organization or body as the auditor of that Crown controlled organization or other organization or body.

That was contemplated at the time the Act was passed by the Legislature.

MR. CHAIRMAN: Then are we onto page 16?

MR. ROGERS: Because of their nature, we are recommending that if you approve our being the auditor, there be no fees involved.

Then on pages 17, 18, 19, and 20 are the details, and this is following previous practice. The records of the committee from the previous Legislature contain this kind of information for every one of the entities that we audit, that we will be reporting to [inaudible]. It gives the objectives and so on of the entity.

There's a further order, Mr. Chairman. It's OAG 108, and it is "Organizations Exempt from Being Charged a Fee". These are organizations that are basically funded from the General Revenue Fund.

Do you have any comment on that?

AN HON. MEMBER: I don't have a copy.

MR. CHAIRMAN: You said that not only you didn't have a copy, you didn't have a comment. That reminds me of the old saying: we all know how to say nothing, but few of us know when.

MR. SALMON: Mr. Chairman, just to make one comment on this particular one. If we were looking at page 13, which was the order for the setting of the fee, in prior years we had 35 organizations on our list that were being charged fees. In examining it again this year, we felt that because of the way in which the definition for charging fees was listed, these 11 organizations on this particular order should be removed because of the basis on which the funding was coming, principally from the General Revenue Fund, leaving us with 24 organizations to which we are charging fees. That's the reason for this listing, to remove 11 from the original list.

MR. CHAIRMAN: Thank you. Mr. John Thompson, do you have a question on that one?

MR. THOMPSON: No, I accept that.

DR. CARTER: Excuse me, Mr. Chairman, I have to catch up on this. Which 11 are coming off? The sheet that was just handed out?

MR. SALMON: No, I'm going back. In prior years we had 35 organizations to which we were charging fees. This is taking 11 off that list of 35.

DR. CARTER: These 11 on this recently circulated document? We're going to take them off?

MR. SALMON: Right -- leaving 24 still on the list.

MR. THOMPSON: So these people get a free ride.

MR. SALMON: That means they don't have to budget for an audit fee; that's true.

MR. ROGERS: If they do, in most cases the government pays it, anyway.

MR. SALMON: All the audit fees we bill and collect go back in the General Revenue Fund. It's a circular motion.

MR. MILLER: On that point, that's typical of government. You're not unique in that. I was minister in charge of wildlife. All the hunting fees and fishing fees went into general revenue, but we had to pay for the administration and everything. So you're not unique.

I'm not too sure that we should be moving in the direction of more free rides, as it were. I would rather see us move in the other direction, where you charge and then they go wherever they have to, whichever department, to get the fees to pay you. Even though it goes into the general revenue, at least it would be credited to your account, as it were. Is that valid?

MR. SALMON: Yes, that's valid, Mr. Chairman. We're living by policy of the government. If they chose to change the policy, we'd be happy to live with it.

MR. ROGERS: Mr. Chairman, I would like to explain that under the Financial Administration Act, we are specifically relieved of most of the decisions of Treasury Board and government. We are not included. However, as a policy, I decided right at the very beginning, in 1978, that it would be the best and fairest thing to do if we were, wherever possible, to comply with practice adopted by the government at large. That leads to better understandability and is generally more acceptable and easy to explain, if you will. We've not had any trouble in that regard. But technically, we have more freedom that we actually take advantage of, if you understand what I mean. Consequently, insofar as the treatment of funds, we go along with what is established for the government at large.

MR. SMITH: I'd just like to point out that in this year's audit report, 2.5.1, we have a section on accounting for program costs, where we're actually making the proposal that departments should bear all major costs incurred on behalf of a program, whether those are incurred through central agencies or through their own budget. I think the same thing would apply to audit costs. Although we're dealing, of course, with something less much significant, I think that we would agree with that view you have in that respect. I think this points out that we do think in those same terms.

MR. ROGERS: But it does mean that the government has to take a different approach.

MR. CHAIRMAN: Addressing the report, then, as it is in front of us, do we have any other comments or questions on the pages 17, 18, 19, and 20? Or have these been dealt with in the one under the general terminology we're using?

MR. ROGERS: Subject to the provision of the information the committee has requested.

DR. CARTER: I have two questions, again on the handout dated October 1, 1982. We didn't get it signed because we were into the election and so forth, so that's in limbo at the moment.

MR. ROGERS: Yes.

DR. CARTER: How do I equate this with the notorious page 9 again? The sheet that's been distributed, Organizations Exempt from Being Charged a Fee -- except we have three of them on there that also occur back on here. That's fine. Why wouldn't all of them occur back on here, shown as being . . .

MR. SALMON: The ones on page 9 are those for which we have selected a firm to do the audit for us. Therefore, we must pay them the fee to do the work. But the order is the cost if we were to bill them an audit fee for the service of the audit.

DR. CARTER: But are we saying that not all of them necessarily get audited every year?

MR. SALMON: All of those are audited every year, by either us or a firm, through an agent.

DR. CARTER: All of page 9?

MR. SALMON: Through an agent, that's right.

DR. CARTER: For all of the floating pages?

MR. SALMON: Every year.

MR. ROGERS: All of the floating pages. If they're not on page 9, then we audit them.

MR. SALMON: We audit them with our own staff.

MR. CHAIRMAN: Thank you. Mr. Rogers, anything else you want to add to what's been said?

MR. ROGERS: No sir, I don't think I have any further information for the committee.

MR. CHAIRMAN: I have the despicable job of being chairman. With one eye on the work to be done and one eye on the clock, and at the risk of being rude, I'm going to proceed to a couple of other items. Does anybody feel they're being short-changed with that attitude?

I would like to spend one minute on the topic, sir, of how the auditor for the Auditor General accounting is selected, and what is the instruction or guidance for the committee. It is our responsibility to appoint an auditor.

MR. ROGERS: That is correct. Perhaps you'd like to speak.

MR. HENKELMAN: The previous auditor, Sax, Zimmel, Stewart & Company, was appointed by the previous committee. We have had the same auditor for four years, I believe. I'm not sure how the initial selection of the firm was made.

MR. ROGERS: I think it was on the advice of Treasury.

MR. SALMON: I believe they got submissions from some firms, did they not?

MR. CHAIRMAN: We will get some direction on that one, then. David, do you have a further question on that?

DR. CARTER: Yes, I do have a question. Have you been happy with the relationship with them? Have they been co-operative? We're certain you've been co-operative, haven't you?

MR. ROGERS: Yes, both ways.

MR. SALMON: By the way, they are not one of our agents.

MR. ROGERS: That's right. That we are very careful of.

MR. CHAIRMAN: I understand, first of all, that we must reappoint this auditor annually.

MR. ROGERS: Or select a new one. It is an annual appointment.

MR. CHAIRMAN: An annual appointment. If you had any recommendations one way or the other, I am sure you would be giving them to us.

MR. ROGERS: Yes. I have no complaints about the work they do or the relationship between our office and themselves as auditors.

MR. THOMPSON: Mr. Chairman, due to the fact that they don't use an accounting firm that they use in their own work, surely we would need a list of the people they do use so we could eliminate that group from our consideration.

MR. CHAIRMAN: If we have to consider the appointment of a new one.

MR. ROGERS: That's page 9, Mr. Chairman.

MR. CHAIRMAN: Thanks, John. That's right. If we have to consider a different firm, we would of course have to know those which were currently on positions.

MR. SALMON: Page 95.

MR. CHAIRMAN: If that deals with that topic for now, then I am going to recommend that we move on. I have 16 minutes to 3. There's one thing I think we would like to deal with, and that is the topic of salaries. David, does that fit with your . . .

DR. CARTER: I think so. I spoke with the Auditor General, that we would like to discuss the salary situation with respect to this chief band of merry men here. Since the privilege is granted the other way, when we discuss the Auditor General's report, perhaps you gentlemen wouldn't mind if we asked you to have another cup of coffee or go for a walk.

MR. CHAIRMAN: You're assuming the coffee shop is open downstairs. I never know about that coffee pot.

DR. CARTER: There's also milk there. Mr. Chairman, perhaps you were going to do this . . .

MR. CHAIRMAN: Go ahead.

DR. CARTER: I was going to express the thanks of the committee members to Mr. Rogers and his department for coming along and spending the afternoon with us. They had to adjust to our time schedules. We appreciate your time very much. At yet another time, we will be discussing other salaries. We will be talking to you, sir, at that time. Thank you very much. We know that you're not too far away if we need you.

The recording stopped at 2:45 p.m.