

[Chairman: Mr. Stevens]

[12:10 p.m.]

MR. CHAIRMAN: Welcome, everybody. Thank you for your attendance. I know the Auditor General is looking forward to our visit today. We will say the address once and do it again later, but it's on the notice. It is at 9925 - 109th Street. Louise, is it the first building?

MRS. EMPSON: Where the Mirabelle restaurant is.

MR. CHAIRMAN: That's a block and a half. Go in there and it's on the eighth floor, 835. We can walk over about 1 o'clock or 1:15, I think. It depends how much time the Reid & Cameron people and we would like to have together. I haven't any time schedule for it. I assume we'd do like the Chief Electoral Officer: let him give us whatever presentation he wishes to make, introduce us to the staff. Would you like me to suggest that we'll be leaving, unless somebody has to leave earlier, at 2:30 or 3 o'clock? If you have to leave earlier, go ahead. Thank you.

Before we go to the minutes, can I make a suggestion? We have one more officer to visit. It would be nice to have it behind us before the House starts. That's the Ombudsman. We haven't set a date with him, and Louise would have to do that. But are there any dates between now and March 5 that are convenient for everybody?

DR. ELLIOTT: You're joking.

MR. CHAIRMAN: Yes, I know; there never are. I have a suggestion. Members' Services is meeting March 3, and I guess most of us will be ready for the House anyway. Would March 2, which is a Monday, be a logical date? Alternatively, a week before, which is the last week of February.

DR. ELLIOTT: March 2 I would fly here if it's in the afternoon.

MR. CHAIRMAN: If we did it in the afternoon sort of thing. I assume everybody is getting ready. Why don't we set it up then, Louise, if we can, March 2 at noon? Would you like to go right over there? We have to travel, don't we? Would you rather we work out with Louise and

the Ombudsman that we go over there, have some refreshments or something, and then go right in? If we don't need a meeting, we don't need to meet here. If there are any business items I could . . . There won't be anything?

MRS. EMPSON: No, unless something comes up today.

MR. CHAIRMAN: Okay. So would you like to meet right there? We'll arrange it and tell you where and how and give you a reminder call. We'll just go right there, unless some of you need transportation.

MR. DAY: March 2 is out for me, Mr. Chairman, but it seems to be good for everybody else.

MR. CHAIRMAN: So go ahead? Why don't we shoot then for . . . We won't have lunch then. What about 1:30 till 3:30? Maybe we won't even need that kind of time. I assume we'll have to work that out, Louise.

MRS. EMPSON: I'll check with Mr. Sawyer.

MR. CHAIRMAN: Yes, I hope he isn't in Calgary or something.

DR. ELLIOTT: Mr. Chairman, are you suggesting we meet here in this building?

MR. CHAIRMAN: No, I'm sorry; I meant that we should meet right there at 1:30.

DR. ELLIOTT: One thirty at that office?

MR. STEVENS: We'll write it all out. Does that make more sense than coming here for a meeting if we don't need it? We'll just go right there. If anybody needs a ride, give me a call or let Louise know, because some of us have cars.

What about the minutes of the previous meeting on January 14? Did everybody receive the minutes? Are there any corrections? Sorry, nobody has the paperwork in front of them. We did the terms of engagement, audited statement -- that's of the people that are going to be here today -- and we approved the invoice. We had reports on attendance of conference delegates, and we approved our

budget estimates. There is material here for us today. I did take that; I can report on that in a minute. We reconfirmed the appointment of the Chief Electoral Officer, and we approved salary adjustments.

MR. FOX: Was there any feedback, Mr. Chairman, on the salary adjustments?

MR. CHAIRMAN: Yes. I'm very happy to give you that. The minutes okay?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Moved. All in favour? Thank you.

Yes, I'll give you the feedback, Mr. Fox. That was a good question.

First of all, the budget estimates. Louise will be sending you a letter from the Speaker appreciating what we did. You have in front of you a document which is the revised detail which Louise prepared as a result of our discussions, and this is as was presented to the Members' Services Committee for our budget. You'll notice that our estimate now is \$35,000 for the coming year, with a decrease of 31.9 over the last forecast. I think we're all right in every area. I appreciate your ... So that's done.

Do we need to have a motion? I think you gave me the authority to do it.

MRS. EMPSON: That's right. The motion gave you the authority to adjust the budget presented to the Members' Services Committee.

MR. CHAIRMAN: Yes, at \$35,000 and we did it.

MR. FOX: Mr. Chairman, would it be appropriate for us from time to time during the year when we meet to see how we're doing with this, if we're on target?

MRS. EMPSON: Sure, no problem.

MR. FOX: We will know if we set realistic limits for ourselves.

MR. CHAIRMAN: As a matter of fact, Louise, through the Legislative Assembly we're getting that as MLAs. Can we ...

MRS. EMPSON: Get a printout?

MR. CHAIRMAN: Yes. Can we sort of see that? That would be useful. Maybe all of the committees would like to have that from time to time. It wouldn't be monthly; it would probably be as we need it. Good idea.

On the other matter, I conveyed the advice to Mr. Ledgerwood of our reconfirmation of his appointment. He was very pleased. He expressed that to those of us who were able to meet with him. That is now going to be -- I stand corrected. I understand an OC is required. So there will be a cabinet order in council prepared. I don't know when they'll do that, but that will flow. With the adjustments, I received the verbal -- I discussed with each officer the committee's conclusions, and each one expressed appreciation for the committee's decision. It was just a frank thank you, bearing in mind the situations that each person had undergone. I said that we would review the salaries of all of them on August 1.

I wonder if it might be wise to consider a process for doing that, not necessarily now, but if we would each think about that. The Ombudsman felt that it was a very difficult thing to do, but it seems to me that there should be some kind of a process. One approach might be to have a subcommittee of this committee, all parties, help develop with the officers some objectives. It's just a suggestion. Think about it for another time, and we can maybe discuss it again. It's very hard to measure someone's productivity and achievements unless you sit down with that person and establish some objectives. It seems to me that this committee, working with the officers, could establish some mutually desirable objectives for that organization or that officer and then in some way do the proper kind of assessment that should be done to give people a feeling that they've had an opportunity to participate in setting goals, in either achieving those goals or indicating why those goals were either set too high or could not be achieved because of a manpower shortage or some other factor. It would make our job easier. That's one way.

Another way is just to not do it at all, just to simply be assured by contacts from the public to ourselves, from our colleagues to ourselves that the officers are doing the jobs to the best of their abilities. I know it's very hard. Bob,

you were through this.

DR. ELLIOTT: We didn't carry it this far, Mr. Chairman.

I was going to ask -- this will be an opportunity for the subcommittees that you're describing to also review the job descriptions. Maybe most of what you're referring to is in the job description, and we could assess the activity of the officer against the job description. That was all laid out relatively new with the replacement of those three officers, and maybe there's some guidance there.

MR. CHAIRMAN: Do you recall, Louise? Bob knows. I know we had advertisements, but do we have job descriptions or do we have desirable qualifications? I'm just wondering.

DR. ELLIOTT: I have no idea.

MRS. EMPSON: I'm sure the search committees established job [inaudible].

MR. CHAIRMAN: Some kind of . . .

MRS. EMPSON: Yes. I could look them up if you'd like.

MR. CHAIRMAN: What do you think? Should we pursue this so it is a more comfortable process for everybody?

MR. DAY: What will that do to our budget estimates, Mr. Chairman?

MR. CHAIRMAN: I think we're okay. I only assume that the committee might meet . . . Oh, I see. You mean that you'd like me to do some of the homework first.

MR. DAY: I'm thinking of subcommittees meeting. Is that going to affect our budget projections?

MR. CHAIRMAN: Could you meet on the same day for an hour or so? What if we got the paperwork done, got what we've got, got some ideas, and if I were to propose to the officers that we'd like to have their objectives outlined for the coming year, and then let the committee think about it? I don't know. I'm just trying to figure some way of doing a better job of assessing than we've been able to do in

the past, given that we're all new except for one.

MR. FOX: I think that's a good idea. You know, it's a more positive approach to the whole situation. Too often things like this are done by the squeaky wheel syndrome. If there's a mass of complaints about the job a particular individual does, then it's investigated and looked into. It may well be that we can take a more positive approach to this and try to look at the good things they're doing and try to maximize that and find out if the job description is adequate or needs some redefining.

MR. CHAIRMAN: What if I develop a written proposal and circulate it? Would you give me your comments? I'll get the background material too. I'm thinking of a small committee of three people just to work with the officers and then recommendations to the committee as a whole. I'm looking at you and looking at you and looking . . .

MR. FOX: I'm nodding because my mouth is full.

MR. CHAIRMAN: Bob, I won't ask you. You know, there's a reason for that. It probably shouldn't be you.

DR. ELLIOTT: I think the water hole has maybe been tainted a bit. It would be better this other way; you're right.

MR. CHAIRMAN: I don't think it should be me either. I think it should be three people, and I'm thinking of Stockwell, Derek, and maybe Grant, if he would do it. The three of you would work on this and then tell us. I think that would be helpful for them too. I'll write it out.

Louise, the other thing that was on the -- we've done our review of our estimates; that's done. We've approved our minutes. Now, we are going to be meeting with one or two gentlemen shortly.

MRS. EMPSON: Possibly two gentlemen.

MR. CHAIRMAN: Possibly two. We have had the book. There may be some questions. When they come in, I was proposing to ask them, one or two, to review their -- this is their second year.

MRS. EMPSON: They're going into their second year.

MR. CHAIRMAN: If they would then explain their review. There may be questions that each of us has. And thank them. I'll tell them I'm sorry I sent their cheque so late. Were there any questions that . . . Please feel free to ask any questions that you have at all. I'm not sure what to . . .

MR. DAY: Any questions on the actual audit, Mr. Chairman?

MR. CHAIRMAN: How it ties in with the whole thing; I don't know. It may be general questions that we have.

MR. DAY: Did you want the questions now?

MR. CHAIRMAN: No, unless you'd like to give us some ideas as to what you're heading with.

MR. DAY: I just had one on grants, maybe some explanation of what that involves, and travel allowances, what that involves.

MR. CHAIRMAN: I'm going to ask, I think, if there has been any management -- let's get the right word for this. Is there anyone here on our Public Accounts Committee? There's a word for those things where you give management letters or management -- you know, the auditor goes through a department and finds out there are certain things that should have been done. They write a management -- I can't think what it's called. Do you remember what that's called, Stock?

DR. ELLIOTT: What we're looking for right now is to see if there was a recommendation of some kind to us, because these people work for us and they are accountable to us. If they had a recommendation for us . . .

MR. CHAIRMAN: There's none in here.

DR. ELLIOTT: I couldn't recall it.

MR. CHAIRMAN: No. But sometimes the Auditor General himself, for example, going through his financial controls and everything, will recommend a change in procedure to ensure that the department is functioning under the

Financial Administration Act or whatever it needs to do. I didn't see anything here at all like that.

MR. DAY: As far as stating what their purpose is?

MR. CHAIRMAN: No. The Auditor General would make a copy of those management directions -- whatever they're called; I haven't got the right word for it -- available to the deputy minister. He would say, "You must improve in this area; you must make these changes or your audit will eventually show that you're not doing the right job in control." I forget what it's called: a management audit letter, I think.

MRS. EMPSON: There was such a statement as you mentioned, Mr. Stevens. I think it might have been part of the terms of engagement.

MR. CHAIRMAN: Yes, it's in the terms, but he didn't do any; at least I didn't see any.

MRS. EMPSON: Here's your memorandum of recommendations. You must have it too.

MR. CHAIRMAN: This one? Yes, that's for the coming year. Right?

MRS. EMPSON: It was part of 1986.

MR. CHAIRMAN: Then they would have done the same thing.

MRS. EMPSON: This went out to the committee members a while ago.

MR. CHAIRMAN: Yes. Do you want to share that in case you haven't got it in front of you?

There they are. Entrez. Come on in, gentlemen. We assume you're in the right room. We'd like to introduce you: John Reid and Bob Card. Louise Empson is our secretary. Everything you say will be held against you and recorded for all posterity.

DR. ELLIOTT: Where would you like these gentlemen to . . .

MR. CHAIRMAN: Where would you like to be comfortable? We're just going to have a good discussion with you. We're sitting this way.

You can sit at the end or sit beside each other, whatever.

John, first of all, I'll tell you that with the exception of Bob Elliott, I think we're all brand new on this committee. Bob was the former chairman of this committee. You're now going into your second year.

MR. REID: That's right; just going into our second.

MR. CHAIRMAN: What we're going to be asking you about is your report for the first year of your work for the committee and for the Legislature. Can you tell us a little bit about the process, the work you've done, and the report, the statement that you gave us, which dealt with -- what? -- March 31, '86. Then probably we have some questions. We have a lot to learn.

MR. REID: I'll give you some background, in that I'm a partner with the firm and so is Bob. I'm in charge of the overall audit, and I do what's called the second review on the file. Bob is in charge of the operations and the actual handling of the audit. He also does a review on the file, as well as one of our managers. So we have what's called a two-partner review on the file, which we do on all audits, which I think is quite common with most CA firms.

The procedures were basically to go in and perform an audit on the operations of the department, which we presented to you and which you have in front of you. Along with that, which is common with all audits, we do a review of internal control and issue a management letter, which you also received. We probably would like to address that in detail, if it's okay with you.

MR. CHAIRMAN: John, we were just looking for that word, and you've just given it to us: the management letter. Is it the letter of October 29?

MR. REID: I believe so.

MR. CHAIRMAN: Okay. Thank you. I apologize, because I couldn't think of what it was called. Normally, when you're going through this process then, Bob or John, would your firm send us this at the conclusion, this management letter? If you discover some

unusual practices or some things that would cause you to have some concern, would you not issue from time to time management letters directly to the Auditor General and/or his staff that these things should be done this way. I'm thinking about the way he would do it for departmental staff.

MR. REID: The procedure we usually follow is that we come in and do what's called an interim audit, which is an audit halfway through the year, where we look at the systems. We analyze the systems. At that point in time, after we've come in and reviewed the systems, we issue our management letter. Our procedure then is to outline, as we have here, some concerns we have or some changes we'd like to see implemented. We discuss that with the Auditor General, get his comments, and then issue the report directly to this committee.

That's quite common. It's a procedure that should be done with all audits. If we do come across something that's very major during our year-end audit, then we would again issue a management letter, update it, discuss it with the Auditor General, and issue it to yourselves.

MR. CHAIRMAN: Then you're not auditing the Auditor General's auditing work; you're auditing the work of that function and how it's performing internally?

MR. REID: Yes. Would you mind if we went through the management letter at this point in time? Maybe we'll have Bob go through it in detail.

MR. CARD: What we issued was called a memorandum of recommendations to the Auditor General. As part of our procedures we do an in-depth review of their internal accounting and management procedures with respect to various systems. Those systems are defined as the revenue system, the purchases and payables system, and the payroll system. Based on our discussions and analyses of the way things are undertaken and the reviews that are performed at different levels in their organization and also as a result of our testing of the results of that system and the testing of the transactions that we select, there may be other things that come to our attention that we would then include in our letter.

In our letter we effectively discussed three

of the areas: purchases, payroll, and revenue. In the purchases system they get reasonably technical. We discussed the fact that suppliers' invoices were not being reconciled to statements on a regular basis. This could, in a worst-case situation, result in double payments or excess expenditures being made. That is, the compensating controls they have obviously are their budgeting system that they maintain and their dual cheque-signing authorities and such. Our recommendation was that this reconciliation be done. At that time they had already commenced, subsequent to the year end, a situation that in fact accounted for that.

As a result of some of our testing we found addition errors in some expense reports that had been processed, based on the sample that we had selected. They weren't significant; they weren't material errors by any means but nonetheless occurred. We brought the specific items to their attention. Apparently, there was a procedure to check them that had not been undertaken, had not been done as a result of change in staff, and they indicated they would reinstruct their staff to perform that procedure.

With respect to the payroll system, they do a ...

MR. CHAIRMAN: Excuse me. Do you want to stop there for a moment, Bob?

MR. CARD: Yes.

MR. CHAIRMAN: Are there any questions from the committee on the comments, observations, recommendations on the supply or invoice problem which our audit team identified? Stock.

MR. DAY: Thanks, Mr. Chairman. Do you feel that the weakness outlined here has been corrected or is in the process of being corrected?

MR. CARD: Yes, it has been as of September when they instituted the procedure to actually do the reconciliations. That would have been handled at that point in time.

MR. REID: When we go in to do our interim audit, we will check to see, to make sure those procedures are in place. If they're not in place, we will get a report back to yourselves.

MR. CHAIRMAN: I know that when we're talking billions, it's hard to comment on something that may be minor. Yet on the other hand, it does make you wonder. I know I wondered about it. I guess we could all be making mistakes in arithmetic. The fact that there were no checks surprised me.

MR. CARD: I think the Auditor General pride themselves on their level of internal controls. I know that this letter of recommendation that we made was not taken lightly. They all paid great attention and investigated all of them. In cases where the controls weren't there, it was a surprise to some of them. Their reaction was quite immediate to implement any controls so they themselves could be the example they set for everybody else, obviously.

MR. REID: We found no large errors.

MR. CHAIRMAN: No, the procedures had to be right.

Anyone else? Go ahead.

MR. CARD: With respect to the payroll system, although an informal reconciliation of payroll to the expenditures report is performed in conjunction with the forecasting process, no record of the complete reconciliation of payroll is retained. Unauthorized expenditures or errors in the payroll system may not be detected. The recommendation was that it should be reconciled each reporting period to the expenditure report that it relates to and that this should be maintained on file. Management indicated that this had been performed in the past but was discontinued when one individual was on leave, and they agreed that the reconciliation was important and would be commenced immediately, retroactive to the point in time that it was ceased.

MR. CHAIRMAN: Any questions?

MR. CARD: Our procedures that we would implement at a time like that, when we found there were no reconciliations: we would increase the amount of testing and review we would do in order to compensate and ensure that there were no problems for that time period.

MR. REID: If we discover a weakness, then we go back and increase our testing of that area to make sure that nothing material would then occur.

MR. CHAIRMAN: I think the former Auditor General found a glaring example in the departments two or three years ago, which has since been corrected. When adjustments were made in salaries, no one was checking to see that the -- I remember at the time being involved in the personnel area. The adjustments weren't being properly reconciled or whatever, added to it. So that's a very serious thing that can happen. That's what he is supposed to do: reconcile the cheques going out to see whether they document well with the hours worked. These are management, I would assume?

MR. CARD: Effectively they get two types of reports from accounting central processing. The reports are not simple forms that simply tie from one. They get a payroll register from one as a result of the payroll. They also get their general ledger for all of the accounts for the Auditor General. The procedure was to tie the payroll, which is a separate report, into their report of their total expenditures to ensure that there was proper cross-referencing, that there were no extra amounts in the payroll register that weren't recorded in their main ledger, and likewise that none were missing. So there would still be controls over the payroll aspect of it, but if there were any discrepancies, obviously they should be followed up immediately.

MR. REID: It's just an additional check in place for exactly what you said, to make sure that no one is putting anybody on the payroll that doesn't belong.

MR. CARD: Any further questions with respect to the payroll aspect?

With respect to the revenue system, the year-end accrual of work in progress is based on a memo of advice from the audit principals, without attached documentation supporting the amount. Calculation and estimation errors may occur and remain undetected, and for the year-end audit verification of the work, it requires extra work on our part to recalculate and justify the amounts they've set up. So we simply recommended that they attach their

internal documents that relate to that work-in-progress accrual and any calculations performed by the audit principals showing how the amounts are determined. They indicated that they would ask their principals to supply that information on a yearly basis. So that's not an ongoing problem; it simply was a concern with respect to the actual preparation of the year-end financial statements and the work in progress at that single point in time.

As far as their billing procedures and their review procedures for billings and such, they're on an ongoing basis. We didn't have any problem with that, because it goes through about three or four reviews prior to being issued.

That was our letter. Any questions?

MR. CHAIRMAN: We probably have some questions, John and Bob, on the other document itself, but we'll come to that. I'm sure we did have some. You then go through this process, interim again, and you'll do your final report to us.

MR. REID: We were actually scheduled to go in and do our interim audits this week. Is it this week?

MR. CARD: The week coming up. We talked about it.

MR. REID: Last week. We delayed that mainly because we haven't had confirmation that we're reappointed as auditors, and that was one thing we were going to bring up today.

MR. CHAIRMAN: Oh, we did it. I'm sorry. I meant to apologize to you today, John, for the late payment. The invoice came in appropriately, and I hope we've got the interest rate added to it. That is my fault as chairman. I should have had a phone call around to our committee, but we didn't meet again until some time . . . I think that has come now; I hope that has come.

MR. REID: Yes.

MR. CHAIRMAN: I'm sorry. We did reconfirm and send a letter off.

MRS. EMPSON: I'm sure I sent a letter off.

MR. REID: We haven't received it, so that was one thing we wanted to bring up so that we could schedule to get in.

MR. CHAIRMAN: We did it at our January 14 meeting. A letter should have come to you. I'm sorry.

MR. REID: We will then reschedule and go in and do another procedure review. We'll issue, as I mentioned before, this management letter to you again with any suggestions that we have for the Auditor.

MR. CHAIRMAN: We hadn't talked until today. Please don't hesitate to call me if you have any questions like that or contact Louise in my absence.

MR. REID: We're actually quite pleased that we canceled. We're quite busy right now, so it was to our benefit.

I just want to re-emphasize that when we go in to do our audit, we're auditing basically the financial operations. We're not looking at audit techniques or performance within the Auditor General. While some of these do relate to changes we'd like to see implemented into their control system, basically we're looking at the numbers and verifying the numbers and reporting back on an audit report.

Maybe next we can address the financial statements and financial reports. I'll turn it over to Bob.

MR. CARD: Would you like me to go through the auditor's report? What it says and what it means, perhaps; from that point of view?

MR. CHAIRMAN: I'd appreciate that.

MR. CARD: Basically, the wording of the report goes along the lines that we have examined the statement of revenue and expenditure for the office for year ended March 31, '86, which then follows this page. Our examination was made in accordance with generally accepted auditing standards and according to such tests and other procedures as we considered necessary in the circumstances.

Basically what that implies is that the Institute of Chartered Accountants for Canada has standards, what they call their generally accepted auditing standards, that they set out

for undertaking an audit, and guidelines along the basis of what types of audit procedures and what kind of due care we must undertake in doing an audit. In order to do that, we go along the lines that John has indicated in performing an interim audit where we examine the systems. We do detailed reviews of the systems and the levels of management review of purchases and billings, et cetera, to ensure that that system is in place. Then we undertake testing of that system to ensure that everything that we have inquired about and the reviews that have been indicated to us that occur have in fact been done and there is evidence of those reviews by way of signatures, approvals, initials, and such on all of the documentation that would be present.

In our year-end audit we would go in and we would -- it's simply a follow-up from that where we would continue the testing to the year-end of those aspects. We would also look at, at the year-end, accruals for revenues that had not been billed -- work that had been done but not billed, so estimates of amounts that would be billed -- and, likewise, any amounts that are owing as at March 31 to ensure that there's a proper matching of the expenses to the time period they relate to. Also, at that point in time we'd perform any other year-end audit procedures that we felt necessary under the circumstances. We would review minutes of the Auditor General and such to ensure there is anything in those minutes that would indicate further areas that we should be investigating.

So that sentence really encompasses all the procedures that we undertake in that period of time. We have standard procedures, but we would have to change those and work with them based on the type of organization we would work with, such as the Auditor General being a nonprofit organization. We would concentrate some of our procedures in different areas because of that.

From the point in time that our staff undertake those procedures and complete all of those tests and such, then it would go in for the standard review. It would go through the three levels of review in our office, both by one of our CAs and then by the two partners, to ensure that we have properly accounted for all of the procedures and all of the testing, that we're satisfied with respect to all of the balances and recording that have taken place.

At that point in time, we're then in a position

to issue our opinion, which is the second paragraph, stating that in our opinion the financial statement presents fairly the revenue and expenditure of the office for the year ended in accordance with the disclosed basis of accounting considered appropriate in the circumstances, which effectively in this case is a situation where they expense the items on a yearly basis rather than reflecting them as assets, such as fixed assets or the computer facility they have. Whereas in a normal profit organization they would be reflected as an asset, under the government rules and guidelines they're expensed in the year they're acquired.

MR. CHAIRMAN: Bob, does the Auditor General's office, the function that you're examining -- there is some overlap with our committee and the Public Accounts Committee. The Public Accounts Committee, of course, is dealing with the Auditor General as adviser on government departments and agencies and so on. Does the office of the Auditor General follow the Financial Administration Act and other requirements that are set by government for its own functions? When you're auditing the work of the Auditor General, are you given certain legislation so you know what his obligations ... I know you're using -- could you just help me there?

MR. CARD: We reviewed any of the regulations that relate to the standard financial presentation and policies of the Auditor General as part of our procedures to ensure that they follow the guidelines and proper presentation of those financial statements and of their internal accounting.

MR. CHAIRMAN: Sometimes we are advised by the Auditor General that we should make changes in procedures or in legislation to effect, hopefully, improvements for Albertans. If you discovered that in the process of the Auditor General, then you would make recommendations to this committee? If there were changes that needed to be established, more than the management letter would intend or ... Are you satisfied that the processes they are following, besides meeting the CA requirements for audit that you mentioned, John, are for the best of all Albertans in the office of the Auditor General? Are there things

we need to know that -- you'd let this committee know?

MR. CARD: That's right.

MR. REID: That's all being investigated. That involves a whole bunch of people, the CICA, the Canadian Institute of Chartered Accountants, who would be looking at these procedures on an ongoing basis and, in fact, I think have research committees that are looking at the procedures being followed in government and reporting requirements. That would be involved, and certainly if we came across -- if there were recommendations made suggesting dramatic changes or if we came across them, we would bring those up. But generally speaking, it's pretty well set from the Canadian institute as far as standards of reporting requirements that are generally applied right across Canada. Certainly, the institute in itself has looked at a lot of changes and recommendations, and I think that's where maybe some of these ideas are coming out from the Auditor General. He's sort of relating them back and saying, "These are the changes that have been recommended." I think what might be a good idea is if we could get you on that mailing list, and as the research committees come out, maybe we could provide some comment as far as we feel on that.

MR. CHAIRMAN: May I suggest that all of us get so much mail that if you get something you think we should have, that might be better. Is that fair enough, colleagues? It might be better that you tell us what we really need to know rather than -- we get so much mail.

MR. REID: I know how you feel. We get a lot, too, but probably nowhere near what you get.

I think right now there is a research committee headed up by Mr. Dye -- is he still?

MR. CARD: I think so.

MR. REID: I think so -- that is looking into an important part. So we'll take a look at that and keep you informed.

DR. ELLIOTT: Would you just give us some clarification on the discussion you just had there. I didn't quite follow how far your discussion was going with respect to the audit as to the office of the Auditor General. Then

did I understand you to say that our auditors here would take a look at the Auditor General's procedure with respect to the way he does his work in other areas?

MR. CHAIRMAN: No, and I'm glad you raised that. I didn't mean to suggest that, because we have the other committee. I only meant if there are things in the Auditor General's office and the way it's administered as an Auditor General's office that we need to know that are unlike what the Auditor General and the government generally apply to all departments, that's all. Am I making -- Bob, are you okay?

DR. ELLIOTT: That's fine, thank you.

MR. CHAIRMAN: I didn't want to get our committee working in their area.

DR. ELLIOTT: Probably they wouldn't do it anyway.

MR. CHAIRMAN: I've just been curious myself. Who watches the cat? I perceive you are. So are the procedures that are in place appropriate for an office of an Auditor General as compared to procedures . . .

MR. REID: I should mention that Alberta is recognized as one of the leaders in the country along with Ontario. They are very instrumental in changes and bringing up new ideas. They have a very good reputation.

MR. CHAIRMAN: That's good to know.

MR. REID: Are there any other questions on our report?

MR. CHAIRMAN: Do you want the detailed questions, or do you want to just take us through?

MR. REID: We'll do the numbers at the next meeting.

MR. CHAIRMAN: Maybe you could explain briefly as you go through, Bob -- some of us don't have the numbers in front of us, so we might be sharing -- what audit fees and agents' fees are so that we have a good understanding of them, because there are some questions that some members might not ask if they know what

they mean.

MR. CARD: Fair enough. The statement of revenues and expenditures, as I've sort of indicated, is not necessarily based on strictly a cash basis. It's reflected on matching the revenues and the work that's been performed in that time period to the expenditures -- revenues and expenditures being matched.

Audit fees of \$515,000. Effectively, a number of audits they perform obviously are not billed or charged through to those organizations. I believe that in the annual report there is a list of organizations that they audit. Of those, I would say that the majority are the type where no fee is billed, and it's effectively part of their requirements to audit them. But there are a number of organizations that they do carry through with and bill. I was trying to think of some examples. I could dig some out, but offhand I can't think of any in particular.

MR. CHAIRMAN: It is in that report we get every year.

MR. CARD: Yes. I think AGT is one example of where actual billing does go through.

MR. REID: So they act just like we would in billing a client. They collect the fee, and it's paid to them.

MR. CHAIRMAN: So if they're not included on the list and therefore not billed, that's part of the normal cost of government, to provide an audit to the people of Alberta?

MR. REID: That's correct.

MR. CHAIRMAN: That's what I was wondering. What would happen if all of that was done like our payroll and benefits and, in fact, the departments were charged for their share of the audit? Would these numbers disappear?

MR. REID: There would simply be a reallocation of expenditures within the government function.

MR. CHAIRMAN: But do these expenditures reflect, in fact, the degree of intensity that one must have as an Auditor General from time to time in certain areas? If you have a

department in trouble, you have to have more effort made. Would that be a more appropriate way of showing in the final reports of the province this department's costs or this dollar plus this much for its failure to pay its bills on time -- thinking about this committee. We do reflect that now, though; we show extra costs for failures to perform well. Is it fair to say that an audit fee is based on the intensity of the department and its difficulties or just on the fact that it's a very busy department?

MR. REID: Well, it is a very busy department. They have different intensities as they go in to audit different departments. It certainly would give you a better reflection as to where the money is being spent and who it is. I think they review their budget with you, and at that point in time they'll show you where they're going. I think they allocate a certain amount of time to go in to do special reviews and audits at the request of the Legislature. So it would give you a better idea of where the time is being spent and what departments are doing better, but I think you can still get that in his report to yourselves.

MR. FOX: If I understand you correctly, Greg, are you suggesting that when the AG does an audit of a particular government department, perhaps the fee for that audit should be charged against the department's budget rather than the AG's budget?

MR. CHAIRMAN: That's what I was thinking about.

MR. FOX: Would you have a comment on that, Mr. Reid?

MR. REID: I think it would give you a better idea of how they're recovering their costs. It would be very similar to us. If we charge you \$10,000 and next year come back and say, "We're going to charge you \$20,000 this year because we ran into some problems and we have to spend extra time," then that's an automatic reporting back to your committee. It would be the same as for you. They would have to justify to the departments why they're charging more, and it may cause better reporting and a more efficient process.

MR. FOX: But beyond individual government

departments there are a number of agencies that the AG audits from which no recovery could reasonably be expected. There are charitable organizations and things.

MR. CHAIRMAN: Not many.

MR. REID: It's mostly just the individual departments. The ones they charge are companies like AGT.

MR. CHAIRMAN: ADC or things like that.

MR. FOX: I'll check my list. I thought there were a number of them.

MR. CHAIRMAN: I didn't think we did, but maybe we do. I don't think we do any nonprofit, Bob, unless they're government.

MR. REID: Unless they're government operated, there is no . . .

MR. FOX: Yes, like the RPW Foundation or the Alberta Sports Council, things like that.

MR. CHAIRMAN: Yes, I thought you meant something else.

MR. FOX: No. Agencies of government, but you couldn't reasonably expect that a fee could be collected from them.

MR. CHAIRMAN: Does anyone ever do that with an Auditor General? The city of Edmonton?

MR. REID: The city of Edmonton doesn't.

MR. CHAIRMAN: Same as us.

MR. REID: Same as you. I don't there is any other reporting. I'm not sure about Ontario or the others.

MR. CHAIRMAN: It would cost a hell of a lot to do, wouldn't it? We'd have to have another group set up.

MR. REID: There would definitely be some costs of administrating it, because you have to have reporting. I'll be honest with you. It's going to create difficulties with your departments, because all of a sudden they're

going to — you know, it will create some difficulty with the Auditor General, because he will be having a fee just like us and have to collect it and justify it.

MR. CHAIRMAN: I'm not for doing that.

MR. REID: It could cause some problems. There's no doubt about it; he's in a sticky situation, because you're bringing up . . . The unfortunate part of being an auditor is that you don't look for what's right; you look for what's wrong. A big part of their audit, even more so than ours, is to go in and look at departments what they are doing wrong. Then to come back and say, "We're going to charge you this for what we just did," would maybe just compound the problem.

MR. FOX: So that's perhaps not conducive to the kind of atmosphere within which you need to work out your problems.

MR. REID: Yes. That's a tough atmosphere to work in. When you go in on that basis, I think you'd be compounding the problem.

MR. CHAIRMAN: Better to have everybody know there is an Auditor General and just do the job right.

MR. REID: I think he's worked hard at trying to build relationships with the departments. That's from a realistic standpoint. From a pure accounting point it would be great, but realistically I don't know if would be feasible at this point.

MR. CHAIRMAN: What's "miscellaneous"? How does he make money?

MR. CARD: I wish I had one person looking into the files at this point in time. I'll have to comment later.

MR. CHAIRMAN: Oh, don't even worry about it. It's so small. But there are miscellaneous revenues, obviously, of some sort.

MR. CARD: There are.

MR. CHAIRMAN: They grew rapidly, and I wonder if we could keep them growing rapidly.

DR. ELLIOTT: They didn't grow as rapidly as the expenditures, though.

MR. CARD: I'll carry on, and we'll see what kind of information we have on them.

MR. CHAIRMAN: Salaries we understand, I'm sure.

MR. CARD: Salaries, wages, and benefits: no problem.

Agents' fees. Basically, the Auditor General has a limitation on the number of people in their department. Obviously, for any work in excess of what they are able to handle, they go through agents to undertake the audits for particular other departments. One example would be AGT, where they hire one of the other CA firms in town to undertake certain of the audit procedures or the whole audit.

MR. CHAIRMAN: He explained at one of the meetings, and I think he's going to come in with some kind of a list. We were asking some questions about that, so I'm sure he will.

MR. REID: I can tell you what's in miscellaneous.

MR. CHAIRMAN: What's in miscellaneous?

MR. REID: What happens is that because the Auditor General provides articling positions, and under our requirements you're supposed to provide so many hours in taxation, he approaches a lot of the firms that are contracted to do work for them and asks if they will take on students and give them some tax experience in the market in the months of March and April. Under the agreement they will pay for the student's salary. However, some of the CA firms reimburse them for their time and effort. That's the majority of what that money is. The rest are just minor witness fees and things like that.

MR. CHAIRMAN: Thank you. Sorry, Stock. You had a question.

MR. DAY: That process of agents' fees, is that tendered out, Mr. Chairman?

MR. CHAIRMAN: I'm sorry. I don't think so. He has a list of firms, and I think he tries to —

he was here one week -- use the list very carefully, between cities and so on. But it's not a tender process; it's a selection process. Bob, you may remember more.

DR. ELLIOTT: Some of the questions would make interesting questions to take to our Auditor General, Mr. Chairman. It would be a good place to have them surface.

MR. CHAIRMAN: I think that's a good question today. We had a brief discussion about it, and we need to discuss it more.

MR. REID: I don't believe any of them are tendered. He reviews them and reviews their budgets in detail and discusses their fees.

MR. DAY: Again, Mr. Chairman, from a professional billing point of view, how much variance is there between CA firms in their charges? Have you got a schedule of fees that you work on as a CA firm, or can it vary?

MR. REID: Each firm has a different schedule of fees but, generally speaking, I think they're all pretty well the same. We're in a competitive market, and to be competitive, you have to have reasonable fees. I think the Auditor General also lives in a budget situation. He's also under constraints to make sure that he gets the best fee out of the CA firm. If they go way over budget in charge, then he has to come to you and ask for the extra funds. So I think they're very competitive.

MR. CHAIRMAN: So it's fairly tight.

MR. REID: Just for your own interest, we cannot bid on any of those contracts. We cannot do any of that work; we have to remain independent.

DR. ELLIOTT: That was the question I was going to ask. That's only while you're holding this contract?

MR. REID: That's right.

MR. CHAIRMAN: Travel expenses. Where does he go?

MR. CARD: Alberta.

MR. CHAIRMAN: That's, in other words, automobile, PWA, whatever?

MR. CARD: That's correct. They do significant work throughout each of the main cities in Alberta, obviously, and a fair bit of work in Calgary also.

DR. ELLIOTT: Fort McMurray to Brooks.

MR. CHAIRMAN: Fort McMurray?

MR. DAY: This would be his staff traveling costs as they go to the place of audit?

MR. CARD: That's correct.

MR. CHAIRMAN: You assessed those claims. You found some errors in arithmetic and so on and procedures, but I assume that you're satisfied with the procedures by which they either approve the travel and then submit their claims and make their payments. That's part of the process you have reviewed?

MR. CARD: That's correct. Also included in there would be certain trips they would make on a convention basis across Canada. There are a number of meetings and such that they attend. That would also be included in that.

Data processing services. Obviously, they have a very expensive computer system over there, and the cost of maintaining that, from both an equipment hardware point of view and software and maintenance, is included in data processing.

MR. CHAIRMAN: It's gone down. Is that the rental reduction or a change of system?

MR. CARD: I believe part of it is that they've increased the amount of actual equipment they have, which has reduced their other costs in other areas, external use.

MR. REID: I believe that in 1985 and years prior they were building up their program, and that's one reason their expenses were higher.

MR. FOX: Like you said, anything purchased is expense in total in that year that it's acquired. It's not an asset.

MR. REID: That's correct. They come here, I

believe, for budget approval equipment requirements.

MR. CARD: Which is reflected in the next item, being equipment purchases of \$175,000. In a profit organization those would be capitalized as an asset of the organization, whereas under the government policy they're expensed.

Repairs and maintenance of \$98,000 also mainly directly relates to computer facilities and the office facilities that they maintain.

The materials and supplies portion also partly relates to the computer but mainly relates to simply paper, office materials, and office supplies that they require and use throughout the year. That would potentially also involve any desks, et cetera, that would be considered to fall into that classification.

Grants of the -- are there any examples? Rentals of equipment is a small amount and relates partly to computer processing and any other equipment such as photocopiers, typewriters, et cetera, that they would maintain on a lease or rental basis.

Miscellaneous: we should have a bit of a breakdown on that too.

MR. REID: I've just found a breakdown of the fees that they charge. The two largest ones are AGT, whom they charge \$150,000 in fees. The Treasury Branches they charge \$95,000 in fees, and the liquor board is \$27,000 in fees. Then there's a list of 20 organizations where they charge fees, which includes irrigation districts, a large insurance fund, and some others.

Are there any specific questions on the numbers that anyone has?

MR. CHAIRMAN: Stock, you had one.

MR. DAY: Yes. Thanks, Mr. Chairman. Getting back to the travel expenses, it looks like it's up about 15 percent. Does that reflect more travel to clients, or can you tell without having to dig too deeply in that thick sheaf of papers there? Is that more extraprovincial travel?

MR. REID: I think it's more just increased costs of going to different [inaudible]. You know, every year it will vary depending on what department they're looking at. One year they may have more ...

MR. DAY: That's right. They don't hit the same departments each time, do they?

MR. REID: Not in the same intensity. Bob's got the file, but I believe they were below budget in travel.

MR. CHAIRMAN: I think, if this helps, Stock, just grabbing this year's estimates -- we don't have the '86 estimate or actuals as you have prepared them here with these figures. But for '87-88, for example, the coming year, he's estimating \$257,500. Compare that to last year's estimate, \$247,000. So he went down from the \$262,000 you discovered to a \$247,000 estimate. That's all I've got. It looks like he's not predicting a large -- in fact, he's predicting a decrease in their travel to do the job, from these figures. But then I don't know if this has everything in it. Like where would you find moving costs and courses in development and staff recruiting and that sort of thing? Would that be in your travel expenses? It might be. It's hard to take this package and put it with this one.

MR. REID: I think that's in materials and supplies, the recruiting and -- the majority of the recruiting time is payroll time, wages.

MR. CHAIRMAN: As Stockwell said, you haven't discovered anything unusual.

MR. REID: No. For example, in recruiting they would send people out there, but the travel -- I believe they recruit in Saskatoon and Regina now. That would be in your travel expenses. So things like that are spread out all over. Professional development, I believe, is in materials and supplies.

MR. DAY: The other question, Mr. Chairman, was on grants. Who are the grants given to? Are those scholarship grants, or what exactly is that?

MR. CHAIRMAN: For the institute itself?

MR. REID: The institute fees are paid, again, through office supplies. I can dig up the grants and let you know exactly who's [inaudible].

MR. CHAIRMAN: I'm just checking to see if we've approved any more.

MR. REID: We don't have a breakdown, but a large portion of that is for nonprofit organizations like the foundations and things like that. We don't have a breakdown with us.

MR. CHAIRMAN: We don't have it in the budget either for the coming year. It must be somewhere in there. It would be interesting...

MR. REID: I can get you that.

MR. CHAIRMAN: Could you drop us a note? I think that would be useful. We could ask that today too, I think.

MR. REID: I apologize that we didn't bring that information along.

MR. CHAIRMAN: I don't see it leaping out at us in the budget estimates either. Obviously, there's a reason for them. It would be nice to know.

MR. REID: If you like, I could phone and get that information.

MR. CHAIRMAN: No. We've raised it with you, and you could let us know next time. We can raise that today. Are there any other questions?

MR. FOX: Mr. Chairman, Mr. Reid, you mentioned that because you are the auditing body of the AG's office, you don't receive contracts from them to do other audits. I understand that that's necessary to avoid any sort of conflict-of-interest thing, but is your firm being denied what would normally be your fair share of government work? How does it work out in terms of your now having this contract?

MR. REID: Because we're the auditors of the Auditor General, we can't do any work; otherwise, we wouldn't appear independent.

MR. FOX: I think that's healthy. I'm just wondering if that's punitive in terms of what you would normally expect of your share of government business.

MR. REID: We would hope that if we're not reappointed at some point in time, we would get some work out of them. I think we're quite

happy with our position now. The former auditors, who were Sax Zimmel Stewart, I believe, were auditors for seven or eight years. After their appointment I believe they were doing some work for the Auditor General. So in a way it's punitive, but we're quite pleased with our decision.

MR. FOX: You'd let us know if that ever became a problem.

MR. REID: Yes. We're enjoying working with them, and it's a good audit for us to have.

MR. CHAIRMAN: We will pass on to him the remarks you mentioned today just in your comments about the leadership role that the Alberta Auditor General's and the Ontario Auditor General's systems have in Canada. Thank you.

MR. CARD: If I may comment with respect to the grants and just give you a little bit of history. I don't know how familiar you are with it. It's called, the large part of it, the Canadian Comprehensive Auditing Foundation, which was established in 1980 with objectives to promote and co-ordinate methodology, development, and training in comprehensive auditing. The usefulness of the work of the foundation has been examined and a decision made that it is to the advantage of this office to continue as a sustaining member of the foundation. An estimate of \$54,000 has been provided as a contribution towards their share of operating the foundation, and an additional amount of \$5,000 has been provided to assist in the advancement of accounting education and research and development. The grant is paid to the Accounting Education Foundation of Alberta, which has been established to improve accounting education in the province of Alberta.

MR. CHAIRMAN: We may ask about that today, Stock, to see how many other provinces have committed themselves and so on.

MR. DAY: I remember that being discussed, now that I come to think of it, and I think Alberta raised a pretty significant portion of that.

MR. REID: Every CA in Alberta for the last

three years has donated \$50 to that foundation. The idea is that they set up an accounting foundation which funds accounting positions, doctorates, at the University of Alberta, the University of Calgary, and the University of Lethbridge. I think it's been a very successful program in the sense that we've been able to attract some very well-known accounting people into the . . .

MR. CHAIRMAN: Any other questions?

DR. ELLIOTT: One more. I go back to the comment that Mr. Fox was on about, that you're doing this work now and therefore you can't do other work for the Auditor General. You also made reference that the people who had this assignment before you were there for seven years. Do you have a feel for how long is long enough and how long is too long to be on this assignment? Either from the standpoint of your office — I know it takes time to get a system going and get a rapport established with the Auditor General and so on. We are of the opinion here, obviously, that there is a time when we should change. How is that looked upon in your profession?

MR. REID: No one likes change, because, as you said, Bob, you gear up, get organized, and get it running efficiently, and that's when we get our best recoveries. Some organizations — we're also the auditor of the Institute of Chartered Accountants of Alberta, and they had a policy of changing every three years. They've now gone to five, and they're now considering not changing at all. Most organizations have a five-year term. In this situation some of my partners would like to see a three-year term, because we'd like to do some of the Auditor General's work. But to be totally truthful, I think a five-year is the minimum that you would want.

MR. CHAIRMAN: Just adding to Bob's question, if that were something that were to be considered by the committee, is a reasonable notice of about a year appropriate?

MR. REID: I think so.

MR. CHAIRMAN: For all parties concerned?

MR. REID: Yes. I think a five-year is — you

can gear up, get going, and get some efficiencies involved. The transfer between CA firms and the types of firms that you're going to be considering to do the audit is very good, and the co-operation is excellent.

MR. FOX: So in the context of this year we've just recently, at our last meeting, agreed to reappoint you. Had we not agreed, that wouldn't have been enough notice for you, would it? You would have been halfway through this . . .

MR. REID: Actually, we had planned to go in a week ago. I'm not sure of the exact date. If we'd gone in and you hadn't appointed us, we would have been up the creek as far as we would have spent [inaudible] and been unable to bill it. Actually, the Auditor General phoned to tell us that we hadn't been reappointed and he thought we should delay just to protect ourselves.

MR. CHAIRMAN: He phoned to say you hadn't been.

MR. REID: This was back in January.

MR. CHAIRMAN: Oh, yes.

MR. REID: Before your meeting.

MR. CHAIRMAN: Oh, well, he was quite right. Please don't hesitate, though, ever to call me, or in my absence the secretary to track one of us down — Stockwell is the vice-chairman — if something is happening, because we are traveling a lot.

MR. REID: To answer your question directly, Bob, I think a five-year is the minimum [inaudible].

DR. ELLIOTT: Thank you.

MR. CHAIRMAN: There are no further questions. John and Bob, thank you for coming today and for explaining a very important aspect of your work for our committee and the people down here. Thank you.

MR. REID: Thank you. If there are any specific questions, if anyone would like to call either myself or Bob, please feel free to do so.

Thank you.

MR. CHAIRMAN: If there's no other business, I think I'll call for a motion for adjournment and we will meet over — I'll give the address again. We'll go and visit the Auditor General. We're at the same building the Mirabelle Restaurant is in, and we're on the eighth floor.

Louise, you're not able to come and join us, because you're with Members' Services. And you don't have to bother, do you, unless you want to come and join us.

MR. CARD: Just for your own interest, did they tell you there's parking down below? They have the spots marked if you want them.

MR. CHAIRMAN: But they didn't tell us, and I was going to walk over.

MRS. EMPSON: No. Actually, she offered parking spaces last Friday, and I thought you'd like to walk.

MR. CHAIRMAN: Being useful. We can all walk. Thank you. But they've got them marked for visitors, though, if anybody ever . . .

MR. REID: Bob knows where they are.

MR. CHAIRMAN: Oh, you know where they are. They're not normally marked.

MR. CARD: They're not normally marked, no.

MR. REID: That's the hammer they hold over us. If our report's bad, they don't tell us where the parking spaces are.

MR. CHAIRMAN: Thank you, Bob and John. Please check and let me know if the cheque didn't come.

MR. CHAIRMAN: Should we do this too? Let's assume and mark it all down as March 2 at 1:30, but we'll confirm that. If you just mark it down, then we'll give you a quick call if it just can't be arranged, so you've got the free afternoon or something. But if you just mark it down, we'll work to get that. Right, Louise?

MRS. EMPSON: Yes.

MR. CHAIRMAN: And you won't be able to be

there. Okay, we'll walk over and we'll be there — what? It's 1:20; tell them we'll all be there by a quarter to 2. How's that?

HON. MEMBERS: Agreed.

[The committee adjourned at 1:20 p.m.]

