

9:05 a.m.

[Mr. Langevin in the chair]

THE CHAIRMAN: Well, I'll call the meeting to order. It's past 9, and at 9:30 we have a meeting with our Auditor General, who is coming in with a revised budget.

MRS. O'NEILL: Do we have a quorum?

MRS. SHUMYLA: It's one-third of the committee; there are nine members.

THE CHAIRMAN: Yes. I used to think a quorum was half less one member. But we checked that out, and it's one-third of the committee. The committee is nine and we are five, so we're well within the rules.

Now, the first thing on the agenda this morning is the report from the search committee for the Ombudsman. Diane has with her the report.

MRS. SHUMYLA: Yeah. Everyone should have a copy.

THE CHAIRMAN: You've made the distribution already?

MRS. SHUMYLA: Yes.

THE CHAIRMAN: Thank you very much.

I don't know if you had a chance to browse through this. The report states the whole search for the Ombudsman from when we started to advertise, how many applications were received, how we shortlisted and the final interviews, and the recommendation that we reached in committee yesterday. We made a motion. The motion that was made yesterday by Mary O'Neill, a member of the search committee, read:

The Select Special Ombudsman Search Committee recommends to the Legislative Assembly that Mr. Gerrald Gwynn Scott Sutton be appointed as the Ombudsman of Alberta for a five-year term commencing April 1, 1998, with a salary in the range equivalent to salary range C of schedule 2 of the senior officials salary schedule OC 188/97.

We got the proper wording from our legal counsel on how to handle these appointments. We reviewed that in committee and found the wording acceptable, and the member made the motion.

To give you more insight on the appointment, we negotiated a salary of \$84,000, and the candidate is accepting the benefit package as per the regular package that we have. He hasn't requested any change in the package except that he is not taking the pension but taking the 9 percent instead of the pension. That's the same cost to government; we either pay it to the pension or pay it to the employee.

The other issue, the car issue, hasn't been resolved. These employees are eligible for an automobile or \$3,000 a year in lieu of supplying a car; they have to use their own vehicle. So he will be deciding that. He wanted to talk to his accountant to see what was best for him in his situation. The rest of the package is exactly like the one we offer, the standard package, you know, the dental, the medical, and all the rest of the package.

I don't know if there's any more discussion. Are we ready for a motion that we as the standing committee accept the recommendation made by the select special committee?

MR. SAPERS: Well, I have had a chance, obviously, to take a look

at the report just now, but I don't see anything in the report about my request from that committee that this committee take a look at the salary scales of all of the legislative officers and particularly the ranges that we're dealing with when we were . . .

THE CHAIRMAN: I remember you mentioning that. It's not a duty of the select committee but a duty of this standing committee to review the salary range of all of our officers, if we wish to do it. I did indicate at the last meeting, when you brought that up, that we should put that on our agenda for the next meeting. Today is really a special meeting for the AG's budget. But we should deal with that as soon as we can, and maybe early in the next year when we have a meeting, we should put that on the agenda.

MR. SAPERS: All right. I just thought that because it arose during discussion when the special select committee was meeting, it could make up part of the report.

THE CHAIRMAN: It could have. We don't have the power to recommend a review as a select committee, but we could have made a suggestion. We can take your comment as an indication to this committee that we proceed with a review.

MR. SAPERS: All right.

I do have one question about the process. I just want to make sure that my understanding of the legislation is correct. I'm looking at section 7(4), which talks about an appointment needing to be "confirmed within 30 days after the commencement of the next ensuing regular session." The appointment, I guess, is made the day that the offer is made and accepted.

THE CHAIRMAN: That's what I understand.

MR. SAPERS: So this would have to be ratified by the Assembly within 30 days after the beginning of session on the 27th of January.

THE CHAIRMAN: That's right.

MR. SAPERS: Am I correct, then, in assuming that if we had made the appointment prior to our special sitting that we just concluded, the appointment would have had to have been ratified during that session?

THE CHAIRMAN: I don't know. I did discuss that with some people, and we're not exactly sure because it was a special session, where they kind of waived Standing Orders. They agreed among all parties what would be handled in that session, and it was restricted to the unity issue discussion. From what I hear from our legal counsel, it would not have fallen under that session because of that fact, because we voted when we opened the session and said what we would handle during that session. There would be question period and the unity issue, and that was it, period. So it's a gray area, but it's an unusual area. Very seldom do we have special, designated sessions like that in this province.

MRS. O'NEILL: Why the question though, Howard?

MR. SAPERS: I just want to make sure that there's nothing that is going to run afoul of the process now. My reading of the legislation is that because the appointment has been made subsequent to the closing of the unity debate, we're well within the rules as set out in section 7(4).

THE CHAIRMAN: Yes. The appointment is only official when the

Lieutenant Governor signs the contract, and that will be in a day or two, depending on when he's available. So there's enough distance; it doesn't happen on the same day or so close that it could be a gray area. Next session, definitely within 30 days, the Legislature will have to deal with this issue.

MR. FRIEDEL: Is the fact that the special session is already over and that this committee is only making its recommendation presumably today cause for concern? I would assume it's not really relevant because we're past that session. Or is there something that you have in mind, Howard, that you raise this as a concern?

MR. SAPERS: No. As I say, I just wanted to make sure that it wasn't going to be an issue, Gary.

THE CHAIRMAN: I can't see that there'd be any issue.

9:15

MR. FRIEDEL: When is it expected that he would actually officially start his duties?

THE CHAIRMAN: April 1. He has asked for three months to close all his files. He has a position there and is responsible for a lot of stuff, and he can't do it in short order. He wanted to do a decent job and make sure he walks out of there with everything cleaned up.

MR. FRIEDEL: He's still with the Lieutenant Governor's office, from what I read here?

THE CHAIRMAN: No. He is the inspector in Red Deer.

MR. FRIEDEL: So his association with the Lieutenant Governor was prior to this. He's back with the RCMP right now.

THE CHAIRMAN: He's with the RCMP. He's the inspector in the Red Deer detachment.

I did have a meeting with Mr. Brian Carver to inform him we had a candidate but that the candidate would start April 1, and he said that he would continue to act, that it was no problem. He would give it the same dedication in the next three months that he has in the last nine months. He says not to worry about that.

MR. JACQUES: It says in here: the chief of police for Red Deer. Do they have their own?

MR. SAPERS: No. He was the head of the detachment.

MRS. O'NEILL: It is a strange way of putting it. In St. Albert we don't even refer to them as the police for St. Albert. Is this his writing?

THE CHAIRMAN: Well, it's mainly his draft.

MRS. SHUMYLA: Yes.

MR. FRIEDEL: Well, is there a motion on the table?

THE CHAIRMAN: No.

MRS. O'NEILL: I'll make the motion. I'll read it. I move that based on the recommendation of the Select Special Ombudsman Search Committee, the Standing Committee on Legislative Offices recommend to the Lieutenant Governor in Council that Mr. Gerald Gwynn Scott Sutton be appointed as Ombudsman for the province of Alberta for a five-year term commencing April 1, 1998.

THE CHAIRMAN: Thank you very much. Do we have any discussion on the motion? If not, those in favour of the motion?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Opposed? The motion is carried. Thank you very much.

Now, at 9:30 we're scheduled to start with the Auditor General's presentation of his budget.

MRS. SHUMYLA: They are there now. I said we'd have a short break and they could come in and get settled.

THE CHAIRMAN: Okay. We can take five or 10 minutes. Wayne, you have to move on?

MR. JACQUES: Yeah. I've got to go to my next meeting.

THE CHAIRMAN: Thank you for coming.

MR. JACQUES: You're welcome.

THE CHAIRMAN: Okay. We'll adjourn for 10 minutes.

[The committee adjourned from 9:18 a.m. to 9:32 a.m.]

THE CHAIRMAN: Okay. We'll get back to our agenda from our 10-minute recess here. We have this morning Mr. Peter Valentine, the Auditor General, and his staff to give us an update on their budget presentation.

I think without any further discussion, Mr. Valentine, if you'd like to just proceed with your presentation.

MR. VALENTINE: Thank you, Mr. Chairman. For the record, on my left is Merwan Saher, Assistant Auditor General, and on my right is Kelly Aldridge, who is our chief operating officer. Nick Shandro and Jim Hug are away on client involvement that they were not able to change for this meeting.

I would just like to make some opening remarks. Through the medium of *Hansard* and from discussions with your chairman, the committee has conveyed certain concerns with respect to the budget presentation that was made to you on December 2, and you have requested that we appear here today to respond to those concerns. Since I met with you on December 2, I've lost two people; I saved one loss. The one loss I saved was a salary increment of 15 percent, and the offer was from an entity that's in the broader public sector, still within the government of Alberta. The most senior loss is a senior principal in Calgary who is responsible for managing the office. She has left for a 21 percent increase, from \$58,000 to \$70,000, and I'm not sure that I have a replacement to run the Calgary office. In addition to that, in the few days since I met with you – I guess it's 14 – I've had two substantial requests for participation in significant senior work in the health care sector.

While we have concluded that in the circumstances we'll be able to defer certain expenditures until 1999-2000, we continue to strongly believe that our original budget is appropriate and reflects the work that's required to fill our mandate. In doing so, we believe you should be aware of the fact that with this deferral we have a very tight budget, and if we're requested to perform additional work, as we have been in each year in the past several years – and I'm talking about substantive work – we'll have to return to the committee and seek the necessary funding.

The smaller you have tried to make government, the larger you have made its reach, and therein lies the root of the challenge with accountability. At the time of the restructuring of government,

accountability mechanisms were not well developed, nor were they recognized by all stakeholders. To take into account this change in the way of doing business and at the same time accomplish the requisite balance of authorities and responsibilities requires considerable work. Neither was a measurement system in place to recognize performance and to achieve the public interest level of accountability. CKUA is an excellent example of this situation.

Our budget for 1998-99 recognizes these circumstances and provides for an appropriate level of work by my office in order to provide you, the Public Accounts Committee, and the Legislative Assembly with quality information, proper reporting on systems, and to permit me to fulfill my legislative and professional mandate. In providing for the deferral of some expenditures until the 1999-2000 budget year, we have done four things. One, we concluded that we can recover certain increased fees from our clients. Two, we've reduced the increase in the 1998-99 budget over the 1997-98 forecast to 25 percent. We've deferred the acquisition of three permanent staff until 1999-2000, for a postponement of \$186,000, including benefits. We've deferred a portion of the implementation of the proposed new management pay plan until 1999-2000, for a postponement of \$276,000 including benefits.

In particular, let me address the issue of the management pay plan. First, we understand that the personnel administration office under the guidance of the Public Service Commission is working on a new management pay plan. We have a very elementary understanding of that plan. Using that understanding, which is the very best information available to us at this time, we have prepared an estimate of how this will impact our office. As we receive more details, our estimate will become more precise.

I would point out to you, however, that the impact of the plan revision is much more visible in our circumstances, where nearly half of our payroll is for the management group, compared to approximately 10 percent for most large departments. The result is that such changes impact our budget much more significantly, the amounts are much more visible, and we have far less flexibility. As I indicated to you earlier in these remarks, the deferral of \$276,000 relating to this item recognizes that the implementation of the new plan can be achieved over a two-year period. The gross budget is now \$12,319,000 and the net budget is \$10,374,000, compared to \$12,811,000 and \$11,103,000 respectively. I'm going to hand out some support for that for you in a minute.

Finally, there were a number of questions presented to us at our last meeting that warranted written, specific answers. I will now hand out those answers, and Merwan is going to lead you through them. Following that, perhaps we can address the budget deferral and any other issues or concerns that you might have. Before we conclude today, I hope that you'll be able to, in addition to satisfying yourself about the 1998-99 budget, also conclude on the matter of the supplementary estimate of \$350,000 for the current year and deal with an order to appoint us as the auditor of college foundations. In respect of this item, we have a letter of explanation addressed to your chair, which we can also discuss.

So at this point, Merwan, I'm going to hand out some material. The top page is a revision of the budget and an analysis of the budget increase and how we've done the deferrals. That relates to the primary document that was handed out to you in anticipation of the meeting on December 2.

MR. SAHER: Mr. Chairman, with your concurrence what I'd like to do is take the committee members through this package of material that we've just handed out.

THE CHAIRMAN: Yes.

MR. SAHER: What I'll do is start on the first page. As Peter has

said, this sets out – in effect, what we're trying to do here is explain to you the difference between the budget presentation we made on December 2 and some changes that we've been able to put through and bring to your attention today.

In the first column, if you take your eye down to the amount of \$2,964,000, about three-quarters of the way down the page, that was the increase that we proposed when we came to this committee on December 2, the increase over our current forecast. We pointed out to you then that that was an increase over the current forecast of 30 percent. With this revision, if you take your eye across the page, you'll see a revised budget increase of \$2,472,000. That increase which we're proposing represents a 25 percent increase. Now, you will ask: how have we managed to do that? The answer is in that central column, which says deferral to 1999-2000, an amount of \$492,000. We think we can defer those expenses forward into that year. Shortly I'll take you through each of those amounts. They are discussed in the supporting pages.

I draw your attention to the bottom of the page, where the budget is shown on a net basis. In the first column you'll see the original budget on a net basis when we were here on December 2: \$11,103,000. With the changes that we are about to explain to you in further detail, our net budget would be \$10,374,000. That reduction is achieved by a decrease of expenses postponed into the future and also an increase in the amount of audit fee revenue that we think we're going to be able to collect. So that change is an amount of \$729,000.

With your permission, unless you have a question, at this point what I'd like to do is move forward.

9:42

MR. SAPERS: Actually, I do have one question. When you say deferral, am I assuming, then, that this package is really now a budget request over two years, that you are asking us to consider the total amount that was originally requested, only spread over '98-99 and then '99-2000?

MR. SAHER: Essentially, the \$492,000 you see on that page we have shifted into the 1999-2000 year. It's just physically been moved forward and deferred.

MR. SAPERS: But would your expectation be that if we approve this revised request, we are in fact also approving the first \$492,000 of your 1999-2000 year budget?

MR. SAHER: In effect, yes, but I would hesitate to say that you would be approving the next budget in total. I think essentially we're signaling that that amount we do see as a deferral and not a cancellation. In effect, the amount has increased the subsequent estimate that you would have looked at at the last meeting.

In fact, if we turn the page, Mr. Sapers, you will see – not that I want to get into this detail now but just for clarification – that \$492,000 has moved into the column headed 1999-2000 estimate.

MR. SAPERS: Right. I was just looking at that.

MR. SAHER: What I'd like to do is move to page 3, because I think this gives us a chance to in a sense kill two birds with one stone: provide a written response to a particular question asked at the last meeting and also explain the nature of some of these deferrals. Starting at the top of the page, you see a little table. I'm on page 3 now. Maybe I should just back up. Mr. Sapers, you and Mrs. Fritz had asked particular questions on management salaries, and what we're trying to do here is to answer those. At the top of the page you see that our current annual management salary is \$2,762,000. That's what it currently is. In the first column we're showing you what we

had proposed as potential increases subject to a change in the government management compensation plans. What we said to ourselves is that we could defer one-third of any increase into the subsequent year. So after deferral the proposed increases for our management people would be \$360,000. We've computed that percentage for you; it represents a 13 percent increase on the management salary base of \$2,762,000. Essentially I think that was one of the questions you were interested in last time, Mr. Sapers, as to what that increase represented.

Just to clarify the amount that we think would be necessary to move our management salaries closer to market rates, we believe the full amount is in effect the amount that we brought to you at the last budget, \$540,000, but we think we can defer an element of that into the future. So for the budget under question, we're proposing an increase of \$360,000.

There's an item below the \$360,000: this amount of \$107,000. With your permission I'll just come back and explain that to you in a minute.

As well as deferring the increase in the management salaries, as Peter mentioned in his introductory comments, we believe that we can also defer our request to you for an increase in permanent staff. When we appeared on December 2, we were requesting an increase of nine. By deferring certain work, we believe that we can manage with an increase of six. If you turn to page 4, you will see in the table at the top of the page the effect of that deferral. On December 2 we proposed an increase of \$558,000 to cover nine people. If we defer one-third of that, we would be requesting an increase of six, and the cost would be \$372,000. So that is a saving there – saving is not the right word; deferral is the correct word – of \$186,000.

MR. VALENTINE: And to save you the math, it's the same number on a per capita basis.

MR. SAHER: Now, if I could go back and explain to you what the \$107,000 is in the first table. In dealing with the request for additional permanent staff, we priced that at current management salary levels. We thought the best way of handling this was to keep everything on a level playing field, if you will. The \$107,000 recognizes that in point of fact, ideally, the six new people that we're requesting would be senior staff. Effectively, to attract that calibre and experience would require that they be remunerated at increased levels. So the \$107,000 in fact is a computation to be able to remunerate the six additional staff at the proposed management salary levels that are included in this budget. The rest of that table shows you the employer contributions.

So we arrive at a total of \$537,000 as opposed to the \$813,000 previously brought forward, and as Peter mentioned, that constitutes a deferral of \$276,000. So essentially the \$276,000 deferral and the \$186,000 which relates to the permanent staff are the essential elements of the amounts that we think we can defer into 1999-2000.

Page 4. Mrs. Fritz had also asked a specific question about salary scales, and we've provided a written answer there. I don't think it's necessary for me to work through that. We think we've covered the points that she'd raised. We tried to clarify previous requests to this committee for changes in ranges and, particularly, the discussions that the Auditor General had with this committee regarding the position of Deputy Auditor General.

If we turn to page 5 – Mrs. Fritz had asked a particular question regarding the purchase of capital assets. She had a recollection that four or five years ago this committee had discussed a request for computer equipment in the order of \$1 million. At that last meeting we were not able to respond positively that the \$1 million was correct or not. I mean, I think we had a sense that a million was not correct.

What we did was set out a table here, that we hope will be useful to the committee members, presenting our capital asset acquisitions over the period since 1994-95. Specifically, if we concentrate on the centre columns, you'll see computer equipment: budget and actual amounts. Perhaps Mrs. Fritz was thinking of the acquisitions in 1996-97. Those are the larger amounts, but nothing is in the order of \$1 million. A point of fact, what this shows is that we tend to spend less in actual terms on computer acquisitions than in fact we budget for. There are some reasons for that. It's difficult to predict computer costs. We do our best to do so. Also we work very hard at deferring purchases until it's absolutely necessary to make the acquisition. Somebody used the expression the other day that we want to be on the leading edge but not the bleeding edge. It was the first time I'd heard that. I thought it was quite nice.

MR. VALENTINE: Merwan, if I could interject at that point. The other thing that we find is that if we are seeking an estimate of costs today for budget purposes, by the time we've moved six months forward, the costs of that equipment drop. You know how quickly they do drop once they've been in the market awhile. If you go and buy an IBM Thinkpad today, for example, I can guarantee that since September there have been substantial decreases in IBM's pricing of their product lines. In fact, I know it personally because I bought my wife an IBM Thinkpad in September, and I could get it for considerably cheaper today. That's what happens to us, and that's why when you go down the years, you'll see, for example, that in '96-97 we only spent \$215,000 as compared to a budget item of \$345,000.

MR. SAHER: Right.

We hope, in summary, that page 5 has the information that is sufficient to respond to Mrs. Fritz's specific question.

I'm now on page 6. Mr. Sapers, at the last meeting you requested a copy of the independent consultant's report. Unfortunately, we don't think that we're able to share that report with you in its entirety. The reason is that much of the information in it was provided to the consultant on the understanding that it would be for our internal use. But we do understand your desire to have some objective information on salary levels that relate to our office, and what we've done is gathered for the committee members a copy of a survey that's done annually by the Institute of Chartered Accountants of Alberta. The information is public, and we propose to give each member of the committee a copy of this survey. When you look at the survey, you may conclude that it's useful. It is useful, but for our purposes it has substantial limitations, which is why we chose to commission an independent consultant.

9:52

What is now up on the overhead – you also have that slide in front of you. We thought it would be useful if we put on an overhead in summary form essentially what the consultant is recommending in terms of salary ranges. So what we've done is compare our existing salary ranges with the salary ranges that the consultant is recommending. For clarification, on the screen what the consultant is recommending are the green boxes and the yellow boxes are the existing ranges.

At this point I think I'll hand it over to Peter.

MR. VALENTINE: Well, I just marked where this young lady that's leaving me in Calgary was. That's the "from" X in the middle of the yellow band and where she's gone to in the job that she'll take up on the 5th of January. That's just one example of the situation that we face. I wouldn't want you to think that because the consultant has recommended those ranges, that's where we'll end up. We are

awaiting the conclusion of the work by the Public Service Commissioner and the details and instructions that I am sure we'll receive from him. The numbers that we included in our budget are our very best estimate, as I said in my prepared remarks, using minimal information that has been provided to us at this stage. I wanted you to understand the realistic situation that my office faces in its ability to conduct its work on one hand, our ability to provide career opportunities for young people, and our ability to provide for the succession of those in the office that will in the next five to 10 years retire.

So that's the end of that slide.

MR. DICKSON: Can I just add in terms of the independent consultant's report. I take it your position is that information was provided to the consultant by third parties, by commercial third-party interests.

MR. VALENTINE: Well, let me just tell you what would happen. We have information from the seven largest agents that work with us as to their pay scales, and they're not the same. If they knew what the other guy was doing, that would be a nice piece of information, and it's contained in that consultant's report. If I were to make that public, I would never be able to go back to my colleagues again and get their co-operation.

MR. DICKSON: And presumably the information was provided to the independent consultant expressly on the basis that it be confidential and not more broadly published.

MR. VALENTINE: I'm sure you'll understand that.

Now, I can also tell you that we just recently ascertained what happened in the student hiring this year. There's only one of the major firms that got all the students they wanted to get in the province of Alberta. Those are BComs with accounting majors ready to start their CA or their CMA designation program. Only one firm got the number they needed, and I include our office in the major sort of top 12 firms, if you like.

The firm that got the number of people they wanted included a cheque with the offer, which if the individual cashed was an assumption of acceptance of the offer – so there was an amount of money right up front there – and it included an offer of an increase of 1,500 bucks in the starting salary. The cheque was for \$1,000. So the individual accepting that offer put a thousand dollars cash in their pocket right then and got a salary increase of \$1,500.

Now, that firm got all the students they were looking for. Nobody else did. Well, that firm might not be liked by all the others at the moment, but you can see how aggressive it is. We haven't started doing that, but you know, you're tempted.

MR. SAHER: Mr. Chairman, if I could just finish up with the last question. Mr. Hierath had what I thought was a good question last time. Essentially, if I understand my reading of *Hansard*, he was saying: how is it that the budget estimate we brought to you on December 2 for the 1998-99 year is so different from the estimate that we projected last year at this time?

Essentially, it's been our policy over time to try to respond to the environment as it develops rather than to try to predict beyond a year. A year ago when the Auditor General appeared before this committee at budget time, he requested an increase in the FTE count from 106 to 114. That was in anticipation of increased work. However, that additional staffing that was allowed with that FTE increase and the agent resources available to us were still insufficient to meet the demand for our services. Work had to be deferred. The fact is that the substantial increase in our work was not anticipated

and included in our previous estimate. This is the estimate that Mr. Hierath was referring to. The increased amount was just not anticipated.

I think, coming back to Mr. Sapers, the question or point you had a little while ago, having deferred certain items to the year 1999-2000, certainly we see those expenses as being necessary in that year. But I think the message at this point is that the amount that's included, if we go back to page 2 of the presentation here – when we look at this column, 1999-2000 estimate, I think the Auditor General would say to you that that's our best shot as of today with the demand as we see it, but if demand changes, if it further increases, as it has been, then it's likely that that estimate would require revision. But that's our best shot today.

So that represents the discussion of the changes that we're proposing and also attempts to answer specific questions that were asked at the last meeting.

THE CHAIRMAN: I'd just like to clarify in my own mind here to kind of understand this budget totaling that you are presenting here this morning. If we look on page 2 and look at the 1997-98 forecast, that's an update, I understand, from your estimates.

MR. SAHER: Yes, but that is our current forecast.

THE CHAIRMAN: Okay. If you go down the line here and you get to the point where you're at \$9,596,000 and then you deduct the items paid by PWSS, you're down to \$9,370,000, and then there's this other figure of \$483,000. So the total budget for the year is \$9,370,000 plus the \$483,000.

10:02

MR. SAHER: Yes. If you add those two elements together, in the language that the government uses today, one is the operating budget and one is the capital budget. So if you were to total the \$9,370,000 and the \$483,000, that represents our total current forecast on a net basis.

THE CHAIRMAN: That's the estimate.

MR. VALENTINE: That was last year's estimate.

MR. SAHER: Last year's estimate; sorry.

THE CHAIRMAN: And that comes to \$9,768,000, my figures are, my addition. So now the forecast: how much different would it be from this figure?

MR. ALDRIDGE: We haven't shown a forecast. The forecast is . . .

MR. VALENTINE: Just a minute, Kelly. Can you hold on a moment, Mr. Chairman?

THE CHAIRMAN: Yeah, we'll hold on.

MR. VALENTINE: The comparable number to the \$9,370,000 is \$9,622,954.

THE CHAIRMAN: Would you repeat that, please?

MR. VALENTINE: It is \$9,622,954. The comparable number to the \$483,000 is \$426,264. The total, which you don't have in column 1, is \$9,853,000. The total in column 2, counting from the left, is \$10,049,218.

THE CHAIRMAN: Okay. Now, when you indicated in your presentation that you're looking for – if we add your figures, you're talking about a 25 percent increase as compared to the 30 percent in your original budget because you deferred some of the expenses till '99-2000. Is it 25 percent on this 10,000,000? Is that the figure that we should be looking at?

MR. SAHER: It's computed on the amount of \$9,846,000.

THE CHAIRMAN: Oh, off your estimate and not off the forecast?

MR. ALDRIDGE: The estimate forecast is the “total professional services” row in the middle of the page.

MR. SAHER: I think if I could try to clarify, the computation of 25 percent is with respect to the forecast column and not with respect to the estimate column. So it is a 25 percent increase over the amount of \$9,846,000, which is our current estimate for our total professional services.

THE CHAIRMAN: So it's 25 percent of that. Thank you. That answers my question.

MR. VALENTINE: The number that will be voted appears at the bottom in the shaded square: for operating expenses, \$12,089,210, and for capital, \$404,500.

The numbers that would be paid by PWSS appear in PWSS budget.

THE CHAIRMAN: Okay. Thank you.

MR. DICKSON: I just wanted to query the newly captured revenue because I don't think we've discussed that very much. You're talking about a \$237,000 increase here. Your original budget estimate had been an anticipated revenue of \$1.7 million, and that's now bumped up to \$1.9 million. Can you give us some particulars on that? What has changed there so that you've determined there's another \$237,000 that can be captured in terms of estimated revenue?

MR. VALENTINE: Well, Mr. Hierath indicated some interest in this subject, and we went back and relooked at our numbers and think we can get it up by \$237,000. It's not a huge amount of money, but it's an honest effort on our part to try to increase the revenue. To the extent that that will be obtained from other entities that have some or all of their revenues or their grant incomes through other government budgets, well, then you know that in a sense it's only robbing Peter to pay Paul, but this is now our best number.

Do you want to add to that, Merwan?

MR. SAHER: No. I think, Mr. Dickson, essentially we've been more aggressive. We've gone through those numbers, and in certain cases we felt we could elevate the amount.

MR. VALENTINE: I explained the last time that we're experiencing an increase in the per hour rates by our agents. Because of the economy and because they're increasing their salaries, their billing rates go up. That's just a simple arithmetic function, and we are anticipating increased charges from the agents for work that they do. That's the realism of the environment that I'm in.

MR. DICKSON: This is maybe just out of curiosity, but what are the sort of variables? When you determine what you're charging your clients, is it primarily competitive, what would be a market rate?

MR. VALENTINE: For our costs we generate a cost per hour of running the office. That's what we charge, and we had that slide up here the other day.

MR. DICKSON: Thanks.

MR. ALDRIDGE: Cost per hour? I can give you the new one too, if you like.

MR. VALENTINE: No, no. I'd like the slide we had that showed the increase in rates.

MR. ALDRIDGE: Okay. But I've got one that's . . .

MR. VALENTINE: No, no. Let's just use this one here.

Agents of course have billing rates, and they seek to ensure that they recover their standard billing rates. In the course of planning audit engagements, we spend a great deal of time working with the agent to determine that the billing rate is appropriate.

So on this page we show you the two lines. The line at the top is agent billing rates per hour to us. The line at the bottom is our per hour operating costs. The difference is brought about by a number of factors. One, our per hour operating costs are not as high as the private-sector firms' would be because they have a number of expenses that we don't incur. One of them would be business promotion, for example. The other difference, and a significant difference, is that partner profit is in the middle of those two lines, and in the private sector there's the element of partner profit. The other significant number that's between those two lines is the professional liability insurance, which, as you know, is not as cheap as it used to be, given the substantial issues that face the profession in major financial disasters. I can think of a number; Confederation Life is a very good example.

MR. DICKSON: But this number for audit fee revenue: this is net of your cost and what you pay your agent; is it?

MR. VALENTINE: No. If an agent is doing an engagement for which we recover a fee, then we recover the agent's fee.

MR. DICKSON: So just on a cost recovery basis?

MR. VALENTINE: Yes, exactly. Then on top of that, to the extent that we have time involved in that engagement, then we bill out our cost per hour, so the fee that goes to the client is a mixture of the agent fee plus our own.

MR. DICKSON: I take it, then, that the albeit modest \$237,000 doesn't really represent a departure from the sort of cost recovery principle that you've just described.

10:12

MR. VALENTINE: No, it does not.

MR. SAHER: Essentially it's more precise.

MR. VALENTINE: What it does is that it's a degree of precision we didn't . . .

MR. DICKSON: A sharper pencil.

MR. VALENTINE: Yes.

MR. DICKSON: Okay.

THE CHAIRMAN: Mr. Friedel has a comment or question here.

MR. FRIEDEL: Yeah. You've talked about the method for the amount that you charge, and that's fairly straightforward, the cost. How do you decide whom to charge and what services you could charge for?

MR. VALENTINE: We endeavour to recover fees from those entities that enjoy an income stream other than the general revenue fund. So my engagement to examine the financial statements of the Alberta Securities Commission, for example, has full recovery of the fee. That happens to be an engagement that my office does.

Another example would be the Alberta Treasury Branches. Its income is not dependent on the general revenue fund. Although they have substantial support indirectly, their primary source of income, of course, is the spread between the interest rate on the funds deposited from depositors and the funds loaned to borrowers. In that case we recover 100 percent of all of the fees for work that we do on Alberta Treasury Branches.

We do the audit of the Education revolving fund. That's wholly dependent on the general revenue fund, so we do not charge them a fee.

MR. FRIEDEL: Are there any agencies that do receive funding from other than the general revenue fund for which, first of all, you do the audit but are not able to recover full costs? In other words, are we subsidizing non GRF-funded agencies to any extent?

MR. VALENTINE: Not to a material extent, no.

MR. ALDRIDGE: The rule we use is that if the majority of the revenue doesn't come from the GRF, then we charge a fee.

MR. VALENTINE: There might be some incidental revenues in some entity that would come from sources other than the general revenue fund, but we don't try to prorate the thing in that sense. It's where the significant source of funds is.

Another one that is totally recovered is the WCB for example. There's no contribution to WCB by my office.

MR. SAPERS: How do you treat regional health authorities?

MR. VALENTINE: They pay the agent fee but do not pay for the work we do that comes about as a result of the accountability act or the work we do in connection with our reporting mandate to the Legislative Assembly. So there we've got the two types of work separating whether the fee is recovered or whether it's part of the general revenue fund activities.

MR. DICKSON: This is basically an administrative decision made within the AG's office, in terms of that treatment of the different entities?

MR. VALENTINE: That's correct.

MR. DICKSON: Okay.

THE CHAIRMAN: Just to clarify my understanding – and you can confirm that – all the agents you hire are paid out of your office, so they come out of your budget. The charges you charge back to clients of some of these agents or other charges don't come back into your budget but go to general revenue?

MR. VALENTINE: No. The revenue that's shown on the line immediately below the one we were talking about a few minutes ago, which is in the middle of the page . . .

THE CHAIRMAN: Which page is that?

MR. VALENTINE: Page 2, and the numbers start at \$1,415,000 on the left. That amount of revenue goes directly to the general revenue fund, albeit we even make out the deposit slip for them.

THE CHAIRMAN: So in last year's estimates you're going to recover close to \$1.8 million in revenue fees, which will go to the GRF.

MR. VALENTINE: In our forecast it's \$1.8 million; that's correct.

THE CHAIRMAN: And you see a slight increase this year?

MR. VALENTINE: That's correct.

THE CHAIRMAN: That's a considerable amount of money. I didn't realize what the figure was before we looked at it today.

MR. DICKSON: One other question. Just going back to what I guess I can call a bar graph, in terms of the consultant's recommendations . . .

MR. VALENTINE: That's exactly what it is.

MR. DICKSON: There are, I suppose, a number of variables that the consultant would have looked at. Part of it, probably the principal part, would be looking at sort of prevailing market circumstances and conditions. For the dark portion, which is the consultant's recommendations for each of the three general job categories, would this be the top of the range, the average of the range? I mean, are you able to relate – I haven't had a chance to go through this in detail – where these bars would put you? If you were able to pay within these ranges, is that smack in the middle of the private market?

MR. VALENTINE: I can't answer that question yet because I don't know what the management pay plan looks like.

MR. SAHER: But I think Mr. Dickson's question, Peter, is that if we just look at those dark boxes, which represent the consultant's recommendations for ranges, where would they stack up in the marketplace?

MR. VALENTINE: Oh, in the marketplace?

MR. DICKSON: Right. I'm asking you, I guess, to give me a précis of the brochure you've handed out.

MR. VALENTINE: The challenge from the consultant's report is to meet the market, and what he's done is given us the ranges that he believes are the market.

Number one, we think we can continue to operate within the parameters of the Public Service Act. That's an important statement. Number two, we will take the consultant's recommendations, when the full details of the management pay plan become available, and relate what we are able to do under the management pay plan – that is, stay within the public service concepts – to the consultant's report, and we'll make some decisions with respect to where we have to be with our salaries in order to compete. Competition will be tougher in Calgary than it will be in Edmonton because the general salary

ranges are higher in Calgary than they are in Edmonton and have been for some number of years. On the other hand, we have a smaller office in Calgary than we have in Edmonton. So that's how that all fits together.

I think that what we've done, after much consideration and a great deal of effort by Kelly Aldridge, is we have responded to this issue in as professional a way as we could. We sought the best independent information we could get, and now we are awaiting the opportunity to move forward in consideration of the problem.

MR. DICKSON: Thanks.

MR. VALENTINE: Oh, I didn't answer the last question: if you were to relate the bar graph to the information produced by the institute. One of the problems with the information produced by the institute is that it only contains the numbers from their salary survey request of people that care to respond. What we have with the consultant is the actual ranges of salaries of some 12 firms that we use as agents. So our information gathered through the consultant report is far more accurate in the sense that we know its completeness.

THE CHAIRMAN: Yes, Howard.

MR. SAPERS: Thanks. I'm wondering if you can give me an idea of the average time on the job. I notice that in the CA survey really the salary ranges they talk about are broken down by the year the designation was received, and there's quite a substantial variance between those people with 10 years on the job, 20 years on the job, 30 years on the job. So can you give me an idea of what the management team looks like within your office?

MR. VALENTINE: Which week?

MR. SAPERS: Today.

10:22

MR. VALENTINE: I think it's a fact that historically people have stayed longer with the office of the Auditor General in their career than people would have stayed in private-sector practice, and this is driven by two distinctly different reasons. One, in the private-sector public practice environment people live in an up-or-out environment. In other words, if you haven't made partner by the time you're about 34 years of age, you're encouraged to go elsewhere. That encouragement does not exist in my office. There's a much greater opportunity for a longer term career in the office of the Auditor General than there is in the private sector.

So however you do the comparisons, you have that shift that you must mentally take into account. Our people would have longer longevity in the office at the senior levels. In the middle group there's nothing left. The witnesses – I lost another one this morning. In the young group we're able to meet the competition on salaries for new students. I can meet the competition as they graduate, and then I start to lose ground.

That's pointed out in this bar graph to some extent. If you look at the left columns, you'll see that the distortion is not so great. We've got a good band of overlap there. Once we get to someone who's been qualified for four to six years and they start to touch into the principal category – you know, where we leave off, they start. At the very senior level in the office there's a vacant space in there.

MR. SAPERS: Looking at that middle group, the principal group, in your office right now, with your managers at that level, are we looking at people that have received their designation anywhere from five to eight years ago?

MR. VALENTINE: Yeah. As much as 10.

MR. ALDRIDGE: More than that.

MR. SAPERS: The other comment that I have. I appreciate the written response to the request for a consultant's report, and I appreciate the need for confidence. I certainly understand the necessity of maintaining the third-party confidentiality that you promised, but I'm concerned that as a member of the committee I'm not getting enough information to make my own judgment about how I would choose to react to that report. That has direct bearing on how I react to your budget request. Given that you may need to protect the privacy of the salary structure within a private-practice firm, the aggregate numbers and the form of the consultant's report and the particular mandate upon which that consultant was engaged, those kinds of details, would also be very helpful to me in understanding the report and how you used it.

You know, I guess if you want to say that it's a sanitized version of the report or one that you could release that would allow you to maintain your obligations of confidentiality – call it what you will – I'm still not comfortable with knowing that such a large part of your presentation was based on a consultant's report of which we're seeing a summary bar graph, which in and of itself requires a fair bit of explanation and interpretation.

MR. VALENTINE: Well, what I've tried to do is explain to you the reason we commissioned this report and the use to which it has been put at this juncture. I still do not know the details of the management pay plan that is being proposed for government. In fact, there are probably people at this table who know far more about it than I do.

What I have to do is come forth with a number in my budget that reflects my understanding of the plan at this point in time, and we have done that with as much professional responsibility as we can apply to the subject at this juncture. I've indicated that that number will change once we determine what the rest of the program is, the details of the program, and we can apply it to the office.

The consultant's report is only one of the pieces that fits into that puzzle, and as I've said, we believe, after examining what we understand about the plan to date, that we can continue to live within the Public Service Act and how the plan is formulated and administered. We say that when we don't have all the details of the new plan. It's my goal to continue to live within that, and depending upon what the ultimate details are, we will have to revisit the issue and determine how it impacts the office.

At the moment one of the pieces of information that we used was this consultant's study, but it's not the only thing. I mean, I don't need a consultant to tell me what this young lady that left me this morning is going to get. I can get that from her in an exit interview, which I had just before we came down here. We have our human resource director visit the firms on a regular basis. We are a practising office in that sense; we do hire and train students. We need to know what's going on in the profession, so we gather that information from time to time.

I honestly felt that in the fullness of the development of the pay plan, this consultant's report would be of some use to us in the fullness of time, and it will be. I think probably we'd be able to explain to you in quite a bit of detail the extent to which we used that report as we know more about it, but at the moment I don't know more about that. So I'm a little bit what they call between a rock and a hard place.

THE CHAIRMAN: I have to apologize. I know there are more questions. I should appear to defend our MO for the Ombudsman.

I need four or five minutes to go down to the cabinet, so I would like to call a recess for about 10 minutes. We had a meeting before you came this morning, recommending the Ombudsman, so I have to go speak to that.

MR. SAPERS: Could the co-chair carry on, conduct the meeting? We're working towards the 11 o'clock deadline, Paul.

THE CHAIRMAN: He could. It's quite important stuff. I'd hate to miss too much of it.

MR. FRIEDEL: I wouldn't mind taking a bathroom break anyway.

THE CHAIRMAN: Well, let's take only five minutes. If I'm not back in five minutes, start. I'll rush. Is that okay?

MR. SAPERS: Sure.

[The committee adjourned from 10:30 a.m. to 10:44 a.m.]

THE CHAIRMAN: When I left, you had a couple more questions.

MR. SAPERS: Yeah. Had you finished your response?

MR. VALENTINE: I think so. I don't know what the record reads.

THE CHAIRMAN: I think Gary Dickson had a comment and Gary Friedel had a comment.

MR. DICKSON: No. That's fine. I'm not sure whether Howard is finished.

MR. SAPERS: Well, it's a little difficult to pick up the thread. I just want to be clear again on this issue of the deferral. I guess it's a two-part question I have. One is on the reduction in the request to increase positions. I think the original increase was for nine. Now the request is for six positions. When you had made the presentation on December 2, you let us know about a large body of work that had been deferred, requests for work that couldn't be met. The argument put forward was that the nine additional people would clear up that backlog. So with six additional people how much of that work is not going to get done?

MR. VALENTINE: Well, we only have hours of time to invest in the engagement, so essentially what we're saying is that a third of it is going to get shifted.

MR. SAPERS: I don't know whether you have that table with you where you showed us all of the work that was deferred and the requests not met, but I'd like to know what your thinking about priorities is with that backlog.

MR. VALENTINE: Well, one of my responsibilities is to measure the risk of the business activity of my client and all of its multifaceted parts. Having read the *Hansard* proceedings of your meeting after we left, we did some analysis of our inventory of work, and we concluded that it is possible to shift that one-third into the next year without at the moment running too high a risk. That's a professional measurement. That's something that you as the Assembly hire me to do, and that's what I do.

MR. SAPERS: Sure. But which one-third?

MR. VALENTINE: I cannot tell you for a variety of reasons. One

of the reasons is that if my client were to have knowledge that we weren't going to do some of that work, they may change their behaviour. So as we unfold the year, and as we do some of the work, we will measure, but we're only going to have these limited resources.

Furthermore, it assumes I can hire six people in a market that is very difficult to penetrate. So we've made some professional judgments on that, and at the moment, as we unfold our audit plans in front of our client – and that's a process that's about half finished – we'll be informing each department of the areas that we have interest in and our estimate of time to conduct the work that's required in those areas.

MR. SAPERS: Thanks.

MR. FRIEDEL: Well, I still have concern about the significant deviation from the three-year business plan. Certainly I have sympathy for the concerns that you have about wage equivalency and such. I think that's been mentioned also by ministers in various departments, and it's a reality. This whole thing causes me problems, even to the extent that I think I'm beginning to dislike being on this committee because it seems confrontational in a way that I don't like getting into.

I'm very bothered by the fact that we sit here as a lay committee and make decisions on multimillion dollar budgets. It's based on information that we get handed to us in a proposal. I'm saying that with all due respect to yourselves and your professional ethics, which, I want to make clear, I don't question in any way. I think what we have to do is question the type of work that's being done or the amount of work, not how it's done. I don't think any of us here would or should delve into that. That's probably, at least in my opinion, where the major deviation occurs, that there's more work being done. How much of that reflects what is natural government growth, and how much of that is what you had mentioned earlier, Peter, about goals in achieving full cost measurement?

I guess what concerns me is that we have really no way of measuring the validity of that, and that's where I feel at a major loss. At least with a three-year business plan you have some way of anticipating what's coming. If nothing else, it might generate some public reaction or some reaction within the rest of government that would say: "Is this on track? Is this what should happen?" Because of that, I'm faced with a dilemma. I have great problems, as I said last time, with the 30 percent increase. It may well be justified for the work that you're doing in the office and the expansion of the requests on your time. Nevertheless, I'm going to make a motion – and it can be debated – that

the committee recommend the adoption of a budget that would be 20 percent over and above the 1997-98 voted operating expenses, but in addition to that, we add the amount that is recovered to GRF from audit fees recovered over and above the 1997 audit fee revenue.

Now, to explain that last statement, to me that means that if there is revenue recovered from audits performed over and above the amount of the budgeted \$1.415 million, that would be added to the 20 percent.

MR. SAPERS: I appreciate the sentiment behind Gary's motion, at least as I understand it. Of course, we're a lay committee. I assume that nobody sitting around the table right now, other than our guests, is a CA. That to me isn't the issue. My difficulty with supporting the motion is that we saw a budget that was very detailed presented to us asking for a 30 percent increase. We weren't comfortable with the amount or the rationale. We now have a budget presented to us that asks for a 25 percent increase with more detail, more substance, some detailed answers to earlier questions. Your motion would then,

if passed, have us really pick a figure. I mean, you could have said 18 percent or 22 percent. I don't know why you picked 20 percent.

Secondly, it then asks the Auditor General to do his work thinking about speculative revenue. That's that tag sentence in your motion, as I understand it. I mean, there may or may not be additional money coming in, and of course the Auditor General wouldn't know that until the end of the year, in which case it doesn't do anything to help the operations of the office. Certainly when I was running an office with that kind of revenue, it never helped me. It just meant I could buy a lot of paper clips in March, you know, which doesn't really do a lot for running the office.

So as I say, Gary, I appreciate the sentiment behind your motion, but I can't support it for those two reasons. I don't think the second part of the motion does anything to assist in the running of the office, and the first part of the motion to me is just a number. I don't know where the 20 percent comes from. I don't know whether we can talk about friendly amendments or whether there are other comments, but if that's the motion as proposed, I'd be voting against it.

THE CHAIRMAN: There are two more comments. Peter would like to make a comment and then Gary.

MR. VALENTINE: I can't net budget. I'm not in a position of net budgeting. Revenues that come into my office go to the general revenue fund. I don't have any claim on them.

10:54

MR. FRIEDEL: Okay. To answer that specifically, the intent of my motion is – and I said it specifically; I wrote it down here – plus “the amount that is recovered to GRF from audit fees recovered.” That would be added to your expenditure budget.

MR. VALENTINE: But that doesn't give you a number, because I don't know what the revenues will be. I won't know that number until the year is finished. My office does not net budget; we're gross budgeting. So subject to Parliamentary Counsel telling you what the ramifications of that are from an estimate point of view, I don't know how I can come to that number.

MR. DICKSON: I also think I understand the sentiment that Gary expressed in his motion, but I have difficulty with the 20 percent number. It strikes me as being wholly arbitrary, and in fact I'm a bit troubled with the tag-on about it being subject to matching whatever can be earned in terms of additional revenue. The Auditor General has a mandate, and I don't remember cost recovery being an important element. I wouldn't want there to be the appearance that the Auditor General was picking and choosing audit sites and audit targets on the basis of where this money would be generated. I'm not suggesting that's where you're going, but it seems to me that's sort of one of the things that would flow from the add-on to your motion.

I guess I am a bit troubled, Gary, when you talk about the question of what kinds of work the Auditor General is doing. It seems to me that there's a statutory mandate, and unless there's some evidence that the office is going beyond its mandate, I don't want to see us get into the business of trying to tell the Auditor General specifically which public body should be audited and which should not and which should be done on a priority basis and which should not. I think that starts to intrude on the independence of this legislative office.

I'd just conclude by saying that there were a number of questions raised last time that I think warranted some further response. I think we have that further response. I think that all this talk about three-year plans tends to be arbitrary because we're in such a red-hot

economy in this province. That brings with it a whole set of challenges, and I accept that particularly in Calgary and some other places you just have to pay more. It's, if you will, the curse that goes along with a robust, booming economy. I think we have to be flexible, and three-year plans can only represent the best estimate, the best judgment that people have at any particular time. I think we have to have the flexibility to deal with the real needs now. Frankly, I think the case has been made.

I might just make this observation. I agree fully with Howard that in this sort of thing, to the extent that the independent consultant's study is an important factor in your presentation, I like the notion of being able to see at least a portion of it. I think it's possible to do that in a way that doesn't prejudice third-party commercial interests. Having said that, we've had an opportunity to ask our questions, get the explanation, and my inclination is to in fact support the reduced request from the Auditor General. I'll be voting against the motion that's on the floor, Mr. Chairman.

MR. VALENTINE: Let me say in response to Mr. Dickson that I am perfectly willing to bring back to this committee – we could debate whether it should be in camera or on the record – the whole issue of the management pay plan implementation and share with you how we dealt with that or how we propose to deal with it.

In the meantime, there's a budget amount in there that I told you on December 2 I would not deal with until such time as the plan was developed, unfolded, and we could analyze it and understand what it meant to us. Now, I have no problem sharing that with you, and part of that sharing would be part of the consultant's report. But I must indicate to you that I feel very much between a rock and a hard place on that number because I'm short information that is necessary to come to the ultimate conclusion. At the same time, because of the timing of the budget process I must come forward with a responsible budget, and that, ladies and gentlemen, I have done.

THE CHAIRMAN: Thank you.

Mary.

MRS. O'NEILL: Yes. I apologize that I had to leave for a brief time, so perhaps this was discussed. But as I look at your revised budget increase with deferrals, et cetera, I'm looking over on the right-hand column at the percentage of “total professional services,” at 25 percent. Is that where we were to put a percentage increase from your current budget to this proposed budget? Is that the 25 percent that you're adding?

MR. SAHER: Yes. The 25 percent is the increase in relation to our current forecast for the year we're in now. Our best forecast for the 1997-98 year, that we're in now, is shown on page 2. The amount, if I can take you down in that column – if you look two columns in from the left, you'll see the forecast. Coming down that column, you come to total professional services, \$9,846,954. The 25 percent increase is in relation to that number.

MRS. O'NEILL: So if I may then, Mr. Chairman. In reference to your motion, Gary, you are then identifying that – and correct me if I'm wrong – by saying you would propose 20 percent there instead of 25, but in the bottom part there, in the return or whatever, that's where your additional proposal is, in what would be services return.

MR. FRIEDEL: Well, subject to how those numbers relate to the wording of my motion. But your question is: in addition to the increase in the audit fee revenue below? You're correct there.

MRS. O'NEILL: Okay. Well, then my response to what I find in your proposal, Gary, is that with the response that has been given to

us by the department, in their inability to do net but to only deal in gross, would the 5 percent be absorbed if all worked well?

MR. VALENTINE: You mean the . . .

MRS. O'NEILL: The difference between 20 and 25 percent.

MR. VALENTINE: I can't tell you that, Mrs. O'Neill. If it becomes appropriate that we do an engagement like CKUA – that was done through the Legislative Assembly. I used an agent for half of the staff; I used my own staff for the other half. That investigation took a considerable number of hours, and my report was given to the Assembly. I don't get a fee back for that. So the next client that walks in the door might be the regional health authority, and they ask me to do some business planning activities. I may be able to get that back.

MRS. O'NEILL: My question though, Mr. Valentine, was just trying to get some kind of agreement between what the proposal is and fitting it in with what you are presenting here by way of figures. That's what I'm trying to reconcile in my mind. I'm not a CA, but I'm trying to reach, with what Gary has proposed, something that might be amenable here.

11:04

MR. SAHER: Mrs. O'Neill, if I understand the motion correctly, if I can refer to it as a 5 percent difference, I don't believe that it can be absorbed and dealt with, if you will, through audit fee revenue.

MRS. O'NEILL: Thank you. That's what I was asking.

THE CHAIRMAN: Any further comments? If not, I'll call for the vote on the motion. You're all clear on the wording, as Gary read it twice, I guess. So those in favour of Gary's motion?

MRS. O'NEILL: Well, if I may then, Mr. Chairman. Subsequent, I don't understand how it would be possible for what Gary is saying in his addition to that. So I will not be voting in favour because of the additional comments that go with the 20 percent.

MR. FRIEDEL: I have just one question, then, before we do that. You show in 1997-98 – this is on page 2 – the estimate of audit fee revenue, and then you have a figure for 1998-99 of an estimated audit fee revenue of \$1.945 million. How do you arrive at that figure if it's not possible to project what might be obtained in revenue?

MR. VALENTINE: Well, that figure is arrived at based on what we know about our existing client base, and I don't anticipate any more. So while I have provided in the budget as a whole for work such as the recent request from the Minister of Health to involve the two medical faculties and the two large regional health authorities in a business planning exercise, that kind of activity, at the request of the Minister of Health, likely is not going to result in the generation of a fee, or if it is, it's not going to be a huge fee. So embedded in the process of developing our budget, we have made some judgments about where we think we can recover.

Most of the requested work that comes, other than our regular attest work, ends up being for the Legislature and not for a particular client, so most of it doesn't produce a large or a lockstep amount of fee revenue increase. The \$1.9 million is the number that we believe is an appropriate number related to the work plan that we have developed for 1998-99.

To go back to the two columns on the left, when we prepared the budget for 1997-98, we believed that \$1.4 million was the

appropriate number, but you will see that some of the activities have increased our revenue to \$1.8 million. I can tell you that part of that comes from work we've done at ATB.

THE CHAIRMAN: I don't know if that clarifies Mary's question here. I guess the way I read Gary's motion – and you could correct me if it's not the way you meant it – 5 percent on the \$9.596 million would end up being \$12.319 million. Then when you say the excess revenue estimate that we would allow for the 1997-98 estimate is \$1.4 million if the projection is right in this, a revenue of \$1.9 million next year and last year the projection was \$1.4 million, that means .5 percent, or \$500,000, that this committee would increase the budget by.

MR. FRIEDEL: That's strikingly close to 5 percent, if you look at it, anyway. I guess the onus would be to make sure that that figure was achievable.

THE CHAIRMAN: And that's what?

MR. FRIEDEL: That wasn't what I based my original thoughts on, but looking at it now, I see it is amazingly close to 5 percent.

THE CHAIRMAN: That's why I was watching for that 5 percent.

Okay. Any other discussion then? Mary, does that answer your question?

MRS. O'NEILL: It answers the question; I think it does. So if I could just bounce this back. If we were to put it without the qualifier, if you will, or the second part to your motion, Gary, if it read as "is the revised budget" here, if you're talking dollar amounts, then I would prefer it be in this form rather than in that form.

THE CHAIRMAN: We've had a fair amount of discussion. We followed the discussion, and there's a couple that have suggested a friendly amendment. I don't know if you want to look at that or if you want me to call a vote.

MR. FRIEDEL: I'm not sure yet how you can change it without changing the intent.

THE CHAIRMAN: So I'll call the vote then. Those in favour of the motion on the floor right now as tabled by Gary? Those opposed? The motion is defeated.

MRS. O'NEILL: So we have the opportunity for another?

THE CHAIRMAN: We still have to deal with the budget, whether we do it today or tomorrow or another day.

MR. DICKSON: Well, I'm going to move then that
the revised budget with a voted operating expense of \$12,089,210
and a voted capital investment of \$404,500 be approved by the
committee.

THE CHAIRMAN: Okay. We have a motion on the table. Any discussion on the motion? If there's no further discussion, I'll ask for the vote on the motion. Those in favour of the motion? Those opposed? The motion is carried.

MR. DICKSON: I was also going to move the authority for the Auditor General to audit the college foundation – I think that is the appropriate entity. That was one of the other things that we have to deal with, college foundations.

MR. SAHER: Mr. Chairman, could I speak to that for one moment. It's an order before you. I don't think the committee members have a copy, I'm afraid, at the moment. If I could just indicate what it is. Recently we've had a request from the Lethbridge Community College to be the auditor of the Lethbridge Community College foundation. We could come to you. That would require the committee's approval under section 12(b) of the Auditor General Act to appoint us, to allow us to accept that appointment. What we thought would be more efficient would be to bring forward an order that the committee could approve which would allow us to automatically become the auditor of foundations related to colleges. So the order reads that

the select Standing Committee on Legislative Offices pursuant to section 12(b) of the Auditor General Act make the following order.

The Auditor General may, with his consent, be appointed auditor of any foundation or body closely associated with an Alberta university, public college, or technical institute audited by the Auditor General under section 12(a) of the Auditor General Act.

In effect, the purpose is to have you approve that generically, if you will, rather than individually as each case might come forward.

THE CHAIRMAN: I have two comments here.

MR. VALENTINE: Can I just give a little technical background to this. It may be of interest to you.

The not-for-profit section of the Canadian Institute of Chartered Accountants handbook, which is the standard to which we have to apply our judgment to reach generally accepted accounting principles and generally accepted auditing standards, now causes the inclusion in the financial statements of the college or the university of the information related to the activities of the foundation. They are for all intents and purposes one in that reporting. What's happened in Lethbridge is that because we do the college, they would like us to do the foundation and provide for a much easier assimilation of that material without any sizable second-party fee. So that's the request, and there's a variety of these foundations that exist in all of the colleges and institutes.

I hope that's some background for you.

11:14

THE CHAIRMAN: Thank you for those comments.

MR. FRIEDEL: Just having gone through the situation where we're talking about pressures of increased demand for services, this would probably be a classic example of how the demand on the time of the professionals within the office keeps getting called upon. I can understand and respect the fact that it would be nice to have the auditing of the foundation done either along with or by the same organization that audits the university itself, but I'm going to oppose it strictly on the principle of the growth demand that it places on already obviously limited personnel resources. I suppose you would want to comment on: is it absolutely necessary that the Auditor General's office do this audit, or is it more a matter that it would be either more convenient or just desirable?

MR. VALENTINE: It's far more efficient, number one. Number two, it probably expedites the conclusion of the financial statements of the college. In most other instances we are already for a variety of reasons. In the case of the University of Alberta and the University of Calgary, for example, we are the auditor of the Crown foundations that accompany those organizations. In the case of regional health authorities, we are the auditor of the Crown foundation that exists side by side in those organizations and in the health trusts.

MRS. O'NEILL: My question is: so this is just making it an option for them?

MR. VALENTINE: Oh, yes. No, it's not mandatory.

MRS. O'NEILL: It's not mandatory. And at their request?

MR. VALENTINE: Yes. And I don't have to accept a request. If there was some professional reason that I shouldn't do it, I would so state.

THE CHAIRMAN: Yes, Howard.

MR. SAPERS: Yeah. I'll be supporting the motion. I wanted to make sure, first of all, that Gary Dickson's first motion in fact was the motion that was read to us, the order that was read to us, because there was some wording difference. I want to make sure that's the motion that's being discussed, and if not, I'd be willing to move the motion as worded in the order. So, Mr. Chairman, I just want a ruling on that, and then I have a comment. That was your intent; was it not?

MR. DICKSON: If I could clarify, Mr. Chairman. I didn't have the text of the motion in front of me. I'm incorporating by reference the formal motion that was read a moment ago.

THE CHAIRMAN: Would you read the intent of the full motion at this time?

MR. DICKSON: Sure. The motion that I'm moving is that the Auditor General may, with his consent, be appointed auditor of any foundation or body closely associated with an Alberta university, public college, or technical institute audited by the Auditor General under section 12(a) of the Auditor General Act.

MR. SAPERS: My comment in support of the motion then, Mr. Chairman, is as follows. I think that it's the Auditor General's responsibility to ensure the utmost transparency and accountability when it comes to the expenditure of public funds and those funds that the public would reasonably have a right to expect would be reviewed or overseen in some way by an agent of the government. I believe the public would have that expectation when it comes to public institution foundations. Our responsibility on this committee is to ensure that the Auditor General has adequate resources to meet that challenge. I can't agree that a reason for us not to approve this motion would be because it puts challenges on the Auditor General's time. We spent considerable debate in this committee discussing that, and I think the Auditor General has made it very clear that we have engaged him to exercise his professional judgment in the direction of priorities in his office. Should one of these foundations become one of those priorities, I think he needs the permission to go ahead and do that work. So I'll be voting in favour of the motion.

THE CHAIRMAN: Thank you.

Any more discussion? No? Those in favour of the motion? Those opposed? The motion is carried.

MR. VALENTINE: Mr. Chairman, there is a supplementary estimate for the current year in the amount of \$350,000.

THE CHAIRMAN: Yes. That's the next item we have to discuss. Are we all clear on what the intent is, or do you want Mr. Valentine to give us a little bit of information?

MR. FRIEDEL: I'm on a very tight time schedule from here. If we can get to the vote on this quickly.

THE CHAIRMAN: Okay. I think there's only one comment. Mary, you had a question?

MRS. O'NEILL: No; I'm sorry. I would like the time, but if Gary doesn't have the time . . .

THE CHAIRMAN: Okay, if you would like to do that quickly, so we can vote before Gary leaves. Go ahead.

MR. VALENTINE: The fact of the matter is that at this moment we anticipate expenditures in excess of our original budgeted amount by \$250,000, and that will be offset by audit fee revenues at \$350,000. So actually the government is \$100,000 to the good, but we don't net budget. So in order that we can make it to the end of March, I've asked for your recommendation with respect to a supplemental estimate in the amount of \$350,000.

THE CHAIRMAN: Thank you for those comments.

MR. FRIEDEL: I just have one question. The information that we got showed the expenses to be exceeded by \$250,000. It kind of escapes me why, then, we're asking for \$350,000. If the increased revenue is \$100,000, would that not go down rather than up?

MR. VALENTINE: I would hope that we'd come in at \$250,000. The precision of that estimate, within \$100,000, on the size of the office budget in itself is as close as I can come. So in order that I don't come back a second time, I've suggested that the amount of supplemental estimate be \$350,000.

THE CHAIRMAN: But there is hope that you would come in at \$250,000 if everything goes right?

MR. VALENTINE: That's correct. That's what our forecast is today: \$250,000.

MRS. O'NEILL: And even should that be, you are saying that it would probably . . .

MR. VALENTINE: It's going to generate revenues of \$350,000.

MRS. O'NEILL: So it's almost neutral only a different time line, at worst.

MR. VALENTINE: That's right, yeah. I will be happy to report to you on the precision of those numbers when we pass the year-end.

MR. DICKSON: I'll move the supplementary estimate.

THE CHAIRMAN: We have a motion. Any discussion on the motion? Those in favour of the motion? The motion is carried.

MR. VALENTINE: Thank you, Mr. Chairman.

THE CHAIRMAN: Well, we're down to other business. But I think most people have commitments.

Before we go into general discussion, can we have a motion to adjourn?

MR. FRIEDEL: I move we adjourn.

THE CHAIRMAN: Moved by Gary. We are adjourned.

[The committee adjourned at 11:24 a.m.]

