



Legislative Assembly of Alberta

The 28th Legislature
First Session

Standing Committee
on
Legislative Offices

Thursday, November 28, 2013
5:45 p.m.

Transcript No. 28-1-8

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Standing Committee on Legislative Offices

Cao, Wayne C.N., Calgary-Fort (PC), Chair
McDonald, Everett, Grande Prairie-Smoky (PC), Deputy Chair

Bikman, Gary, Cardston-Taber-Warner (W)
Blakeman, Laurie, Edmonton-Centre (AL)
Brown, Dr. Neil, QC, Calgary-Mackay-Nose Hill (PC)
DeLong, Alana, Calgary-Bow (PC)
Eggen, David, Edmonton-Calder (ND)
Jablonski, Mary Anne, Red Deer-North (PC)*
Leskiw, Genia, Bonnyville-Cold Lake (PC)
Pedersen, Blake, Medicine Hat (W)**
Quadri, Sohail, Edmonton-Mill Woods (PC)
Rogers, George, Leduc-Beaumont (PC)
Wilson, Jeff, Calgary-Shaw (W)

* substitution for George Rogers
** substitution for Gary Bikman

Legislative Officers

Jill Clayton	Information and Privacy Commissioner
Del Graff	Child and Youth Advocate
Peter Hourihan	Ombudsman, Public Interest Commissioner
Lori McKee-Jeske	Deputy Chief Electoral Officer
Merwan Saher	Auditor General
Neil R. Wilkinson	Ethics Commissioner

Office of the Auditor General Participants

Loulou Eng	Senior Financial Officer
Ruth McHugh	Executive Director, Corporate Services and Office Accountability

Support Staff

W.J. David McNeil	Clerk
Robert H. Reynolds, QC	Law Clerk/Director of Interparliamentary Relations
Shannon Dean	Senior Parliamentary Counsel/ Director of House Services
Philip Massolin	Manager of Research Services
Stephanie LeBlanc	Legal Research Officer
Sarah Leonard	Legal Research Officer
Nancy Zhang	Legislative Research Officer
Nancy Robert	Research Officer
Corinne Dacyshyn	Committee Clerk
Jody Rempel	Committee Clerk
Karen Sawchuk	Committee Clerk
Christopher Tyrell	Committee Clerk
Rhonda Sorensen	Manager of Corporate Communications and Broadcast Services
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Tracey Sales	Communications Consultant
Janet Schwegel	Managing Editor of <i>Alberta Hansard</i>

5:45 p.m. Thursday, November 28, 2013

[Mr. Cao in the chair]

The Chair: Hon members, it's 5:45. I would like to call the committee to order.

I'd like to welcome all of the members, the supporting staff, and the guests to the meeting and ask everyone at the table, first, to introduce themselves for the record. If you are substituting for a member, please include that information for the record as well.

I should probably start. Wayne Cao, MLA, Calgary-Fort and chair of the committee.

Mr. McDonald: Everett McDonald, Grande Prairie-Smoky.

Mr. Quadri: Sohail Quadri, Edmonton-Mill Woods.

Mrs. Leskiw: Genia Leskiw, Bonnyville-Cold Lake.

Mrs. Jablonski: Good evening. Mary Anne Jablonski, Red Deer-North, and I'm sitting in for George Rogers.

Mr. Eggen: Hi. I'm Dave Eggen, Edmonton-Calder.

Ms Blakeman: Laurie Blakeman. I'd like to welcome each and every one of you to my fabulous constituency of Edmonton-Centre.

Ms Eng: Loulou Eng, senior financial officer, OAG.

Ms McHugh: Ruth McHugh, executive director, corporate services and office accountability, with the office of the Auditor General.

Mr. Saher: Merwan Saher, Auditor General.

Mr. Wilson: Good evening. Jeff Wilson, MLA, Calgary-Shaw.

Mr. Pedersen: Good evening. Blake Pedersen, MLA, Medicine Hat, substituting for Gary Bikman.

Dr. Brown: Neil Brown, Calgary-Mackay-Nose Hill.

Mrs. Sawchuk: Karen Sawchuk, committee clerk.

The Chair: Well, thank you very much for your introductions.

The meeting material was posted on the internal committee website last week. Hard copies of the officers' annual reports were delivered to each member. That was done last week as well.

A few housekeeping notes before we get started here. First, the microphone is operated by our excellent *Hansard* staff at the back there, so please keep – I should probably tell myself first – the BlackBerry away from interference of the audiofeed.

Now, each one of us has the agenda. I would like to have somebody move a motion . . .

Mr. Quadri: I move that.

The Chair: You move to accept the agenda.

Hon. members, Sohail Quadri has moved that the agenda for the November 28, 2013, meeting of the Standing Committee on Legislative Offices be approved as distributed.

Dr. Brown: Sorry. The date you mentioned?

The Chair: The 28th of November, today.

Dr. Brown: Question.

The Chair: All in favour? Opposed? No opposition: it's unanimously approved.

All right. Now we go to the minutes of our last meeting. If you could scan through it and look for any errors or omissions. If none, could I have a motion to approve the minutes, please? David Eggen has moved that the minutes of the June 24, 2013, meeting of the Standing Committee on Legislative Offices be approved as distributed. All in favour? Opposed? Carried.

That routine is out of the way. Now we have our business here. We'll be reviewing the 2012-13 annual report, the business plan, and the 2014-15 budget estimates for the offices of the Legislature during our meeting this evening and tomorrow, starting with the office of the Auditor General.

Before we begin, I would like to point out that the decision on the budget estimates will be made once all officers have been heard. This has been incorporated into tomorrow's meeting agenda under item 3(f).

Also, to ensure that our meetings this evening and tomorrow run on schedule and to provide equal opportunity for questions by all members, I will be following the general format used by this committee by recognizing a government member, then an opposition member, and continue in this fashion. Members will be provided an opportunity to ask one question, followed by one supplemental each round. I will seek the committee's co-operation in this aspect.

Other members attending the meeting but not as an official substitute are welcome to participate in the discussions subject to the participation of committee members and official substitutes, so within the order listed, but may not vote on any motion.

With that, I would like to welcome our Auditor General and his staff. You can proceed with a 20-minute presentation, and then we'll turn to questions from the committee.

Thank you, Auditor General Merwan Saher; your table.

Mr. Saher: Thank you very much, Mr. Chairman. We'll start our presentation shortly. I want to just take a second to introduce – most of you will have met Loulou, sitting at my extreme left. She's been the SFO of the office for a number of years and has participated in our budget presentation.

Immediately on my left is Ruth McHugh. She introduced herself as and is our executive director of corporate services and office accountability. Ruth joined the office in June and immediately took charge of the exercise of preparing the office to bring forward a business plan and budget request. Ruth has led that exercise, and that's why she's going to make our presentation to you.

Just an added piece of information about Ruth, Ruth is the co-chair of the Alberta Accountants Unification Agency. The goal of that organization is to operationally bring together the three accounting organizations in the province: the CMAs, the CGAs, and the CAs. Once that agency is successful, it will disband, but it has a very important role at the moment, essentially to organize those accounting professions to come before this Assembly for new legislation to create the new organization, which would be named CPA Alberta. Just a little bit of background about Ruth.

The Chair: Fantastic.

Mr. Saher: With that, Ruth, over to you.

Ms McHugh: Thank you very much, Merwan. Mr. Chairman and committee members, it is such a pleasure for me to be here. I'm very excited about this opportunity to speak with you and allow us to present our performance report for the year ended March 31, 2013, our business plan 2014 to '17, and our 2014-15 budget

request. You all have received the packages, as Mr. Chair pointed out. The presentation to the standing committee piece that looks like PowerPoint slides, that's what I'm going to be going through just now, just for your reference.

Our presentation agenda has three parts. We will be discussing where we've been, the March 31, 2013, results and performance; where we are; and where we're going. Building upon our core strengths and strategic intent, we have created the 2014 to 2017 business plan and the 2014-15 budget request, but let's begin with where we've been.

As you know, the Office of the Auditor General serves the Legislative Assembly and the people of Alberta. Our mandate is to examine and report publicly on government's management of and accountability practices for the resources entrusted to it. For the year ending March 31, 2013, the Legislative Assembly provided \$25.4 million for operating expenses and \$255,000 for capital investment, a total of \$ 25.65 million, allowing us to fulfill our mandate under the Auditor General Act.

In 2013, we returned \$400,000 of unspent funds from the approved budget. Over the past five years the office has in fact returned \$1.79 million to the Assembly.

You can see from the table on page 3 that a small surplus or deficit can occur at the March 31 fiscal year-end, resulting . . .

Dr. Brown: Excuse me, Mr. Chairman. I'm unsure which document . . .

Ms McHugh: The presentation package. We have extra copies.

Dr. Brown: Thank you.

Ms McHugh: Okay. No worries.

The Chair: The slide show pages.

Ms McHugh: Yes. Exactly. Looking at the slide show, on page 3 you'll see that a small surplus or deficit can occur at the March 31 fiscal year-end. This happens because our business cycle end date is actually June 30, when we issue the Auditor's report on the province's consolidated financial statements. You'll see on the slide that we have returned an amount each year. When you look at that amount as a percentage of the total budget, it's actually quite small. It's 0.07 per cent and .39 per cent. I mean, they're very small amounts, which I think lets you know that we actually are managing our business very well and very much according to our budget.

5:55

If we turn to page 4, the chart there illustrates that we are primarily a people organization. The vast majority of our expenses relate to having the right people with the right skills in the right place at the right time doing the right things. In our professional services business within the competitive Alberta economy salaries, wages, and employer contributions plus professional service contracts for agents and temporary staff represent 88 per cent of our total expenses. While this chart depicts results at March 31, 2013, we expect future expenses to be in very much the same proportion. The majority of our resource pool is internal staff, supplemented by agents and temporary staff contracted from Alberta accounting firms when required to meet peak work demands, to provide specialized skills, and to save on travel costs.

The table on page 5 provides an overview of actual expenses compared to budget. You'll note that advisory services has a large variance over budget. In 2012-13 we experienced higher than expected advisory services expenses due to the following circum-

stances: a corporate staff development initiative that was carried over from the prior year, senior staff placement fees paid to recruitment agencies, and legal fees. Knowing that you've had this information for prior review, I won't walk through it in detail, but we're certainly happy to stop and answer any specific questions you might have at this point, or we can wait and have questions at the end. It's up to you.

The Chair: Hon. members, do you want to take notes and then question later or as you go?

Ms McHugh: It's entirely up to you.

Some Hon. Members: At the end.

The Chair: All right. At the end. Okay. The committee wishes to do it at the end of your presentation.

Ms McHugh: Thank you. That said, we'll move to page 6. Our mission is to serve Albertans by conducting comprehensive risk-based audits that provide independent assessments to help the Legislative Assembly hold government accountable. Page 6 contains a list of the major systems audits for the fiscal year 2012-2013. The reports were provided to the Standing Committee on Legislative Offices and the Assembly in July and October 2012 and in February 2013. The cost to conduct these significant systems audits accounts for 24 per cent, about \$6.1 million, of our total operating costs. In reviewing and considering the office's 2012-2013 performance, we identified the key learnings that are outlined for you on page 7. Lessons from each of these important observations have been incorporated into the priority initiatives that we will focus upon in 2014-15. We'll explain those priority initiatives a little later, when we discuss the business plan.

Having now discussed where we've been, let's turn our attention to where we are and where we're going. In fulfilling our mandate and in pursuit of our vision, adding value through expert auditing, our goal is to maximize relevance and reliability within the constraint of reasonable cost. This goal is represented by the congruity of the three Rs that are depicted in the diagram on page 8. Our business plan was built to ensure that our audits are relevant, reliable, and conducted at a reasonable cost.

As legislative auditors we have a profound understanding of the environment that we are auditing, including systems audit standards, management control systems, performance reporting, and accountability. We believe we also have a unique ability to communicate the complex technical concepts that we encounter in an understandable manner. By leveraging these core strengths, we will succeed in our strategy to perform more value-added systems audit work. We believe that performing more value-added systems audit work aligns with our continuing goal of providing Albertans with relevant, reliable audits conducted at a reasonable cost.

The Chair: Go ahead.

Ms Blakeman: Sorry, I'm just getting on the list.

Ms McHugh: I should just keep going?

The Chair: Yeah, you keep going.

I just keep a list. Every now and then our members put their hand up for me to put their name down.

Ms McHugh: Thank you. Thanks for clarifying that for me.

We've identified a number of tools to assist us in successfully implementing our strategy, and they're outlined for you on page 9. One of these tools is the use of agents. We use agents to assist in

carrying out a number of our financial statement audits. By strategically using agent services and expertise, we can continue to identify opportunities to redeploy some of our legislative audit specialists to bolster our systems audit capacity.

Another tool is evaluating engagement continuance, where redundant audit assurance may be present. To be sure that Albertans obtain maximum value from each financial statement audit, we will continue to evaluate whether an audit is necessary and then whether it should be conducted by the Auditor General. Every audit we do should add value.

Another tool that we've identified is to operationalize the optimal staff mix. We have completed detailed analysis on what constitutes the optimal mix of staff at various levels to achieve our strategy.

The next step is to work toward building our internal competencies and recruiting, if required, to ensure that we have the optimal mix of skills and experience on each and every audit. For example, systems audit work tends to require more senior staff. We need to make sure we're able to do that. This approach will provide our people with diverse, interesting, and challenging work while maximizing the value of our work to Albertans.

Reflecting on what we've learned in 2012 and 2013 and understanding the steps we need to take to achieve our strategy and provide maximum value to Albertans, we've identified four priority initiatives for our upcoming business cycle. We have commissioned an independent peer review to provide conclusions on whether we do relevant, reliable work at a reasonable cost. The first stage, which focused on the design of the office's systems, took place in August 2013. The second stage, focusing on the operating effectiveness of those systems, is expected to occur in August 2014. The findings from this external peer review will be used to improve our audit and operational processes and will be made public.

Effective and sustainable people development. The right complement of staff skills and ongoing people development are critical for high-quality and cost-effective auditing. Maintaining a workplace that facilitates recruiting, growing, and retaining skilled legislative auditors is vital to our success. We recognize the need for strategies directed at staff development and retention, particularly in the student through manager ranks. Our training program is designed to improve the overall effectiveness, efficiency, and personal excellence of all staff within a positive and supportive work environment. In-house training, mentoring, and support for our students will deal with changes in the professional accounting education programs that will be taking place in 2014.

Another priority initiative that we've identified is regarding outstanding recommendations. As we outlined in our report of the Auditor General of Alberta October 2013, there are a number of outstanding recommendations. It is our intention to assess the implementation of recommendations more than three years old and to schedule timely follow-up audits of departments or agencies that have notified us that they are ready.

Then we turn to corporate accounting policies. We view the controller's success in articulating corporate accounting policies as very important. Therefore, we intend to assist as requested.

In measuring our performance, we focus on the three Rs that influence our business plan: relevant, reliable, and reasonable cost audits. The performance measures chart on page 11 is quite self-explanatory, but we are happy to provide further details or answer any of your questions. As you've indicated, you'll save those questions for later, but please know we're happy to provide you whatever additional information you might require.

6:05

As you can see on page 12, we plan to conduct 37 system audits in 2014 and '15. Page 7 of the business plan that you received lists the new and follow-up systems audits that we've planned, so you can see the full listing on page 7. Again, if you'd like to discuss our upcoming work, we're happy to do that later on as well.

For the 2014-2015 fiscal year we are requesting \$27.3 million. We are very pleased to have built a business plan that will achieve our strategy of doing more value-added systems audit work without much additional cost. Our 2014-15 request is 2.5 per cent more than the 2013-14 budget. For your reference the makeup of that 2.5 per cent is described on page 14 of your presentation slides.

Since our primary resource is people, employer contributions at 11.3 per cent are the most significant operating expense increase. It stems from various employer premium rate increases beyond our control. The cost increases are particularly significant in the pension plans. As you know, the public service pension plan employer rate increased on January 1, 2013. When we created the 2013-14 budget, the full impact of this increase was not included, but it has now been included in the 2014-15 budget.

The other significant employer contribution increases are the management employees' pension plan and supplementary retirement plan for public service managers. As you know, rate adjustments have been announced for January 1, 2014.

In summary, we are very pleased to have developed a business plan and a budget that will achieve our strategy of doing more value-added systems audit work while holding costs to 2.5 per cent over the 2013-14 budget.

This concludes my presentation. Thank you, Mr. Chairman and committee members. We're happy now to take any questions that you might have.

The Chair: Thank you very much for your thorough presentation. Very clear to me.

Now we'd like to go to the question-and-answer period. As I said earlier, we should have an hon. member from the government to start on this. Anybody? Okay. Hon. member Everett McDonald.

Mr. McDonald: Thank you, Chair. Just on your business plan, I think on page 9, on your salaries, could you explain: are they grid increases that you're looking at in '13-14?

Ms McHugh: No. There will be no – sorry, I'm just going to quickly flip to my notes on that page.

Mr. McDonald: You've got it creeping to \$16 million by '16-17.

Ms McHugh: Right. Salaries and wages. If you actually look at the chart on page 14 of the presentation, salaries and wages, we're looking at a 2.5 per cent increase. This is actually for the professional growth of students and some of our management staff. As you know, we are an office of professionals. There are no automatic pay increases whatsoever, and any movement – basically, we have a commitment to rewarding expected professional growth, and it is essential to maintain the skills we need, but we'll move them within the grids.

Mr. McDonald: Okay. Thank you.

Mr. Saher: For absolute clarity, that budget request is for the growth of our staff but within grids. The grids have not been – we've not sought increases.

Mr. McDonald: They're not new grids; it's within.

Mr. Saher: Yes.

Mr. McDonald: Okay. Thank you. That's the question.

The Chair: Supplement?

Mr. McDonald: No. That answered my question.

The Chair: All right. Hon. member Laurie Blakeman.

Ms Blakeman: Thank you. My memory was that you were seeking an 80-20 split between systems audits and attest audits. I am delighted to hear that, in fact, 24 per cent of your resources were dedicated to systems audits this particular year. Have you changed the split, the ratio, that you were aiming toward now? Are you trying for 75-25, or you just happened to go over, or have you actually changed it?

Ms McHugh: Our goal is actually to change it. So in this upcoming business plan, you'll note that we are aiming for 75-25.

Ms Blakeman: Wahoo. Thank you. That's excellent news.

Ms McHugh: Yes. Great. Thank you.

Ms Blakeman: Well, that's where we get the most information. That's the best tool for us.

Ms McHugh: Absolutely. It certainly is.

Ms Blakeman: So I'm delighted because I was not happy when you decided to do 80-20, so I'm much happier with 75-25. Thanks.

Mr. Saher: May I supplement just to try to add some colour to that?

Ms Blakeman: Go ahead. Try.

Mr. Saher: Yes. I'm pleased that you're delighted that we're moving to 75-25. Our reason for doing it is that we believe that if we can do more systems audits by utilizing our unique skills, we will in fact be producing greater added value for Albertans. I don't want to diminish the importance of the financial statement auditing that we do. It's mandated; it's in the act. I do understand from the member's reasoning that you would perhaps find that less useful to you, but I do want to make the point that it's nondiscretionary work.

We're striving to execute that as efficiently as possible, to release resources within our skill base to devote to systems auditing, or value-for-money auditing. We believe we can do that by re-engineering processes, using the skill of agents, as Ruth mentioned, rather than our own senior people, all within a modest increase in our budget.

So we, in fact, have targeted 75-25. I would argue that we're on a path of trying to drive that down, but we are realists, so I don't want to put out a – how can I put it? – goal that's unachievable. If we can get to 75-25, then I'm sure that we will challenge ourselves to: why can't we take it perhaps to 70-30?

Ms Blakeman: Great. That's wonderful news. Go, AG team, go.

Ms McHugh: Thank you.

The Chair: Hon. member Laurie Blakeman, you still have a supplemental if you want.

Ms Blakeman: I don't need to supplement that.

The Chair: Okay.

Then, hon. member Dr. Neil Brown.

Dr. Brown: Thank you, Mr. Chairman. A question I have – well, there are lots of questions here, but the first one I have is relating to your salaries and wages increase, which you indicate is an overall increase of 2.5 per cent. I did a quick calculation. You're forecasting for this year \$14,255,000, and you're asking us for \$14,945,000, which is an increase of \$690,000. That works out to be 4.6 per cent, not 2 and a half per cent. I'd like an explanation for the increase. Was it unfilled positions? Was there another thing? You indicated that there was a grid for the professional development year over year, and I assume that that accounts for approximately 2 and half per cent. So what's the other 2.1 per cent?

Mr. Saher: Well, I can start. Dr. Brown, your math is good. It's actually by my calculation 4.8 per cent if we compare the budget request in relation to what we're forecasting. Budget requests are traditionally presented to the committee budget over budget, so that's why that line is presented to you as 2.5. But when we take what we forecast and what we're requesting, yes, it is an increase of \$690,000. That increase is apportioned between our student complement and the rest of the staff, primarily management employees. As we said, that \$690,000 is essentially what we believe in our predictions. It's necessary to reward growth within the existing bands. For example, if a professional has reached the top of the grid, in the environment that we're in at the moment, that professional can get no increase other than by being promoted into an upper grid, if I can put it that way.

6:15

Dr. Brown: How many individuals would you have that have reached that upper threshold?

Mr. Saher: Loulou, can you estimate how many people are at the top of each?

Ms Eng: Probably four or five.

Mr. Saher: Yeah. From memory I would say that in our manager group we have – I'll go for five. This we could confirm to you after the meeting in writing if necessary. In the most senior group, the principal group, to my knowledge, there are five who have reached that level.

Dr. Brown: These would be professional accounting individuals, then?

Mr. Saher: Yes. These will all be professionally designated accountants. Essentially, the \$690,000 goes to the professional growth of the body of students.

Do you have a number for how many students we have?

Ms Eng: Fifty-five.

Mr. Saher: Fifty-five students, who are essentially – in the old language the terminology was "articled." I mean, they are in our office under – we have an obligation to train them, and built into those training contracts are remuneration increases as you progress through the accounting program.

Dr. Brown: This is over and above the grid?

Mr. Saher: No.

Dr. Brown: It's part of the grid?

Mr. Saher: It's part of the grid.

Dr. Brown: I am a little bit confused, then, still because you indicated that the 2 and a half per cent to the overall was as a result of the progression through the grid.

Mr. Saher: Yes.

Dr. Brown: My question was relating to what the balance of it would be then.

Mr. Saher: The only remuneration increase for somebody who is on staff at the beginning of the year and is still on staff at the end of the year is an assessment of whether that individual has in fact grown as a professional.

Dr. Brown: So it's a performance bonus sort of thing or a performance recognition?

Mr. Saher: A performance recognition. It's not a bonus. Well, it's simply based on – in the business that we're in, professionals, as they grow through time and their experience increases, become more marketable. If I'm to retain the skill levels in my office, the investment that we've made in the training of the individuals, we have to remunerate that growth. Simply put, the professional is marketable and will examine alternatives, and, you know, the biggest risk to the office is if they choose to exit.

Dr. Brown: In other words, you're trying to keep competitive with the private sector.

Mr. Saher: Absolutely. We operate in an environment in which the skill levels that we need to carry out our legislative auditing mandate are skills that are sought after by industry, by other public-sector organizations, and by public accounting firms.

The Chair: Our next one is hon. member David Eggen.

Mr. Eggen: Well, thank you, Chairman Cao. Thank you for your presentation. I thought it was great. I'll put myself in for a couple of rounds of questions. The first one I have is an ongoing issue, I think, from page 3, where you are returning funds from your budget on a pretty consistent basis. In fact, as far as I can see, the money you're asking for as an increase: you returned about three-fifths of that the previous year. Right? My question is: how do you explain how you're quite consistently underspending your budget? I'm curious.

Mr. Saher: Well, let me go first, and then, Ruth, please feel free to supplement. Ruth did make the point in her presentation that percentage-wise these are very small amounts. The root cause of why this occurs is that we have a fiscal year-end the same as the government's, March 31. That fiscal year-end doesn't correlate with our business cycle. In presenting these budgets, we have a high degree of estimation as to the audit work that will be completed pre-March 31, what we would aim to do and what actually happens. So there's an overlap. We've tried to explain that in the footnote of your slide about our financial statement audit projects spanning two year-ends.

I would argue that our success with our estimation is not bad. You can see that in the previous year we actually were out the other way. If we're out the other way, we become constrained. The system ensures that we're constrained, and that's good.

I think I understand your line of reasoning, but I would argue and on behalf of the office am requesting that you don't consider reducing our request by some sum on the basis that you think we're going to return it. We're always working to use the funds given to us in a cost-effective way. We simply say that if we have not managed to use it, we would simply return it.

Mr. Eggen: Yes. Quite to the contrary. I think that with your decision to increase the percentage of systems audits that you do, which I applaud, then I would hope and welcome a request for an increase to the funding to expand your scope in how you do those systems audits. Right? That's fair play. I'm always an advocate for increasing our capacity through your office.

The Chair: All right. The next hon. member, Jeff Wilson.

Mr. Wilson: Thank you, Mr. Chair. I appreciate the opportunity. Thank you to your office. I believe the value that you give to taxpayers is immense, so thank you for the work that you do day in and day out. It is appreciated.

The question that I have – and I echo my colleagues' comments about the increased percentage of systems audits. That excites all of us, especially those in the opposition. It gives us a lot of good meat, so thank you. Now, previously your office charged fees to organizations for audits that were not part of general revenue. I'm wondering if you can comment as to why you're ending that practice and how that's impacting your budget.

Mr. Saher: Okay. I'll answer that in reverse. The fees that we previously charged: we charged them to certain entities. We collected the fees, and we returned that money directly to the general revenue fund. Our statements were essentially a flow through. We in no way as an office benefited from charging fees.

After becoming the Auditor General, I concluded that the practice of charging fees should cease because I think it contradicts a fundamental principle of legislative auditing. Charging a fee implies an exchange transaction between the party who is charged and the party who does the charging. It implies that the transaction is between my office and those that we are auditing. That is not the transaction. We're here today as part of constructing a transaction where the Assembly through this committee is listening to our request for money to fund the work of the office. The transaction we have is between the audit office and the Assembly. I believe that it's fundamentally unsound to charge those that we audit a fee. The fee has already been borne by the Assembly on behalf of Albertans.

Mr. Wilson: Understood. Thank you very much.

Mr. Saher: But just one more little piece. We have made it clear to those that we are not going to charge a fee to anymore that we are very happy to and will as a matter of accountability tell them what the audit cost. They're entitled to know that, should know it, and should challenge us, but we're not going to convert that into a fee.

6:25

Mr. Wilson: My supplemental question, if I could maybe just follow up on Mr. Eggen's comments about your coming under budget. It is certainly appreciated, and just to try and attempt to add some levity on a Thursday at 6:30, is there any way that you can run a workshop with the government on how to do the same?

That's all from me this time, Mr. Chair. Thank you.

The Chair: Okay.

Hon. member Mary Anne Jablonski, you have a question?

Mrs. Jablonski: Thank you, Chair. Thanks very much for the presentation. Very interesting. I'm a very practical person, and I love furniture, so my question stems from your report, page 10. The question is that on page 10 of the business plan the voted capital investment column shows a 233.3 per cent increase – you don't find those increases in the government – from \$15,000 to \$50,000 in furniture and equipment from the 2013-2014 budget to the 2014-2015 estimate. Can you elaborate on why this increase is needed?

Ms McHugh: Yes. It's for a concept called hotelling. We don't have enough room in our office for all of our auditors all of the time. That's okay, because they should be out there working, but there are times when they are there and we don't have enough desks and chairs and offices, so we're setting up hotelling stations. A lot of the firms have gone that route. When auditors come in in the morning, they are assigned a desk at that point. They're self-contained units with little locking filing cabinets on wheels that you can put your things in and take with you. It's a way to avoid the significant capital cost of expanding the office itself. We're converting into hotelling stations. That's what that furniture is all about.

Ms Blakeman: Which was \$35,000?

Ms McHugh: Approximately.

Mrs. Jablonski: That means that the auditors, then, don't have their own desks.

Ms McHugh: Correct.

Mrs. Jablonski: They have a filing cabinet on wheels that they take with them wherever they go in the office.

Ms McHugh: Within the office, right.

Mrs. Jablonski: Right. So if it's desks 1 through 6 and I'm at 3 today, I just wheel my little cart over, and I start working at desk 3?

Ms McHugh: Precisely.

Mrs. Jablonski: Wow.

Ms McHugh: I know. There are different schools of thought on that because, of course, it is nice to have a desk and have your family pictures on it and have a home, but we can't afford the luxury of having all those homes, so we've got hotels.

Mrs. Jablonski: Okay. Thanks very much.

Mr. Saher: Ruth did make an important point, that good auditors should spend their time out, the expression we use in the field. That's where you need to be to be a good auditor. But you also need to be back in the office some of the time.

Mrs. Jablonski: We have laptops, and we have all those things that you can carry with you wherever you go, so the desk wouldn't be supplied with a desktop computer? It would just be set up so that you can bring your own laptop and put it down and go to work?

Ms McHugh: Precisely, yeah. You're exactly right. When I said that we don't have homes, that we have hotels, what I should have said is that we will have hotels. We haven't done it yet. The piece that we're trying to work out right now is phones. It's easy to take

your laptop with you but not so easy to take a phone. We're trying to work our way through that piece. But, yes, conceptually you're very portable. It doesn't matter. I can sit here today and over there tomorrow.

Mrs. Jablonski: Okay. Thank you.

The Chair: Thank you, hon. member.

The next one on my list here is hon. member Blake Pedersen.

Mr. Pedersen: Thank you, Mr. Chair, and thank you very much for the opportunity to attend tonight and offer some questions on behalf of my colleague Gary Bikman, who is usually here.

I guess my question is around systems audits. Could the systems audits also be focused on saving money by finding areas where expenditure within government could be reduced?

Mr. Saher: I'll try and answer that question this way. Our mandate is to look in at government systems, not to directly, if you will, do the work of managers in the sense of, you know: "Let's as auditors decide that we're running a program. How would we do it, and could we save money by doing it?" Our job is to look at how government managers look at their activities through that same lens. So we're looking at the quality of the systems that government managers have put in place to analyze their operations to ensure that they're meeting the goals that they set for themselves through good results analysis, performance reporting.

The government has an initiative at the moment, results-based budgeting, and you'll see in our business plan that one of the audits we've planned is to look at the government's results-based budgeting process. The purpose of that audit, the proposed objective is to determine whether the government, through the Department of Treasury Board and Finance, has adequate systems in that results-based budgeting process to assess where the programs and services are meeting intended outcomes, at least cost, in other words, most cost-effectively.

Coming around, circling back to your question: yes, we are interested in the quality of the systems to deliver programs cost-effectively, but our mandate is to look at how the government is going about trying to achieve that, not to superimpose ourselves as front-line managers determining it could be done for less cost.

Mr. Pedersen: Okay. Thank you.

The Chair: A supplemental question?

Mr. Pedersen: That's good.

The Chair: I have the second round, in fact, if people wanted to ask a second time here. Hon. member Genia Leskiw, then.

Mrs. Leskiw: Good evening. Thank you for the presentation. On page 8 of the business plan document under the Reliable Auditing heading it says that the last review was in 2012-2013. But when you look at the two targeted dates, '13-14 and '14-15, it says that the next review won't be till 2016. Why such a large gap between the review that was done and your next review? I mean, is there a reason for that?

Mr. Saher: Let me try. These are reviews that are conducted by the Institute of Chartered Accountants of Alberta. The review process that the institute has put in place is, in fact, generally a three-year cycle. We are just another professional accounting firm that the institute chooses to come and visit and conduct its program to assess whether or not we are meeting professional

standards. Their schedule is this three-year cycle, so we're indicating to you there that with the work that was done and reported to us in June 2013, we met standards accorded by the judgment of the Institute of Chartered Accountants of Alberta. We don't anticipate that they will be back to repeat that review until 2016.

Mrs. Leskiw: So you're telling me that the chartered accountants of Alberta do this with all sorts of . . .

Ms McHugh: Every professional firm.

Mrs. Leskiw: Every professional group.

Mr. Saher: It's part of self-regulation.

Mrs. Leskiw: Okay. Thank you.

The Chair: Thank you, Genia.

Hon. member Laurie Blakeman, it's your turn now.

Ms Blakeman: Thanks. This is sort of a philosophical question. Increasingly, as I look overall at the legislative offices, I am concerned sometimes that we, in fact, are not funding them adequately in that, for example, the Ombudsman ensures that government delivery and administration of services is fair, the Chief Electoral Officer makes sure that elections are fair and well run. These offices all make sure that we're doing the best that we can in their particular area.

6:35

I just want to ask you: do you think this budget is doing the best you can? You're all very careful with asking for exactly what you believe you need, but is this the best job that you could be doing? If you had X amount of money more, would you be doing that much greater a job or be able to be more effective or cover more ground, or is what you're getting more or less sufficient for what you think is meeting the mandate of the act?

Mr. Saher: I'm very confident that the request we've made to you is the right sum of money to do what our office can do to meet that three-part test: relevant, reliable, and reasonable cost work. Again, in that vein of, conceptually, why I wouldn't just lead a team here today to ask for an additional \$1 million to do more systems audits: I'm not doing that because if you were to give me a million dollars, I wouldn't be able to deliver quality systems audits. It's a question of quality, not necessarily quantity. We couldn't marshal the skills to deliver reliable systems audits. That skill set is not just available. I couldn't go out and buy it.

There's also the issue that it would be counterproductive to inundate the public-sector managers who have to implement our recommendations. There's a point at which no public service has the capacity to deal with recommendations coming into it. I would argue that we need to find the right number. In the past we probably, it could be argued, put too much into the system hence that buildup of outstanding recommendations.

While I'm the Auditor General, I will hold the view that our audit work is not complete until we have done the follow-up audit. The first audit and making the recommendations is important, but that's only part of the work that has to be done. Until we follow through and ensure that our recommendations have been implemented, Albertans can't be sure that change has in fact taken place. There's a sort of trade-off in inundating the public-sector managers with too much that they can't cope with. Then the risk to us as an office is that we have so many recommendations out there to be dealt with that we get to the point that we are simply

dealing with checking on past recommendations and have no capacity to make new recommendations.

I do believe, coming back to your earlier question, that there is scope for us to push that 75/25 further, but there will be a point at which, I would argue, it can't reasonably be pushed any further.

Ms Blakeman: Thank you. I do have a follow-up if I could just find it. Sorry; I'm on the wrong document again. In the current year you had noted that you were over quite a bit. I think it was 15 per cent on a travel budget. I'm sorry; I've completely lost which document it was in. It must be the other one. No, wait. It's under page 5, performance report 2012-13, spending compared to budget. Travel is \$86,000, which you say is 15 per cent over. What happened?

Ms McHugh: If I may, the additional travel was incurred for Northern Lakes College. In that case three audit years' worth of work was done during the one year. For the IPC, the infection prevention and control audit, we had more travel there than we had originally expected. The Medicine Hat College international program. For those three things the travel budgets were greater than what we had originally anticipated.

Ms Blakeman: Wow. Okay. Thank you.

The Chair: All right. Our next member is Dr. Neil Brown.

Dr. Brown: Thank you, Mr. Chairman. I'd like to come back to the issue about what you said was the 4.8 per cent. Perhaps we were looking at different lines. I was looking at the salary and wages alone. You're probably looking at the whole personnel expenses. Can I come at this a different way and ask you: given the fact that your forecast expenditures up to March 31 of this coming fiscal year would be \$26,085,000, what items, if any, were left undone that ought to have been done?

Mr. Saher: Just for clarity, Dr. Brown . . .

Dr. Brown: In other words, you're forecasting to make a certain expenditure here. You're asking for a 4.8 per cent increase. I'm asking you: given the fact that you had that amount that you're estimating that you would expend, what things were left undone that ought to have been done?

Mr. Saher: Okay. The forecast is in relation to the year that we're in now and will end on March 31, 2014. I believe that we are not forecasting a surplus or a deficit for the year that we're in now. Am I right, Loulou?

Ms Eng: Yes.

Mr. Saher: That is our goal. Our goal is to use the budgeted funds, the funds supplied to us in full in executing the business plan that supported that. As we talked about earlier, when we get to the year-end, we may overspend slightly, or we may, as we traditionally seem to do, underspend. That's a question of being able to allocate costs into the right period. At the moment, in the year we're in now, we fully intend to do everything that we had planned to do and use the support for our previous budget request.

Dr. Brown: Okay. Turning to page 10 of your business plan and budget, on voted capital investment, at the bottom, you've got \$205,000 for computer hardware and software. You indicated in the body of the document that you had replaced your computers last year, so that's why there was a decrease in that amount. Could

you give a brief explanation of, you know, that expenditure of \$205,000?

Then, related to that a few lines up from there you've added in amortization of capital assets, \$370,000, as a cost item. I'm not an accountant, so perhaps I'm not understanding it correctly. But in the one instance we're looking at the expenditure for these capital assets such as the computers and the furniture and so on. We are also adding in the amortization up at the top as an expense, \$370,000. Looking at the footnotes that you have there, you say that "lower capital investment in 2011-2012 resulted in lower asset base for three-year amortization." Why would that be an expense? I understand from an accounting point of view that if you're looking at assets and liabilities, you would look at depreciation in that manner, but why would we put that into a budget like that? In one case we're showing it as an expense; in the other one we're showing the amortization also as an expense.

Mr. Saher: Okay. I'll start, and then I'll ask my colleagues to supplement. In the schedule you're looking at, we come down to something called cost of operations. If I just use the first column so that we're all on the same line, \$23,920,000, from an accounting point of view the cost of consuming or using assets, measured and described as amortization, is a cost. That's why that's described as cost of operations. We're trying to convey to Albertans and to the Assembly and to this committee that this is what it's costing annually to run the office of the Auditor General.

Dr. Brown: But you're not asking for that money.

Mr. Saher: But we're not asking you – no.

Ms McHugh: It's nonvoted.

Mr. Saher: It's nonvoted.

Dr. Brown: Yeah. I understand.

Mr. Saher: I know that you understand it. You've already voted us the appropriation to acquire the assets in previous years, that we are now expensing. I think that maybe only answers a part of your question.

Dr. Brown: Well, what about the \$205,000?

6:45

Mr. Saher: Yes. I'll ask one of my colleagues if they could explain. I think the question is: if we've already replaced our fleet, what is this \$205,000 for? What is this request for \$205,000?

Dr. Brown: Exactly.

Ms Eng: Basically, it's network servers and storage. We have a rotation each year when they reach their full warranties and need to be replaced.

Ms McHugh: The warranty expires.

Mr. Saher: If I can maybe supplement there, the physical computers we have – each of our auditors has a computer. We replace that on a fleet basis, so we replace them as a group about every three years. But we also as an office, in maintaining our operations, have hardware in the form of servers and other hardware items that are not replaced on that same cycle. This \$200,000: Loulou is telling you that these are for pieces of equipment that are needed to maintain the IT infrastructure that we run in the office.

The Chair: All right. The next hon. member is David Eggen.

Mr. Eggen: Thanks, Mr. Chair. I guess I have a two-part question, and Laurie was heading down the same path. Perhaps it's simplistic to make this analogy, but the dollar value of our global provincial budget has increased. Let's say that it's doubled in the last 20 years. Has your budget been commensurate in its increase? I mean, if you look at it in the most simplistic terms, you are responsible for auditing that money. Is it fair to have an equation where your overall budget should be commensurate with the increase in the provincial budget?

Mr. Saher: No. I'll argue that I don't think that that relationship is 1 to 1, if I can put it that way. A good business system that is capable of processing, let's say, on an expenditure side \$20 million of purchases of an organization can process, if it's a good system, \$40,000, \$60,000. The audit effort to verify the \$60,000, which is three times what it was a few years back, is not three times the increase. With good control systems, which is what we aim for, our interaction – we say that we want to add value. We're trying to add value in the sense of the best control systems for current and future throughput.

Mr. Eggen: Yes. Okay. Just to supplement, then, do you apply your budget to other jurisdictions to look for comparisons both in population and the provincial budget, let's say, of other provinces? Have you done that analysis?

Mr. Saher: It's a difficult analysis because the mandates are not uniform. There are sort of differences in the scope of the audit universe. I mean, for example, just by comparison, our audit request, our budget request to you today is larger than the request that my colleague in Ontario will make. At first blush that doesn't make any sense at all – Ontario is much larger – but the audit universe there is different. The Crown corporations under Ontario legislation are entitled to appoint their own auditor, and the costs of those audits will be in those financial statements. So straight comparison is sometimes difficult, but I can assure you that Alberta is a member of the legislative audit community across Canada, and we are interested in and do spend time discussing approaches. The goal is not to reinvent wheels. If one jurisdiction has found a way of doing something, we're happy to borrow it, steal it here. Yes, there is a general sense of comparison, if I answer your question.

Ruth, do you intend to try to compare our budget request with another jurisdiction?

Ms McHugh: I hadn't been intending to do that.

Mr. Eggen: As an advocate to expand our auditing capacity, I need those tools to do so. I need ways by which I can make a reasonable case for that, and I will continue to do so.

Thank you.

The Chair: All right. Our next hon. member is Jeff Wilson.

Mr. Wilson: Great. Thank you, Mr. Chairman. I'm wondering if you can offer some clarity on a couple of statements that are in two of your reports that have been issued – I'll read them back to you – because they seem to be a slight disconnect for me. If you could just help me to understand where you're coming from. In the July 2013 report, page 102, it was stated:

Because the fiscal approach and scope of activities used in Budget 2013 is different from the accounting standards that will be used to prepare the province's 2013-2014 financial statements, a comparison will be difficult to explain and

understand as complicated adjustments and modifications will be required.

The other statement is from the October 2013 report, page 6. It says:

The fact that none of our auditor's reports on financial statements contained a reservation of opinion means that Albertans can be sure they are receiving high quality information from the government on the province's actual financial performance.

Are they saying the same thing? Are they saying two different things? Am I not understanding it?

Mr. Saher: Okay. I'll start with what we said this October, that you found on page 6. What we said there is that we have audited the financial statements of over 150 organizations, including the consolidated financial statements of the province, and we did not issue a reservation of opinion. In the vernacular, we gave clean audit reports, and the statement on page 6 is an extrapolation of that fact. That means that Albertans are getting good-quality financial reporting in financial statements. The comments there relate to financial statements.

The previous comments that you referred to were some comments we made on the budgeting side of the government's activities. The statements in each place I stand behind, but they are talking about different things.

Mr. Wilson: Gotcha. That answers my question. Thank you.

The Chair: A supplemental?

Mr. Wilson: No. Thank you.

The Chair: Next is Dr. Neil Brown again.

Dr. Brown: Oh, my goodness.

Mr. Saher, as you probably noticed when you came in, there was a demonstration happening out there. There's a piece of legislation before the House right now which has, I think, probably a fairly high probability that it will pass, and it involves restraint of the public-sector salaries. I think it behooves us to look at some of those factors that are around us when we're looking at budgets for all of the departments.

What I'd like to ask you is if you would undertake to provide us, the committee, with a calculation of what it would cost to proceed with your regular grid increases in your salaries and wages for the coming year plus add an increment for those individuals who have reached the top of their pay grid at the regular incremental increase. If you could provide us a figure of what that would work out to, I would appreciate it.

Mr. Saher: Mr. Chairman, may I ask a question to clarify the request?

The Chair: Go ahead.

Mr. Saher: If I understood you correctly, you've asked: what is the raw dollar amount and percentage with respect to growth within the band? But you also added in a piece that I was surprised about.

Dr. Brown: You mentioned that there were certain people that have reached the plateau at the top of their grid, and you're unable to offer them something. I think it would be reasonable to assume that in order to remain competitive with the private sector, you'd probably want to add those individuals into the expected increase, which you called a performance increase. I'd like to have a

calculation of what that increase would be, basically no increase in the grid without the performance recognition, that you mentioned, that would be increased. So the 2 and a half per cent you mentioned I think was the grid increase, plus those individuals that have reached the top of their pay scale.

6:55

Mr. Saher: Just for clarity, you're asking me to give you a computation of something that I would not be permitted to pay because I would be in breach of the Public Service Act were I to make any payment to those people that have reached the top of the grid whereas I would, from one perspective, very much like to offer people who have reached the top of the grid an increase in their remuneration, after all . . .

Dr. Brown: That's exactly what I'm asking, yes.

Mr. Saher: Sorry if I keep pushing this. I want to get it right. You're asking me: what would I like to do were I not subject to any constraints with respect to people at the top of their grids?

Dr. Brown: Well, what you would do, assuming that we would be proceeding with what you are budgeting, for those individuals who have reached the top of the pay grid only.

Mr. Saher: Right.

Dr. Brown: In other words, you know, we reached an agreement with the teachers, Mr. Saher, as you're probably aware. Teachers work on a pay grid. They get a regular increase for every year of experience, but that grid has not changed. There's a zero per cent change in the grid.

I guess what I'm asking you is to provide us with the number so that we would have an idea of what that would be of a zero per cent increase with the grid plus an increment in order to keep those individuals at the top of the grid within your expected remuneration.

Mr. Saher: Okay. Well, thank you. I'll study the *Hansard* very carefully before we try and answer that question.

Dr. Brown: Thank you.

The Chair: Fair enough. That is good clarification.

Our next hon. member is Blake Pedersen.

Mr. Pedersen: Thank you again, Mr. Chair. If I could draw your attention, please, to your Auditor General business plan, 2014-2017, page 7. I want to ask a couple of questions, the first one and then the supplemental. As you may or may not be aware, the issue of children in care is quite a hot topic right now. You are indicating that you are looking at doing follow-up audits on child intervention standards. We're just wondering: what within the system would you be looking at in particular?

Mr. Saher: That audit has already been completed. We would be scheduled to report publicly on that in February of next year. It's obviously connected with what is prominent in the Alberta media and thoughts of all Albertans today. We'll have to be very careful in describing exactly what we did.

Mr. Pedersen: I appreciate that.

Mr. Saher: But it's very specific and relates to recommendations that we had made in the past that were still outstanding. It's in that area of child intervention standards. I'm happy to say now that I'm very confident that it in no way gets directly to the issues that

are being discussed today. It's looking at pieces of that system that we had made recommendations on.

Mr. Pedersen: Okay. Just for clarification, when is that report due?

Mr. Saher: February 2014.

Mr. Pedersen: Okay. So in regard to that, you said that the report is done.

Mr. Saher: Yes, the work is done.

Mr. Pedersen: The work is done. Okay.

Mr. Saher: The full processes have not been completed in terms of our due diligence with discussing our conclusions with management and Human Services, and there are other processes that I have to follow before I can make a report public.

Mr. Pedersen: Okay. Just as a follow-up, Mr. Chair, in regard to that, I'm not sure if you're aware, but the minister has announced that he would like to do a round-table, which would involve MLAs, experts, and stakeholders, and he's calling for that in January. So there's a little bit of a time lag. Is there any opportunity, not to put pressure on you, to have that report possibly completed and distributed to those people who might be interested in that report? It would certainly give a lot of great information and direction and focus as to what you have found versus what we're dealing with right now. No pressure.

Mr. Saher: Well, you know, I don't feel pressure because I'm bound to follow the process that my act has in relation to making our work public. Certainly, I will make sure that I draw to the attention of the ministry officials that if they have in their possession by that time our conclusions, they should consider using the conclusions that we have given to them as part of that process.

Mr. Pedersen: That would be excellent and all we could ask. Thank you very, very much.

The Chair: Any other hon. members?

Seeing none, then I'll say thank you very much, Auditor General and all the staff. I think, Ms Ruth McHugh and Ms Loulou Eng, you've done a great job on clarification of a lot of questions from our committee. I would just want to say that, for your information, the committee's decision on the office's budget will be sent out next week. We would just say thank you for your thorough work and report and planning and explaining to us.

Mr. Saher: Thank you very much for taking the time this evening.

Ms McHugh: Absolutely. Thank you.

The Chair: Committee members, are there any other items you wish to discuss?

Seeing none, then, as I said at the beginning, our committee meeting will continue at 8:30 in the morning.

Dr. Brown: Breakfast will be served?

The Chair: We have breakfast, and we have lunch, too. The predicted ending is 3:30 p.m.

All right. Now I need a motion to adjourn.

Mr. Quadri: I move the motion to adjourn.

The Chair: Hon. member Sohail Quadri moved the motion to adjourn. All agreed? Opposed? Motion carried. The meeting is adjourned.

[The committee adjourned at 7:03 p.m.]

