

Standing Committee on Public Accounts

Wednesday, June 27, 1979

Chairman: Mr. Mandeville

10:10 a.m.

MR. CHAIRMAN: Good morning, ladies and gentlemen. We'll now bring our meeting to order. I'm sorry that we're late starting our meeting this morning. They had a Private Bills meeting here this morning, and we're a bit late getting started. We'll get on with our business as soon as possible.

Copies of the minutes have been distributed. We also have a copy of the transcript. What are the wishes of the committee? Do you think it's necessary that we read the minutes? Each one has a copy of the minutes. We tried to take them from the transcript. If the committee members feel we don't need to read the minutes, we can just have them approved as distributed.

MR. McCRAE: Mr. Chairman, could I just make a comment on that? I hate to be too fine-tuning, but in reading the minutes . . . Minutes ordinarily record decisions. If you're recording decisions, there's no difficulty in knowing that the minutes do in fact reflect what happened. The minutes we have for Public Accounts are a reflection of discussions. Now, when you try to condense a two- or three-paragraph statement into one sentence or a one-line statement of what was said, it may or may not be accurate, depending on what future interpretation is taken of the condensed version that appears in the minutes.

What we did last Public Accounts meeting, if my memory serves me correctly, rather than adopting the minutes, which indicates some formal approval and agreement to what happened, we simply filed the minutes as written or as typed. Then, if there was any later dispute about what was said, rather than saying, we adopted the minutes and the minutes say that member so and so said such and such, rather than reverting to that, we would simply revert to the transcript which each one of us has.

I think we're in a very unusual situation here, when you have minutes that are an attempt to reflect representations or members' statements. I would hope we would use the system we used last time, and simply file the minutes and rely on the transcript for any corrections or future debate. It may be a fine point, but I think it's a very important one.

MR. CHAIRMAN: What are the wishes of the committee? Is it acceptable to the committee if we just file the minutes of the meetings?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: I think we tried to write the minutes verbatim from the transcript. We did have them changed some. I don't think there are any errors or omissions in the minutes.

MRS. EMBURY: Mr. Chairman, there is an error in spelling on page 3, under the list of the hon. members and their topics. The third one from the bottom, I believe, should be Mrs. Cripps.

MR. CHAIRMAN: Thank you. Are there any other errors or omissions in the minutes?

I'd like to ask the committee members to give their names when they stand in their places. It will make it easier as far as the recording is concerned.

We have our new secretary this morning. I'd like to introduce ~~for~~ Donna Ballard. She's going to be our permanent secretary and will record our minutes and keep us in line for the next period of time.

We decided at our last meeting that the next two meetings would be an overview of public accounts and also an overview of the Auditor General's role. Is it the wish of the committee to spend this meeting with the overview of public accounts with our Auditor General? Or do we want to get into determining what areas we are going to have on our agenda at our third meeting? It will be the second meeting from this meeting. We do have two full meetings on the overview. Is it the wish of the committee to determine what areas we are going to get involved in when we get into public accounts, into the meat of it, at this meeting, or at our following meeting?

MR. McCRAE: Mr. Chairman, if I might venture an opinion for our side on that area, I think there's considerable doubt that we'll be here next Wednesday, which would mean that if we follow the decision of last week, to have the Auditor General back for two presentations to us, it would mean that if we're not here next week, our first meeting in the fall would dwell on the second presentation of the Auditor General. We would be agreeable to setting the agenda at that time, if that is the wish of the opposition. If it isn't, we're quite happy to attempt to set the agenda this morning.

MR. R. CLARK: Mr. Chairman, I think that's reasonable. It's fair to say the hon. member and I don't totally see eye to eye on what the agenda should be. Perhaps over the summer the vision of both might get somewhat better. I'd be quite prepared at the next meeting of Public Accounts, when Mr. Rogers gives us the second half of his presentation, to set the agenda on that occasion.

MR. CHAIRMAN: If that is the suggestion of both sides, we'll leave it at that then.

We'll deal with the overview of public accounts this morning. Just before Mr. Rogers begins, I would like to say to the committee members that Mr. Rogers has agreed that at any time you can stop him and he'll explain any questions you want to ask. You can ask questions as he's making his presentation this morning.

Now I'll turn the meeting over to you, Mr. Rogers.

MR. ROGERS: Thank you, Mr. Chairman, ladies and gentlemen. I would reinforce that. I don't intend it to be a terribly formal presentation, rather a discussion. If any of you have any questions, we can perhaps deal with them as we go. It will save confusion later on in the discussion.

I have copies of some notes that I think may be of ongoing value in looking at these and future public accounts.

Public accounts, as you know, is broken down into three volumes. Three volumes are published. Volume 1 deals with what one might call central government: the departments, the general operation of government, the general

revenue fund. Volume 2 deals with separate legal entities, many of them funded from the general revenue fund. Volume 3 shows the details of the payments or expenditure made by payee of expenditures made from the general revenue fund.

There is another volume which shows the names of people who were paid salaries and wages. Since the early 1950s this has been confidential to MLAs. It has not been published. You'll notice it is a computer printout. We used to print 100 copies, but after several years of only using one or two of those copies and having to destroy books that were not used, that were just taking up space -- we always keep a number for the archives -- when we found we could print them for a smaller cost on the computer, we decided to cease printing and binding the copies of the salaries and wages and now produce them on the printer at request. At one week's notice, any MLA who wishes can have one of these listings of salaries and wages by the names of the people who were paid.

This morning, I would like to deal primarily with Volume 1.

I imagine one should look at the payment system for the general revenue fund as a sort of pyramid. At the top of the pyramid, in effect, we have the financial statements of the province. Historically, these have been the statements of the general revenue fund and still are. However, with the advent of the heritage trust fund and also the fact that we have other corporations, it is being suggested -- and this is not only for our government but for all governments -- that perhaps they should be an aggregated set of statements that do reflect the entire operation of a province or jurisdiction. A study is under way right now under the auspices of CICA, the institute of chartered accountants. I'm on the study group which will be coming up with some recommendations in this regard. So when one looks at the balance sheet in public accounts, one is looking at the general revenue fund. That is on page 24 of Volume 1 of public accounts '77-78. As you're all aware, this is the last set of public accounts prepared by what was then the Provincial Auditor. On April 1, 1978, the scenario changed, and my office became the office of the Auditor General. The public accounts for '78-79 will be produced by the Controller, under the division of Treasury under the auspices of the Provincial Treasurer.

With regard to '77-'78, on page 24 we have the general revenue fund balance sheet, which is the primary statement. It is prepared on a net debt basis, which is somewhat different from balance sheets in the private sector. You'll notice that fixed assets are at nominal value, one dollar. This is always looked upon as an idiosyncrasy of governments. The main reason is that in the private sector the assets are carried at their cost and by depreciation those assets which are revenue earning are amortized or charged to each year's operations and become part of the expenditure. Where the assets are earning revenue, that makes sense. But in the case of a government, what sense is there in doing that for roads, or buildings, which in effect are not directly revenue earning but are more services to the public. Consequently, in governments generally you find that assets are those assets which in the course of time can be converted to cash.

MR. PAHL: Could I ask what the distinction would be between assets and inventories . . . Could you identify please the schedule No. 7 inventories, as distinct from fixed assets, and if they're items that would be normally depreciable in the private sector?

MR. ROGERS: That is basically liquor, sir. We feel that is the equivalent of cash. That is the stock of the Alberta Liquor Control Board, which is the

only agency that is consolidated for purposes of this statement. It is because of the nature of the Alberta Liquor Control Board, which brings revenue in for the government. Therefore, we felt it was appropriate -- and this goes back a long way, many, many years -- that that inventory be taken into account on consolidation.

The offset against these assets, of course, are the direct liabilities of the province. When these direct liabilities are deducted from the assets, then we have the surplus. This is the surplus of the general revenue fund.

Now, I would point out that in considering this surplus, a number of factors should be taken into account. These are noted on page 4 of these notes. Obviously, I won't read through the whole thing, but I would point out that the six items noted there should be considered when one is looking at the surplus on the balance sheet. This is not a pile of cash in the bank, so to speak. There are other things to be taken into consideration. The amounts receivable and payable under The Alberta Income Tax Act are not reflected on the general revenue fund balance sheet. This is a practical problem which we hope to do something about in the next year or so through being able to obtain more up-to-date information from National Revenue.

In passing, I would mention that this summer our office will be conducting an audit of National Revenue operations in conjunction . . . Put it this way: we will be examining the work of the Auditor General of Canada with regard to his work on National Revenue to verify that the work he is carrying out is adequate for our purposes, to give us assurance that the revenue we receive from National Revenue or from the government of Canada, which is collecting income tax on our behalf, that the audit he has carried out is adequate for our purposes. This is the first time, to my knowledge, this is being done in this way.

Another point is that these accounts, being the accounts of the general revenue fund, do not reflect . . .

MR. R. CLARK: On the comment you just made as far as the audit being done by your office of the income tax people, what's the reason for doing that?

MR. ROGERS: I'd have to go back to the fact that we received a payment of \$99 million that was an estimate of the amount that was payable to us for a given year's tax. The information that came to us from Ottawa was to the effect that they had just introduced a new EDP system, and they were having some problems. Therefore, they gave us an estimated amount. There had been a lag in assessment because of this. It kind of triggered the fact that we did not have any real knowledge of the system under which the allocation to the provinces was made. Consequently, I went down to speak with the assistant deputy minister, Dr. Neufeld, in Finance in Ottawa and had a discussion with him as to the way in which I might carry out the audit prerogatives that are contained in the agreement, mainly with respect to the system. That is as far as we are going. We're not looking at tax records. People under the Act cannot look at tax records. But we can examine the methodology used to distribute the tax to the various provinces.

We also have the problem, of course, that we have what are virtually expenditure programs that are administered or effected by National Revenue, namely the credit program that they carry out, that they administer, in effect, as agents for the Alberta government.

I would refer to page 32 of public accounts. I mentioned this audit because it stems directly from this comment here, which starts near the bottom of the page:

It should be noted that due to a large number of 1976 corporation tax returns being unassessed at February 28, 1978, the cutoff date for determination of the Province's 1976 corporation tax entitlement, an adjustment payment of \$99 million was paid by Canada to Alberta in March 1978 in respect of 1976. Since the 1976 returns assessed after February 28, 1978, will be reported as 1977 taxation year revenue the adjustment payment has been included in the preceding summary as 1977 revenue.

This brought a concern, not as to the tax collection but as to the distribution of the money collected on behalf of the various provinces. The result was that I found that my colleagues brought this up at the annual meeting of the provincial auditors and auditors general, and it was found that they all had some concerns about this, and so jointly we agreed that we would, under the auspices of the Auditor General or Canada, we would satisfy ourselves or have confirmation that the system for the distribution of the tax to the provinces, or the provinces' share of the tax, was adequate. This work is being carried out by the staff of the Auditor General. We are not in a position of looking at the raw tax returns or the individual tax information. But it does mean that we can gain satisfaction from seeing the work carried out on the internal controls in the system, that we can have reasonable assurance that the amounts we have received as our share are reasonably correct.

MR. R. CLARK: [Inaudible] the fall?

MR. ROGERS: I should have a fair indication by August. The work should be pretty well complete then, unless we determine that additional work is necessary. In that case, it may be delayed. But I'm hoping to have the final word by fall for inclusion in the '78-79 report.

MR. R. CLARK: Could I just ask Mr. Rogers if he'd give us the undertaking to let us know at the fall meeting of public accounts if, in fact, his audit has unearthed any difficulties?

MR. ROGERS: If I ran into any difficulties of any significant nature in any event, I would feel obligated to make a special report to the Legislative Assembly, as I can under the Act.

MR. ZAOZIRNY: Am I correct in assuming, then, that that \$99 million payment was in fact a late payment? If so, does the federal government pay interest on its late payments?

MR. ROGERS: No, they don't pay interest. I imagine that's why they gave us the \$99 million. On the other hand, sometimes we get overpayments. We don't pay interest on any overpayments that we owe.

MR. ZAOZIRNY: Wouldn't the overpayment result from their not having made a correct calculation?

MR. ROGERS: The problem was in their inability to process the various tax accounts. They just believed the amount coming to us would be in the region of \$99 million. They paid us that amount and then made any adjustments subsequently.

MR. ZAOZIRNY: Then was that \$99 million paid on time?

MR. ROGERS: Yes, that was the date that was agreed upon in the agreement.

MRS. OSTERMAN: I might ask Mr. Rogers if he would endeavor to use the elongated form of whatever systems he's talking about us. There are some of us -- unless it's just me -- who are completely unfamiliar with the different terminology. In your remarks you referred to the federal government's new EDP system, I believe. I wonder if you'd tell us what that is.

MR. ROGERS: I beg your pardon. Electronic data processing, a computer system, basically.

MRS. CRIPPS: Would you please explain the difference between unfunded debt and funded debt?

MR. ROGERS: Yes. I would like to refer to page 5 of the printout. I'll read it out, perhaps, and then can give any further comment that is necessary. The net funded debt appears on a number of pages, pages 19, 24, 41, et cetera.

The net funded debt is the amount required to redeem debentures and treasury bills issued less the Provincial Sinking Fund and the aggregate of the Province's investment in its own debentures.

Schedule 12 on page 41 gives the detail. The net funded debt at March 31, 1978, was \$202.3 million.

Now, the unfunded debt:

This is the aggregate of unsecured amounts . . .

That means there are no debentures or treasury bills or paper of that type. These are payable at the fiscal year end.

Of the total unfunded debt of \$292.8 million as at March 31, 1978, approximately \$205.4 million consists of amounts owing for goods and services received . . .

These are the normal accounts payable.

. . . prior to March 31, \$31.0 million is the estimated excess post-secondary education advance payments repayable to the Government of Canada . . .

This is where I will now refer back to my point earlier. This is where they overpay us, and actually amounts are refundable.

. . . \$28.0 million the outstanding exploratory drilling incentive and geophysical incentive credits and \$10.8 million a grant payable to the Alberta Housing Corporation.

Basically, answering your question, the funded debt is where there are debentures, where there are signed papers, in effect. The other, unfunded debt, are normal debts in effect in the operation of the government at March 31 for the various programs.

Does that help?

MRS. CRIPPS: Where do the funds come from if they're unfunded?

MR. ROGERS: The unfunded debt is at March 31, but the books are held open until later, the end of April or even later, for what we call the accounts payable period. Much of that unfunded debt at March 31 is actually paid out of funds provided. It comes out of revenue. This is no different from any other expenditures.

Does that help? Okay. I think we'll be coming back to this point time and time again, so I think it will become clear.

You recall we were talking about the surplus. I had mentioned there were a number of things you should think of when you're considering the surplus, that this is not like the money you may have in a savings account that is there to spend. A number of things have to be taken into account. Number three is a rather important one. This is a quote. All these items are mentioned in the notes to the financial statements, which should be read in conjunction with the financial statements and are a part of those statements.

The pension plans are therefore on a current cost basis and no liability is shown on the attached balance sheet in respect of the present or future benefits . . .

This means that we have accumulated liabilities under the various pension plans that the money has not been set aside to cover those future liabilities. What we do is take pension deductions from staff -- historically we have done this; it goes back a long, long way -- and deposit them as revenue. Pension benefits are paid as an expenditure and are provided for in the money voted by this House annually. Consequently, we have a very large amount. At the moment, we do not precisely what it is. Actuarial studies are under way which will supply information in future as to the total liability that exists at a given point in time for the various plans.

MR. HIEBERT: If they were to collapse all those pension plans at this point in time, could you 'guesstimate' what that would be in terms of the liability?

MR. ROGERS: Do you mean if they were to be funded?

MR. HIEBERT: If they were to be paid out now. If they were to say, let's collapse all the pension plans. What would be a 'guesstimated' figure as to the incurred liability?

MR. ROGERS: I don't think we have that information, sir. I think an actuary would have to be involved in that. For instance, for all the people on the work force right now, over many years, in some cases, we've been collecting the deductions every time they have been paid. Every month we are depositing contributions from those individuals. I'd refer to page 31. Note 3 describes the situation regarding pension plans, with regard to the teachers' retirement fund, which is only one of a number of plans. You'll see the comment:

An actuarial valuation as at August 31, 1973, indicates that Teachers' Retirement Fund assets together with future contributions from teachers of record at that date will be insufficient by an amount of \$374,329,000 to meet the combined liabilities in respect of those teachers and those already on pension.

Then it shows what that amount is comprised of.

Until actuarial valuations are completed, an exact figure of liability cannot be determined.

MR. ZAOZIRNY: Mr. Chairman, I suppose the obvious question would be: when is that actuarial study expected to be completed?

MR. ROGERS: These things take a long time. I can't give you any exact information offhand, but I believe studies are under way at the moment. At least the gathering of information is under way, I believe.

I would like to take notice of that question, if I may.

MR. PAHL: In the same course of taking notice of that question, I wonder if it's not already part of the study, if the implications of indexed pensions and the transferability of pensions from other jurisdictions of people moving here would be considered as part of that calculation.

MR. ROGERS: I'd just like to make a comment with regard to that last question. Our pensions are not indexed *per se*, but there are adjustments by order in council periodically. But they are not indexed; in other words, they don't automatically increase with cost of living, as do the pensions in the federal environment.

MRS. EMBURY: On the point of pensions, I think basically you've covered what I wanted to enquire about. But I've had a lot of constituents bring this point to my mind, that they're very concerned about the fact that the pension money is put into general revenue. If you look at some of the tremendous increases in the pension funds, we're going to be broke very soon, or what will happen that's where the trust fund money will have to go.

Now I don't know if that's an alarmist attitude, but is this what you're saying, sir, is under study?

MR. ROGERS: To my knowledge, yes. This whole matter is being studied by the government. I believe arrangements have been made for actuarial studies to be carried out.

MR. L. CLARK: Mr. Chairman, I just want to ask: when those studies are done and carried out, what does the government plan to do? Are they planning on funding these pension plans?

MR. ROGERS: Sir, that is a matter of policy, and as auditor outside my jurisdiction. The figures shown by the actuary will be brought to the attention of this House, I assure you.

I would like to refer to the latter part of the Auditor's report. I was going to come to this later, but I think it's perhaps appropriate to bring it to your attention at this time. In the report, on page 23, under Considerations for Further Improvements in Financial Reporting, are some comments I would like to read:

The General Revenue Fund balance sheet does not reflect any liability in respect of the Province's substantial commitment to guarantee the payment of all benefits due under the following six acts:

1. The Public Service Pension Act
2. The Local Authorities Pension Act
3. The MLA Pension Act
4. The Public Service Management Pension Act
5. The Universities Act (Academic Pension Plan of the University of Alberta)
6. The Teachers' Retirement Fund Act

As stated in Note 3 to the financial statements actuarial valuations are required to determine the amount of the Province's liability under the first four of the above noted acts. It is recommended that such actuarial valuations be undertaken.

Then there are some other comments on the other Acts.

Then I say: "Consideration should also be given, next year, to recording as liabilities and expenditure accrued . . ." I beg your pardon, that was another matter.

I think that it the situation with regard to pension plans.

Item 5, which should be taken into consideration when considering the surplus at the end of the year, should be that no provision has been made in the account of contingent liabilities resulting from litigation and guarantees. A further item, that is not that large, is a liability because our funded debt includes U.S. \$30 million. There's an unrecorded liability of \$1.8 million.

MR. COOK: Mr. Chairman, I wonder if I might ask a question on Note 4. I'm a rookie; you'll have to excuse my ignorance. You note that \$10 million is guaranteed by the province. Is that right? This is on page 31, Note 4. I'm sorry. It refers to the statement of claim filed by the seven Metis settlement associations. I understand that the Metis settlement association has a claim of \$10 million. Looking over at page 58, at indirect liabilities, I'm trying to find where that \$10 million has been set aside. Is that in fact what you are doing?

MR. ROGERS: No. Note 4 says: "No provision has been made in the accounts for contingent liabilities resulting from litigation and guarantees." This is the point I just mentioned.

MR. COOK: I see.

MR. ROGERS: So we are simply drawing this to everyone's attention; but it is not reflected in the account . . .

MR. COOK: I see. Thank you very much.

MR. ROGERS: . . . because the outcome is indeterminate.

Any other questions before we move on:

I would like very quickly to pass over Statement of Surplus, page 25. This statement reconciles the operating surplus with the surplus at the end of the year. I'm afraid I get bogged down in accounting if I go too deeply into this, except to say that the operations in this particular year and historically are on a cash basis. But to get a fair picture of the province's position, one has to go on to what is called "the accrual basis"; that is, taking into account not only what you have paid out but what you owe and what is receivable. Consequently these are the items that bridge the gap between the accrual basis and a cash basis.

The important Statement of Revenue and Expenditure, the item I'd like to talk about next, is on page 26. This expenditure is for all goods and services received up to March 31 that are paid by the end of what we call "the accounts payable period".

To get a better understanding of what is involved, I'd like to look at the Department of Advanced Education and Manpower. If I could refer you to Appendix 6 of the notes, you'll note an expenditure of \$349,728,174. This is a Xerox copy of a statement that appears in Public Accounts. But it makes it a little easier to see the various associated statements if we look at Advanced Education and Manpower statements as shown in the appendices. These statements are in your Public Accounts, but it's simply a matter of convenience.

You will notice that amount we just mentioned, that appears on page 26 as expenditure for Advanced Education and Manpower, is \$349,728,174. This is the amount on the total line that is expended. This is for the department. Votes 1, 2, 3, and 4 are individual programs. As an example, we are looking at program 2, Assistance to Higher and Further Educational Institutions.

As we go through the agenda of this committee, each time we look at a department, a branch of a department, or a program we will commence the proceedings by looking at the reference in Public Accounts. It goes something like this: if we are looking at Vote 2 of Advanced Education and Manpower, this is an amount voted on in the estimates as a separate program. We'll see that \$311,350,999 million of the total voted for the department was voted by estimates. During the year money was provided by special warrant to the extent of \$6,148,719.

For a moment I'd like to go to that part of Public Accounts that shows the details of those special warrants. It is on page 82 of Public Accounts. At the top you will see Advanced Education and Manpower, Assistance to Higher and Further Educational Institutions. This is Vote 2. You'll note that there were four orders in council, four special warrants -- one of \$1,375,000, and so on -- totalling the \$6,148,719. You can always see the details of the special warrants for a particular program by referring to the statement of special warrants appearing in Public Accounts.

On that same line of Appendix 6, further money was provided by transfers from salary contingency. This is due to the fact that when money is estimated for salaries at the beginning of the year, there is no way of knowing how much to provide for increases that are going to be given in that year on a program-by-program basis. Consequently estimates are made on the basis of the salary at the time the estimates are prepared. Subsequent increases are transferred from a program providing specifically for that purpose. In other words, money is provided by special warrant for salary increases, and then transferred to the various programs on an as-required basis. Consequently \$1,600,000 . . .

MR. CHAIRMAN: Mr. Hiebert.

MR. HIEBERT: Mr. Chairman, I note in the warrants on page 82, "Additional funds required by the University of Calgary in support of the expansion of McMahon Stadium". How often does a special warrant reflect itself as a liability to a department or an area that you normally don't assume as being associated with such an expenditure? I don't see the relationship between McMahon Stadium and the University of Calgary. How often does this happen?

MR. ROGERS: I believe that the University of Calgary owns McMahon Stadium.

MR. McCRAE: Mr. Chairman, I would like to confirm that. They own the property. If you remember the history, the McMahon family built the stadium and turned it over either to the city or to the university. This particular item has to do with the expansion of seats in the stadium and building a number of amateur facilities to assist and complement the many amateur projects conducted in that area, which I think have increased from something like 150 to something like 380 amateur opportunities to use the facility.

The property is owned by the university, so it was appropriate that the money flow through the university budget inasmuch as the government had agreed to assist the McMahon Stadium society, the group operating the structure.

MR. CHAIRMAN: Mr. Cook.

but of a program nature

MR. COOK: I wonder if the Auditor General could indicate to us whether special warrants indicate a new direction or a new program that the government brings in that they didn't foresee. Or does it indicate an error or something unforeseen when they're forecasting their expenditures, that is not of a new policy nature? Should the fact that we look at a statement of special warrants alert us to anything other than development of a new program?

MR. ROGERS: Yes, special warrants can do both. They can augment the funds provided by estimates for a program approved by the House. Or, if the need arises during a year, a program can be initiated by funds provided by special warrant, in which case you would not see any funds provided by the estimates. But you would see them provided by special warrant. All special warrants are in the supplementary estimates, and come before the House after the fact.

MR. COOK: Excuse me, but as a member of the committee looking at the Public Accounts of the province, should that alert us to the fact that this is an unusual occurrence that bears some scrutiny?

MR. ROGERS: It could, but in actual fact the House would already have voted on this money, the passage of supplementary estimates, by the time Public Accounts comes up. Okay?

MR. CHAIRMAN: Mr. Pahl.

MR. PAHL: It seems like a dumb question, but in this age of EDP, why are we in effect at what might be termed "ancient history" in the cycle of things? These accounts are for the period 1977-78, which is a full 15 months away. With computer print-outs and whatnot, wouldn't it be possible for the Public Accounts Committee to review the financial performance of the government in the 1978-79 year, for example, in a period of say three months after? I realize that's down the road. But why do we have to go back so far?

in this day

MR. ROGERS: I think the question of timeliness is extremely important. But the problem we have is that basic figures are known by about June -- that is, when the expenditures are all processed -- although the Treasury may cut off documents some time in the end of May. For various reasons, transfers have to be processed, you always have the laggard documents that for some technical reason can't be processed, your final figures are not available until the end of June. And this is with best effort. But the point is that this all has to be audited, and the audits go on until early fall. In this particular case my report was dated November 10. So this was pretty complete by November 10, which I know is not as early as you are saying. But it's virtually a fight every year against the calendar.

It then took another three or four weeks for printing. These Public Accounts were released at a press conference by the government just before Christmas. Under the old Act, I had a letter of transmittal, as you all see at the beginning of the book, whereby I passed them to the Provincial Treasurer. In due course he released them at a press conference.

Of course we're this late in looking at them this year because of the election and the late start of the House. Normally they are looked at in the spring session. If it were possible to have them ready for the fall session, then technically they could be looked at in the fall session. But to look at computer print-outs, I think we would be talking about unaudited statements,

which could well be handled, except that we have found that as a result of our audits very often there are transfers to be made or a restatement of items is necessary. It would be very difficult for the committee to be looking at data that was as current as you suggest.

MR. PAHL: Unless they were unaudited.

MR. ROGERS: Unless they were unaudited; yes, that is correct.

MR. CHAIRMAN: Mr. Zaozirny.

MR. ZAOZIRNY: Mr. Chairman, to Mr. Rogers. Looking at the Statement of Revenue and Expenditure on page 26, that you've had us focussing on, I note what appears to be a rather dramatic anomaly in terms of revenues from '77 to '78. In most instances we see increases of one sort or another. I'm looking at Hospitals and Medical Care, where there appears to be a decrease in revenue from '77 to '78 of some \$70 million. I wonder if you could perhaps provide a brief explanation of that decrease in revenue.

MR. ROGERS: There was a change that year in the federal/provincial arrangements whereby you'll find an increase in tax, because we receive tax points instead of cash. There was a \$160.4 million increase in individual income tax, and the increase in Alberta individual income tax rates increased from 26 per cent to 38.5 per cent. Federal individual tax rates were reduced as a part of the new arrangement for tax and cash transfers to replace cost sharing of certain programs. This was one of the programs. So instead of being on a cost-sharing basis, we were simply allocated the income tax points, which had the result of increasing our income tax revenue. That increase is of course shown elsewhere.

MR. McCRAE: Mr. Chairman, might I ask a question. I'm generally familiar with the revenue account and the fact that there are transfers from the federal government to the provincial governments. But I'm curious about the area of the Attorney General, the \$30 million revenue. Is that from fines? What is it?

MR. ROGERS: I'd like to defer that for a moment. Perhaps if there's another question, I'll come back to that one.

MR. CHAIRMAN: Mr. Hiebert.

MR. HIEBERT: Mr. Chairman, I would like to get back to the income tax audit with the federal arrangement you mentioned. At what point do you make a decision to do such a thing in terms of what we are getting and what it's going to cost to do that particular audit? In other words, when you're spending a dollar, when do we make the decision to save or find a penny -- as opposed to taking an estimate like that and then doing an audit to find out in fact whether we are short-changed or are receiving more, for all we know?

MR. ROGERS: I think the point here is that we're not really looking to see if we are short-changed. The other thing is that we are not doing the work. The amount of work involved will not be great, in that we will be reviewing the work carried out by the Auditor General of Canada. He is doing that audit in any event. We are not contributing anything to that audit. It is an audit

he's carrying out. However, we are adding to his audit program. But because in effect the government of Canada is acting as the agent for the Alberta government for this purpose, he believes that he also has some responsibility in satisfying us as to the scope of his audit.

The other thing is of course that this forms a rather large portion of our revenue. And in passing an opinion on the financial statements, I have a responsibility to this House in so reporting to do whatever verification work can be done. It is really a part of the overall verification work that our office undertakes. I guess the fact that we had the \$99 million and word of the fact they were having systems difficulties at the same time acted more as a trigger or red flag, and began to wonder why it hadn't been done previously or in fact all along -- that we have the responsibility for making sure that their revenue is correct.

MR. CHAIRMAN: Mr. Clark.

MR. R. CLARK: Mr. Rogers, could you take a minute or two and explain the pre-audit system that we were on under these Public Accounts. The next set of Public Accounts will be on a different basis. I get a bit confused as to the Controller in Treasury. To whom is the Controller accountable, as opposed to whom you're accountable to as Provincial Auditor?

MR. ROGERS: The Financial Administration Act that was effective until March 31, 1978, required that a pre-audit be carried out on all transactions, all expenditures from the General Revenue Fund. This meant that all payment documents created in the various departments flowed into the office of the Provincial Auditor and were examined by staff of the Provincial Auditor.

Then the cheques were produced in the data centre, which for a good number of years was formally a branch of the audit office but was transferred in 1975 to the Department of Government Services. Even then the preparation of cheques was under the authority and control of the Provincial Auditor. The cheques were then signed by the Provincial Auditor -- I didn't do them myself; a representative would watch them being signed, using a signature plate of mine. Similarly, a representative of Treasury would watch over the use of a plate of the Deputy Provincial Treasurer. Cheques were prepared in that way. They were then handed over to Treasury for verification, or whatever they wished to do with them, and distribution.

The problem with that system, which sounds very good and works very well in the case of a fairly small operation, was that as the operation of government grew, it began to be rather unwieldy. It's interesting to note that pretty well all provinces, and in fact the government of Canada, originally had this system. But over the years, one by one, these jurisdictions abandoned this system of pre-audit and adopted a post-audit approach, whereby an Auditor General or Provincial Auditor -- there's no significance in the name, really; it's a matter of choice -- would look at the government's transactions after the fact.

It was always a problem when you were making decisions as to the propriety of payments on an ongoing basis. You're under pressure to get cheques out; you do not necessarily know the whole story, because there may be several payment documents related to the same transaction going through different people in a staff of several dozen. Consequently, there tends to be an unevenness in the control that is possible to affect. But on the other hand, it is a very good control measure, and served the province well for many years. But we all felt it could be improved. Consequently, the new

legislation retained the pre-audit, which as I say is a very good control. And I believe I am correct in saying that those jurisdictions that dispersed this control to various departments have had troubles that have not been experienced here.

So the central control was kept only under the administration, under Treasury. The Controller is responsible for that operation. He is appointed, as you know, in the Act; at least provision is made in the Act for that position. But he is responsible to the Provincial Treasurer; because it is really the Treasurer who is given the responsibility of making the payments, and in turn he has delegated this to the Controller. So he has ultimate responsibility. Consequently the internal control, if you will, that was represented by the pre-audit system still carries on. It is carried out by the same people who carried it out for the Provincial Auditor. What really happened at the change-over is that they simply changed the name on the door. The same people continued at the same desks to do the same job. So there has been continuity.

The additional thing, though, is that we now audit expenditure after the fact. Because our independence is increased, because we're not involved in day to day policy decisions and day to day running of the operation, we can stand back and hopefully take a very objective look at what has been done and at systems that actually carry out the various functions. I do believe that the improvement has stemmed from the new legislation.

We were the last province in Canada to go this route. Now all the Provincial Auditors and Auditors General operate on a post-audit basis. We are looking at systems other than purely financial systems. We're looking at systems the main purpose of which is to ensure economy and efficiency. We're also looking at the fact that the administration measures the effectiveness of what it does, and there is provision in The Auditor General Act, which went into effect April 1, '78. Does that answer it?

The details of the \$30 million, Mr. McCrae, are on page 128 of Public Accounts and there are a number of different sources of revenue. Fines and penalties amounted to \$9.8 million of that \$30 million. The largest amount, \$18 million, arose from fees and permits.

I'd like to return to Appendix 6, which shows Statement 26 of Public Accounts. We were looking at Vote 2 of the department. I'd like now to refer to Statement 28 of Public Accounts, which is Appendix 7. We were discussing expenditure of \$318 million out of a total funds provided of \$319,099,718. You'll notice that those items which are single line on Statement 26, which gives the details of the various votes within the department, now are shown as Vote 2, Assistance to Higher and Further Educational Institutions. Then the details of the subprograms are given on this statement. And you'll notice that for instance provincially administered institutions are shown as Subprogram 2 of Vote 2. We see that \$72,525,426 was provided by estimates. There were special warrants of \$2,076,707, salary contingency of \$1,600,000, and other transfers of \$498,000.

Because this House votes money by vote, it is possible for the administration to make transfers, the details of which are shown and are published by the *Gazette*. It is customary for the administration to make transfers between subprograms within a program, because it is the program that is voted on by the House. Although the details of the subprograms are examined in passage of estimates, legally the amount is provided to the program. Therefore the administration has the power to make adjustments of funds between subprograms. You'll notice, though, that the transfers to and from subprograms end with a nil result on a total basis. Consequently the

total funds provided for the one we're looking at, provincially administered institutions, amounts to \$75,704,133, and the amount expended for that purpose amounts to \$74,713,883.

If we go to Appendix 8, we see that within Vote 2, Assistance to Higher and Further Educational Institutions, the estimates were broken down between manpower, supplies and service, grants, and purchase of fixed assets. On the next column, we see additional money provided by special warrants for those purposes or categories of expenditure. Then we see how the money was transferred. Because money may have been provided for manpower, but if it turns out that instead of being carried out by civil servants, the work is carried out under a contract, it means that the moneys provided are transferred from let us say manpower to supplies and services, or vice versa.

MR. CHAIRMAN: Mr. Rogers, would you excuse me. The time we've agreed to adjourn at, 11:30, has come. Before we adjourn, committee members, in the future if we have any documents, we'll try not to identify them; if we do we'll see that they get to the right names.

MRS. CRIPPS: Can I ask one question? Are the transfers you are referring to in estimates and expenditure of 1979-80 estimates of transfers, or are they referring to the same transfers you are referring to in Public Accounts?

MR. ROGERS: I don't know. The transfers don't go in the blue book. That's the Estimates, is it not?

MRS. CRIPPS: Then you're estimating transfers in this book. I just want to be able to correlate the two.

MR. CHAIRMAN: Is it the wish of the meeting to carry on past 11:30?

HON. MEMBERS: Agreed.

MR. COOK: Mr. Chairman, I wonder if I might ask one more question. Is there any way of finding out through the statement of Public Accounts how much the hiring of expert services would cost the government in a fiscal year, and how many people would be involved in that, if I could check back through the expenditures? In looking at the estimates of expenditures, I don't see anything broken out in terms of hiring of expert services, nor do I see anything here.

MR. ROGERS: I think that that would need a motion for reply in the House. Then you would get a detailed reply.

MR. COOK: Okay, thank you.

MR. ROGERS: The transfers that I think you are referring to are reconciling the two years. They're not the same transfer, to answer. In this book, these are administrative transfers to reflect reorganization, so that the House could reconcile one year's record with the next year's. In other words, certain functions came under different departments. It was for that purpose.

The transfers we're talking about here are transfers between subprograms within a program.

MRS. CRIPPS: But they show transfer of Vote 2.1 to Vote 3.2 within the same department in that reconciliation book. My question is: is that what's shown here?

MR. ROGERS: I have to say no, that is not the same transfer.

MR. CHAIRMAN: Committee members, in the future we'll be getting your transcript and the minutes to you as soon as we can. I would think that our minutes only need to be minimal when we have the transcripts going out. If you could agree to that, our secretary wouldn't have to draft a long set of minutes. Is that agreeable?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Could I have a motion to adjourn.

AN. HON. MEMBER: So moved.

HON. MEMBERS: Agreed.

The meeting adjourned at 11:35 a.m.