

Standing Committee on Public Accounts

Wednesday, May 6, 1981

Chairman: Mr. Mandeville

10 a.m.

MR. CHAIRMAN: We'll bring our meeting to order.

I think the minutes have been distributed among Public Accounts members. Are there any errors or omissions? All in favor? We will have our minutes filed and go right into the agenda. Since last meeting was short, we'll probably spend a little more time, so we'll go right into the context of our meeting. That's going to be an overview of public accounts. I have discussed with Mr. O'Brien that we can stop him at any point in his discussion on public accounts to ask questions, and he says it's satisfactory with him. So, Mr. O'Brien, we'll turn the meeting over to you at this time.

MR. O'BRIEN: The public accounts are presented in two volumes for 1979-80. The first volume contains the official audited financial statements of the Crown and provincial agencies which are subject to the reporting requirements of Section 77 of The Financial Administration Act. The overall table of contents for Volume 1 follows the letters of transmittal. The volume is organized into eight sections. The first section presents the consolidated financial statements for the province, which is a consolidation on accounting principles that are set out in the notes to the statements of all the other financial statements in the accounts. There are 64 sets of financial statements in the accounts, and then the consolidation brings those all together.

The second section presents the financial statements of the General Revenue Fund of the province, in other words the budgetary accounts. That section has its own table of contents which is found at the beginning of the section and presents the basic budgetary accounts or statements of budgetary and non-budgetary revenue and expenditure, and then a number of schedules to the General Revenue Fund statements.

The third section presents financial statements of what are called revolving funds. There are eight revolving funds which are essentially working capital kinds of accounts that are consolidated into the General Revenue Fund on the same principles of accounting as are followed in the General Revenue Fund.

Section 4 includes financial statements of regulated funds. Again, there is a table of contents at the beginning of each section. Those statements are organized into a statement on loan funds, revolving funds, which essentially are loaning money to third parties; the statements of some of the major individual regulated funds such as the Motor Vehicle Accident Claims Fund, the heritage fund, and the Heritage Foundation for Medical Research Fund; and a summary statement which provides an overall summary of assets and liabilities of other regulated funds.

Section 5 presents the statements of 27 non-commercial -- according to the classifications we've followed in the accounts -- provincial corporations. Those statements are organized by the department whose minister they report

through. Section 6 provides the financial statements of non-commercial provincial committees, which are simply unincorporated provincial agencies.

Section 7 presents the financial statements of commercial provincial corporations. The distinction we've tried to draw between non-commercial and commercial is simply one of whether there is any subsidization in any way by the General Revenue Fund of the provincial corporation. If there's any subsidization or financing of a provincial agency through the General Revenue Fund, then it's included in Section 5. These five commercial ones in Section 7 are not subsidized from the General Revenue Fund. They include the Alberta General Insurance Company, the Workers' Compensation Board, the Liquor Board, Treasury Branches, and AGT.

The primary distinction between those in accounting terms is that the provincial corporations under Section 5 have been fully consolidated in the consolidated statements. The commercial enterprises have been consolidated on what our accounting friends call the equity basis, which means we've not brought in their gross assets and liabilities, only the province's net investment in that agency.

Section 8 provides .#.#.

MR. CHAIRMAN: Mr. O'Brien, could [inaudible].

MR. GOGO: Thank you, Mr. Chairman and Mr. O'Brien. With regard to Section 7, I wonder if you could clarify for me. I think you said Crown corporations that don't experience "subsidy". As I recall, that was a word you used in Section 7 as opposed to, say, Section 8. I see, for example, the Alberta Government Telephones commission. I would assume that's the Alberta Government Telephones. I'm trying to relate that to, for example, Pacific Western Airlines and other things. The word "subsidy" puzzles me. If you could expand on that, that doesn't include guarantee of debt, that sort of thing?

MR. O'BRIEN: No. We're talking about a budgetary contribution from the General Revenue Fund towards the operation of the entity. A grant that's voted by the House.

MR. GOGO: As opposed to loans?

MR. O'BRIEN: Yes. PWA is not a provincial agency because it's not 100 per cent Crown owned.

Section 8, then, includes statements of funds that are held in trust by the Crown for third persons. Those again are organized by ministry, and some of the major trusts such as the Public Trustee trust, the Wheat Board money, Surface Reclamation Fund, Teachers' Retirement Fund are shown as individual statements. Then there's a summary statement of other trust funds for which we haven't shown individual financial statements, that gives a number of detailed trusts by ministry. Finally, because not everyone is familiar with the classification of regulated funds and provincial agencies and so on, and scheme of the format of the public accounts, this year we've included an alphabetical index of funds and agencies at the back of the accounts which we hope will make it a bit simpler to find a particular fund in the accounts.

So that's the overall organization of Volume 1. All those 65 financial statements include an audit report from the Auditor in accordance with Section

18 of his Act. Those audit reports are found throughout the accounts accompanying each of the sets of financial statements.

Volume II provides the details of General Revenue Fund budgetary operations by vote, as well as a section at the back which provides various supplementary information statements that are required by The Financial Administration Act or other Acts. The first sets of statements are organized first of all by the statements for the Legislative Assembly, and then the statements for ministries. They are organized in the same format as the expenditure estimates which were presented to the House for the 1979-80 fiscal year. I'm not sure, Mr. Chairman, whether members might find it useful if we looked at one ministry and quickly went over the statements which are there. Perhaps going alphabetically we could look at Advanced Education and Manpower, which is Section 2 of that volume.

First of all, there is a summary statement which duplicates the summary statement of the function of the ministry which is taken directly from the estimates of expenditure which were tabled in the House and approved. It then has the contents of the four statements that are included for the department. The first statement, 2.1, provides a summary of expenditure by program and sub-program. That statement first of all provides a summary of the funds which are available for the fiscal year including the original estimates, special warrants that were approved and, within sub-programs, any transfers of spending authority between sub-programs that were authorized by the Treasury Board to give the total authorized expenditure, and then the actual expenditure for the fiscal year against that.

For example, the second vote, assistance to higher and further educational institutions, is broken down into seven sub-programs. There's a column there labelled "Prior Year Liabilities" that I might explain for members. Section 32 of The Financial Administration Act requires that effective March 31, departments record all liabilities for which the department was responsible, and that section provides, as was historically the case, that those accounts may be paid from the appropriation for the fiscal year ended March 31. But a new provision was introduced in The Financial Administration Act, 1977, to permit accrual accounting in the accounts of the province. It provides that in the event funds are not available for payment of those accounts in the fiscal year, they are still to be recorded as expenditure of that year and recognized as liabilities. Then, if funds are available for that purpose, they are to be charged to the subsequent year's appropriation as authority, but they're reported as expenditure. If you had entered into commitments for which funds were not available from the '78-79 Appropriation Act, they would still be charged to 1978-79, then shown as a prior year liability in the '79-80 accounts, and reduce the authority available for spending in '79-80.

So in that vote there were no such liabilities. Three special warrants were approved, or three sub-programs for which supplementary funding was provided by special warrant. There was a transfer which would be, I presume, a transfer from salary contingency in the sub-program for provincially administered institutions. That would be a transfer from the Treasury vote to meet the salary adjustments. And then that gives you the total authorized vote of \$422 million and expenditures of \$419.7. For comparative purposes on the entire department, we've included a bottom line that shows the actual expenditure and estimates in 1979 against the 1980 figures.

Statement 2.2 provides that same information by vote, but this time classified by the major objects of expenditure rather than by sub-program so

that in Vote 2 again, assistance to higher and further educational institutions, the same \$419.7 million expenditure is shown not by the sub-programs of colleges, university operating capital, and so on, but by major objects which are manpower costs, supplies and services, grants, and purchase of fixed assets. That other category is largely an object that covers financial transactions and special payments such as those to Members of the Legislative Assembly. Again, the format is identical. The estimates are shown, special warrants, transfers, total authorizations, and the expenditure. Again, the four votes in the department are shown and, again, department totals with some adjustments shown in '79 which cover the adjustments for accrual accounting.

Statement 2.3 again presents the information by vote, this time by program elements which were shown in the original estimates in supplementary information. The budgets for program elements are not shown in the main estimates of expenditure, but they are shown in a supplementary volume. In this statement, again, if we take vote 2 and sub-program 2.2, provincially administered institutions, we now break it down into the elements. In the case of that sub-program, those elements are first of all what's called a service element, a general administration element, and in that case provide some funding for new courses, then the expenditures of the various institutions: NAIT, SAIT, AVC Calgary, Edmonton, Grouard, Lac La Biche, the community vocational centres, and the petroleum industry training centre. In this statement we've kept the same format to make it clear. The totals for transfers and special warrants are only shown at the sub-program level because expenditures at the element level are not controlled by Treasury Board. Those are under ministerial/departmental control, and the funds may be transferred between without recording those transfers by official Treasury Board approval. Essentially the program element is an institution in that vote, and those show for the various colleges and universities.

Statement 2.4 is a statement of revenues which were collected by the department by source of the revenue. That's the format of those statements. These statements are provided for each department and each vote that was approved in the original appropriation Act approved by the House.

The final section, Section 25, provides the supplementary information required under the Financial Administration Act to which I referred. There are several statements: a statement of remissions, compromises and write-offs; a statement of liabilities recorded for which appropriation authority was insufficient, those prior-year liabilities which I mentioned; a statement of special warrants approved; borrowings; debt of the Crown at March 31 for which securities have been pledged. All of these are statements required under The Financial Administration Act.

Finally, the audit report on the office of the Auditor General, which is required to be included in the public accounts pursuant to The Auditor General Act.

That is the format of the two volumes of the public accounts. In addition, members will be aware that we do provide a further set of supplementary information to the accounts which provides information on payments by payee. That volume will be forthcoming as soon as possible, we hope. It's a massive task, and it's been a problem in getting produced in timely fashion, but will be made available as usual, in due course.

MR. GOGO: Thank you, Mr. Chairman. To Mr. O'Brien, just for clarification with regard to Section 25 that we just dealt with. It's 25.3, to do with write-offs. There's no page number; I guess 25.3 is as close as I can come, under write-offs, health care insurance fund. Just to clarify in my mind without pursuing it. There's a figure of \$1.246 million. If there were X dollars owed in premiums to the Alberta health care fund, if that's where it's at, and it was a write-off, is that where I would find it? Is that what I hear you saying? Or would that have to come under The Alberta Health Care Insurance Act?

MR. O'BRIEN: Is the question whether that write-off would affect the accounts of the health care insurance fund?

MR. GOGO: No, I'm just wondering, under write-offs of Section 27 of the Financial Administration Act . . . Then we go to the next page, regulated funds and agencies, and I read "Health Care Insurance Fund" still under write-offs. Would that be a write-off of premiums owing, or is that . . .

MR. O'BRIEN: Yes, that would be a write-off of premiums owing pursuant to the health care premiums requirements, but the write-off is approved pursuant to Treasury Board order under Section 27 of The Financial Administration Act. The write-off is authorized by Section 27 of the Financial Administration Act. The initial collection is authorized under the relevant Act.

MR. CHAIRMAN: Any further questions to Mr. O'Brien on the public accounts?

We want to thank you very much, Mr. O'Brien for giving us the overview on Public Accounts Volumes I and II.

Now we'll go into our Auditor General's report. Just before we do, I'd like to introduce Mr. Mike Morgan who is audit principal with the Auditor General's department.

I would think that we should just have an overview of the Auditor General's report. I don't think we should go into it in detail, because I don't think it's fair to go into detail without having the departments here. I think that when we go into detail we'll have the departments here. So what we'll do -- and I think it will be satisfactory, too, if you want to ask questions as Mr. Rogers is covering his report -- is ask questions during his overview of the report. I'll now turn the meeting over to Mr. Rogers.

MR. ROGERS: Thank you, Mr. Chairman. Ladies and gentlemen, the report of course is for the year ended March 31, 1980. Before we get into it, I'd just like to say a few words about what it represents.

First of all, the report itself, although it's based on the activities for the year ended March 31, 1980, actually reflects the audit work carried out almost in the calendar year to all intents and purposes, because this report was in its closing stages around the end of 1980. It represents, at least partially, the culmination of 210,000 hours of auditing. This audit work, 210,000 hours, was devoted to the audit of 160 separate audits, and I think it's necessary to understand that this audit work resulted in a number of different types of reports. Probably the most significant of those reports, and the most time consuming, are the reports in accordance with Section 18 of the Act. As the controller told you a few moments ago, 65 sets of financial statements are included in the public accounts.

The auditor's report on a set of financial statements in itself doesn't say a great deal. It's what it doesn't say that is really important, because the statements have to be to the auditor's satisfaction before he issues what is termed a "clean report". If he is unable to satisfy himself on any aspect of the statements and the transactions lying behind the statements, then there is what is called a reservation of opinion. The bulk of the reports in public accounts are what we term "clean reports" in the format that is used in the private sector as well as in our work. In addition to the 65 sets of statements in public accounts, there are the statements of those entities that are excluded under The Financial Administration Act, and these include universities, colleges, Banff Centre, provincial general hospitals, provincial cancer hospitals, and the University of Alberta hospital.

Now just one word about those financial statements. If you remember, last year the report issued by my office was very bulky because a good part of it was taken up with financial statements of those excluded entities which in previous years had been included in Public Accounts, but which were, in effect, going to drop from sight, or at least I felt there was a danger they were going to drop from sight. Therefore I carried them in the report, which the legislation allows me to do. That was the subject of a recommendation, if you recall, in the last year's report. As a result of that, during the year there was an amendment to the statute which required that the audited financial statements of the excluded entities be tabled in the House -- they are being so tabled -- and, further, that there was an undertaking that copies would be available to anyone who wished to have a copy of such financial statements. I believe this satisfies the recommendation made in the last report. Consequently, the report this year does not carry those financial statements.

The second type of report that stems from this audit work I referred to are the reports under Section 28 of the Auditor General's report. Incidentally, the Act I'm referring to is an appendix in the report. Section 28 calls for the Auditor to report to management any shortcomings he finds in systems, or any other findings during the course of his audit. He has to bring them to the attention of management and, where he feels appropriate, to the attention of the Provincial Treasurer. Consequently a number of things happen at the end of each audit.

First of all, there's what we call an exit conference with the appropriate officials of the department or other provincial agency. This is followed by a management letter to the deputy minister or executive officer of a provincial agency with copies to the minister and to the secretary of the Treasury Board. It is this level of reporting that usually results in changes being made to rectify weaknesses in systems.

The third level of reporting is under Section 19 of the Act, which is the report you have in front of you. That report contains items that are significant -- pervasive in most cases -- certainly any losses or potential losses, any lack of compliance with statutes or regulations. But where, under Section 19(5) of the Act, comments on where weaknesses have been located in the course of audits in financial systems or management control systems, these are not necessarily reported if it is obvious or if we're satisfied that corrective action is being taken.

Mr. Chairman, that's the background of the report. If there are any questions on that at any time, I will be happy to . . .

MR. COOK: Mr. Rogers, last year you made the point that you had difficulty attracting staff to do the work, that you had both a shortage of staff and some difficulty with salary levels. Are you still encountering those difficulties?

MR. ROGERS: Yes, there are still difficulties. Our present situation is that we have a complement of 189. Right now we have 158 on staff, so we have 31 vacancies right at the moment. This is a fluctuating thing, going up and down. It's not unique to our office. If I look at the private sector, my colleagues there have precisely the same problems. I think it's a problem we have in Alberta as much as anything else. We are constantly keeping the pressure on to recruit staff. That's more or less an ongoing thing. We've had quite a bit of success. I'm very pleased with the quality of the people we've got. But, yes, we can't get all we'd like to have.

Obviously, the amount of work that can therefore be handled in a year is perhaps somewhat less than you would like to handle, but the thing that we have to make sure we can handle, of course, are the financial statements. They have to be audited, and we cannot curtail the amount of work involved in that. That's quite obvious. What does "suffer" -- if you can use the word in quotes -- perhaps would be the extent to which we examine management control systems which we are committed to examining on a cyclical basis anyway. That is, we cannot examine all the systems in one year; for one thing, it would be too costly. We felt that if we can examine them once every four years, that is, within what is normally the life of a parliament, or the life of a legislature, this would be adequate. It therefore means that any shortage we have, providing our estimates of the manpower requirement are correct, is reflected by lengthening that period that we examine management control systems.

MR. COOK: Mr. Rogers, of the 210,000 hours of accounting you were mentioning that your office performed last year, could you tell us: would the rough balance be between doing financial statements, doing the management control, and spot checks you referred to?

MR. ROGERS: I think it would break down 80 per cent attest, 20 per cent in the other areas. I think that would be realistic. But realizing that the attest also, because our audits are systems-based audits as opposed to transaction-based, the systems-based audit is also looking at internal control, the quality of controls, the handling of cash for instance and that kind of thing. So all those weaknesses are picked up in the course of the attest audits.

MR. GOGO: Mr. Chairman, to Mr. Rogers: several questions related pretty well to page 90 of your report. Does The Financial Administration Act or any other statute dictate that you as Auditor General will select only chartered accountants for auditing purposes for government boards and agencies?

MR. ROGERS: No, sir. There's nothing in the statute.

MR. GOGO: Could you advise how many RIA incorporated firms you had last year, if any?

MR. ROGERS: How many RIAs? I think we only have two on staff.

MR. GOGO: No, not on staff. I'm sorry. I note that you make reference here to chartered accounts in terms of contracting out work from your department to auditing firms. I understand there's not a statutory requirement that you do that, so presumably RIAs can do auditing work for government. The question therefore is: are there any RIAs, individuals or firms, that you contracted out work relative to pages 90 and 91? I don't see them indicated.

MR. ROGERS: This is work carried out by agents and we, in effect, call for them to give us an opinion upon which I can rely, which is in accordance with the CICA handbook. Quite honestly, the size of audit that we're talking about, I believe it's only practical to have CA firms involved.

MR. GOGO: The CICA -- is that Canadian Institute of Chartered Accountants? So there are no certified general accountants who do government auditing? Is that a fair assumption? The certified general accountants. I asked the question about the RIAs and I think I hear from you, Mr. Rogers, that one of the criteria you look at is the capability of a firm to do work and that's why you select them. From what I'm hearing you saying, if RIAs were involved in a firm, and I can appreciate that perhaps some CA firms have RIAs on staff, that's not a consideration as to the capability of the firm. This may sound parochial to you, Mr. Rogers, but I note here there are national firms, i.e. members of CICA. Is there any preference given to Alberta chartered accountant firms to do business through your department?

MR. ROGERS: As you will see, a number of them are local firms, and we especially use local firms in Grande Prairie and others areas that are outside Edmonton and Calgary -- quite a bit as a matter of fact. We also use local firms in Edmonton and Calgary. As a matter of fact we try to use local firms. Now, realizing that some of the firms that act as agents we inherited in that they were handling the audits prior to the requirement that the Auditor General be the Auditor, all I did was in effect take over the audit, but retain the firm that had been the auditor as my agent, coincidentally.

MR. GOGO: Just two final questions. Unlike the response to a question the Minister of Social Services and Community Health gave last night with regard to hiring a consulting firm to do work for government, one of his considerations was the tariff. I understand that's an ethical matter; that is, you don't tender to chartered accountants on the basis of price. Obviously they have a suggested tariff, or whatever. Would you entertain a suggestion -- I'd like your guidance on this. Would you entertain a suggestion if I, as the Member for Lethbridge West representing chartered accounting firms in my community, were to say, well, I see the absence of certain firms in my constituency. Would it be out of order if I sent you a list of firms that should perhaps be given consideration for accounting work, inasmuch as you mention tradition and we have some carry-over from firms. We now have more and more young people entering the profession, establishing new businesses. The final question, Mr. Rogers is: would it be out of line if I sent you a note suggesting consideration be given to chartered accounting firms in the Lethbridge community?

MR. ROGERS: It wouldn't be out of line at all, sir. We actually ask firms to acquaint us with the type of staff they have, the type of human resources they

have available. What we try to do is be as fair as we can in trying to cycle the work. Now, as we've only recently adopted this practice of using agents, it is not right to chop and change around every year or so, but we are looking more to a five-year cycle. Because I believe that is healthy, we would be looking to giving other people in the community an opportunity in due course.

MR. GOGO: Fair enough, Mr. Rogers.

MR. STEVENS: Thank you, Mr. Chairman. As a first-time member of this committee, I wanted to express my appreciation, and perhaps that of my colleagues who are new, for Mr. O'Brien's and Mr. Rogers's explanations this morning. Not being financially trained, I have always found that when persons of your calibre and expertise explain this it becomes simpler. I do read, and it does help. So thank you, Mr. Chairman, for arranging that for today.

You mentioned the staff vacancies, Mr. Rogers, and I'm expecting that there will be questions about that when my estimates are reviewed by members. I may be misreading page 90, but I wonder if -- and not necessarily today -- you might do this for our committee: at some point, can you break down the staff vacancies as to their levels of responsibility rather than just the numbers of vacancies? I would have assumed, and think that it's covered in your report in different aspects, that it's the level of responsibility that may be more critical with the vacancy position or with the high turnover. Could you also indicate perhaps the turnover and whether or not, in your opinion, that is a factor in the work that you are doing so well for the government of Alberta and the members?

Lastly, and by no means least -- and I don't know if this is available because each province and perhaps the government of Canada maintain records in different ways -- can you give us an idea . . . Maybe to preface that: we are under a situation in Alberta -- and I'm glad we're in this situation in Alberta because I think we're the only jewel left in Canada where notwithstanding Ottawa's intentions, at least we have the opportunity for so many exciting things here -- that means that we do have turnover, we do have attractions and competing demands for staff at various skills. I guess my question first is: is it possible to tell us this? Do other provincial governments and the federal government use individual firms and so on as agents more or less as we do, or is it the nature of our government, and your responsibility and your role, that we use, say -- and I don't know what the percentages are -- do you for example find that your staff carry out 60, 70, 80 per cent of the work and you serve out 20, 30, 40 per cent? How does that compare to other comparable governments, if it's possible to give us that? If it's not, please just let me know.

Thank you, Mr. Chairman.

MR. ROGERS: Mr. Chairman, in response to the member's question, I would perhaps like to prepare some material for the next meeting. I think a sort of a general comment, though, on the latter part of that: I'm not aware of any jurisdiction that operates in quite the same way that we do. In the case of the federal Auditor General, he has what is called an executive interchange, and he has arrangements with various firms whereby he obtains staff from these firms for periods of two years -- I think that's the normal period -- or longer. This is by way of individual contracts with the different firms for people. I feel very strongly that it is more to our advantage in our

particular environment, instead of individuals taken into the office, rather to have the work carried out by a firm. Because then you have the advantage of the whole team making up the firm at the various levels from the partner downwards. We have found that using our senior management we are able to satisfy ourselves that the opinion indeed can be our own opinion. This is achieved through the review of working papers, through participation in the planning of the audit, and we have developed this over the last several years.

As far as I know, other jurisdictions are not going the same route. And I think we have to look at the overall audit picture. Most of the other jurisdictions have quite large internal audit groups within each department. Therefore it seems to me -- and unless one actually works or has fairly long experience within another jurisdiction you're looking from the outside; it's very difficult -- but I do believe there is much more reliance on internal audit in other jurisdictions than we are able to achieve here because of the fact that we do not have well developed internal audit in our departments. I think that is a factor that has to be taken into account. In other words, if you look at our office and the internal audit that does exist in various departments, and you look at that as the cost of the audit function, I think that that is what you would compare in other jurisdictions with a very high cost of internal audit in various departments, plus the provincial Auditor or Auditor General's office. You'd make those comparisons because I believe we are the largest Auditor General's office in Canada other than the one in Ottawa.

The other thing to be taken into account is the fact that we audit all entities that are accountable to this House. That is not always the case in other jurisdictions. So there are very many differences as between jurisdictions. But I certainly will answer the points you brought up in a written answer next week.

MR. STEVENS: Mr. Chairman, just a brief supplementary. Thank you. Are you suggesting, then, by the nature of that comment -- and it may be in the previous reports of previous years and this year -- that the member should give consideration to the internal audit area and its strength or weaknesses?

MR. ROGERS: Yes, we have recommended that there be a development of internal audit on an organized audit-type of operation within at least the larger departments. This is a rather essential internal control, that management carries out review, in effect, through the use of internal auditors who operate on a proper audit basis. If that were in place, we would be able to rely to some extent on the work of the internal audit, and decrease to some extent the amount of detail work we have to carry out.

MR. CHAIRMAN: Are there any further questions on the portion of the Auditor General's report that's been covered so far? If not, possibly we could go into the recommendations. Could you give us an overview of that, Mr. Rogers?

MR. ROGERS: Thank you, Mr. Chairman. As I've explained, and I think you'll understand, it takes just as many hours to audit a system that turns out to be without fault as it does to audit a system that has faults. At least the differential between the two audits is not very great. So it did not take 210,000 hours to produce these findings in that very many systems were audited and found to be without fault that was material enough to be included in the

annual report. And that led me to think that this could be unfair; that by pointing out a series of shortcomings, one is left with the impression that the whole operation of the government's financial affairs is lacking. Consequently, I included what I believe to be a fair statement at the beginning of the report on page 1, 1.1.2, and it is an overall opinion. This opinion, of course, is gained as a result of the review of all the management letters that went out during the course of the year, and the work of the office during the year. It is that the financial affairs of the Alberta government, and this of course includes all the provincial agencies, were administered in a generally satisfactory manner during the fiscal year.

Obviously, there are some reservations on that statement, and it is that the concerns expressed in this report obviously do not represent satisfactory situations. But they are in the minority as compared with all the various systems that were looked at in the course of the 160 separate audits. Also, many recommendations were made as a result of the management reports at the conclusion of each audit that are in the course of rectification and will be reviewed at our next visit. If they have not been corrected then, they will be subject of a later report.

The other thing is one I mentioned earlier, Mr. Chairman, and that is that in the review of management control systems, for many reasons we audit these on a cyclical basis and, of course, this opinion does not refer to any of the systems that we have yet to audit in the next, say, three years.

Mr. Chairman, I think that deals with the general aspects, if you will. If there are no questions, perhaps we could proceed with working through the recommendations.

MR. CHAIRMAN: There are no questions, Mr. Rogers, so if you could continue with recommendations.

MR. ROGERS: Mr. Chairman, on page 5, item 2.2.1: this is the matter of federal cost-sharing claims. It's a carry-over of a previous report. The amount has now increased. We're now talking about \$1.35 million as of now in that original item, and I understand it has been referred back to Ottawa as late as November 8, 1980. But the main recommendation that comes out of that situation is that where more than one department is involved in a federal/provincial claim, procedures should be established to ensure adequate liaison when submitting claims, because there is a real danger that we might lose if there is not such liaison.

One point I'd like to mention is that the 1978-79 report was tabled in this House in March of last year, Mr. Chairman, and the reply by the Provincial Treasurer was given to this committee in October 1980. By October 1980, the work behind this report was in its closing stages. Consequently, we have not been able to really audit and review the actions taken as a result of our recommendations in the last report. Because the whole thing is new to all of us, really, because of the new legislation that went into effect on April 1, 1978, I believe that it will be a sort of two-year kind of cycle before we have an opportunity to review the responses by the government to recommendations in any given report.

MR. COOK: On that point, does it mean that with a two-year cycle some of the administrators will have less fear of the Lord, in a sense? Is it possible

that because there's a two-year delay we won't be able to respond as quickly and, as a result, the civil servants will have less concern if they do?

MR. ROGERS: Mr. Chairman, no I really don't think that is what's involved. I means that when the government does respond, or when departments do respond to what is in a given report, in many cases the results of the action cannot really be reviewed in the next report, but in the one after that. It's a timing problem as much as anything. We're trying to get our report ready as soon as we can, because we have to go through the process of sitting down with the audit committee and that takes a couple of months before we go to print. So in effect we have to have our report ready by December of a year. The work that underlies the report therefore has to be finished about October, or November at the latest. The 'straggle-work', so to speak, is usually completed in November. That means that the response to our last year's report was only given in last October, so there really was not time to review the adequacy of the responses in detail and see how they were functioning, because in many cases the response was expression of intent of what was intended. As a matter of fact fairly extensive amendments are being made to the manual, for instance, that are in exposure draft form right now -- a fairly thick wad of work that's been put out by the controller's office -- that is being reviewed by financial offices and ourselves, that should go into effect in a month or two's time.

So these things can't happen overnight, but I don't think that's anyone's fault. That's just the way it is. But I don't think it has any impact on, as you say, whether civil servants need worry about appearing in the report.

Item 2.2.2 deals with federal sales tax. Again, there are amendments proposed to The Manual of Financial Administration and they had not been reviewed at the time the report was closed off. Our work for the report was closed, but we will be reviewing that for the next report. If there are no comments, I will proceed with the next item, Mr. Chairman.

2.2.3 deals with the matter of fixed assets. This again is a repeat, and to show the pervasiveness of the problem we have included extracts from various management letters dealing with the subject. As you can see, it is a serious problem in that there are many fixed assets that are not being controlled in the way they should be. In many situations it is difficult to get the people concerned to realize that although fixed assets were not purchased from their funds, they have a responsibility on any fixed assets located in their offices. I believe that a system is being developed for the control of fixed assets and is being put into place, commencing with the 1981-82 year.

Mr. Chairman, I believe there's a question.

MR. MAGEE: Mr. Chairman, could you give us a little guidance as to the degree of dollar value that might be contained in these lists of assets at the lower level. How finite do you get down to in keeping track of some of these details? Do you go as far as keeping track of a stapler, a chair? At what degree is the write-off situation, or is there such a situation?

MR. ROGERS: I think the question of what is kept track off, if you will, is one that is a management decision, and I believe there have been some discussions on that. Perhaps the controller might comment. As far as I'm concerned, I think that we should be keeping track at least of material assets and I guess what one might describe as attractive items, calculators and

things like that, which are not large in themselves and perhaps not very expensive, but can be considered to be "attractive" -- using that word in quotes of course.

MR. STEVENS: Mr. Chairman, to Mr. Rogers: you do say, though, in excess of \$100. I wondered about that. Many calculators are now \$19 and can do everything. How does management make that decision? What's the best way? Attractive items are a problem, I'm sure.

MR. ROGERS: I think it's a judgment call, and I think as long as it's reasonable, management should make its own decision on that point. I certainly think it would be rather time consuming and wasteful to keep track even of \$19 calculators, especially if everyone's got one, but I think that would vary from office to office to some extent. Certainly the problem we're looking at is dealing with assets costing material amounts of money.

MR. GOGO: Thanks, Mr. Chairman. Mr. Rogers, just for clarification. For example, we're dealing with fixed assets, 2.2.3. In the back of the book we have "reaction to recommendations". I'm trying to keep in perspective now. As I understand it, government has responded to your recommendations here. It appears to me that we're re-discussing something that went on, even though government has given a reaction to the recommendation. I'd just like some clarification. Are you saying that in spite of what they've said they're going to do, that is still a concern?

MR. ROGERS: It was a concern last year in our auditing. In previous years we had drawn this problem to the attention of management of individual departments. They were aware it was in the audit report, yet when we audited last year we found that very little change had taken place. Therefore, it was proper to report on it again.

It could well be that, in light of work we're doing this summer for the fiscal year 1980-81, this item will drop out at the next report if the action taken by management has been effective.

MR. CHAIRMAN: Are there no further questions on fixed assets?

MR. ROGERS: Item 2.2.4 deals with the investment of surplus funds. This is a new item and, in view of the fact that we have found a number of areas where there were instances of poor cash management -- and this of course relates mainly to provincial agencies that are not subject to the banking arrangements contained in Sections 20 and 21 of The Financial Administration Act -- it is a recommendation that rather than trying to handle the funds locally, because there very often is a lack of expertise in these matters, they take advantage of the Consolidated Cash Investment Trust Fund which is operated by the Treasury with a view to maximizing their interest on funds not immediately needed for use; that the funds be safe; and also they be in a position to liquidate or to obtain the use of those funds when needed. That's what the Consolidated Cash Investment Trust Fund was set up for several years ago. We simply found that a number of provincial agencies were not aware of the advantages. Even where they were, there was a reluctance, perhaps, to use it. But it's simply a recommendation that such agencies do use the Consolidated Cash Investment Trust Fund. It's a matter of good practice, really.

As I say, we did find some losses during the course of audits. For instance, the bank errors totalling approximately \$13,000 that we found at Keyano College would have been a loss but were recovered when drawn to the attention of both Keyano College and the bank.

Item 2.2.5 deals with . . . I'm sorry.

MR. CHAIRMAN: Mr. Stevens has a question.

MR. STEVENS: Mr. Rogers, I wanted to ask something, and I don't know if this a factor on this matter. Many provincial officials or employees in various locations throughout the province receive funds, perhaps from citizens as deposits or as application fees pending a decision -- that sort of thing. I have the feeling that in those situations where the official is a member of the community, (he) may have an understanding that if the application is turned down or if the item for which there is a deposit is then cleared and the deposit can be refunded, there is a reluctance or a belief on the official's part that if he or she deposits it, it would be months to get the recovery. It may be a small amount, but in total it's possibly several thousands. I don't know if that's a factor or not, but as an MLA I've heard it. I wonder that if that is a factor, that may be working against what you're recommending. I don't know the significance of the amounts, but I know that funds are established, boxes that hold money, and it bothers me if there is that belief.

MR. ROGERS: I really do believe that the belief is unfounded, Mr. Chairman. I see no reason why there should be undue delay in receiving the money out, because if we're talking about the Consolidated Investment Trust Fund that's what that's all about.

MR. STEVENS: Is my question badly directed? In other words, if someone makes a deposit or an application fee and then it's to be refunded, does the refund come from another source, and that is the problem? In other words, someone has to raise a cheque and it has to go through a different process; you can't get it back within a day or two.

MR. ROGERS: There are a number of different scenarios or situations. For instance, in some of the situations like that we have local bank accounts and impressed cheques that are written at the provincial agency concerned, which means that they can write a cheque just as quickly as you or I could. The practice of keeping the original cheque in a drawer so that it can be handed back is very bad control, and there is a great risk there. In this matter of control over, for instance, funds that are received -- and that is reflected in another section in this report -- it isn't only protecting the government from loss; it's also protecting the individual.

MR. STEVENS: As well as the employee.

MR. ROGERS: The employee. Exactly. I think the onus is on management to have good internal controls for both purposes, both to protect the assets of the government and also to protect the individual. Internal control involves segregation of duties, which means that two people have to be involved in a transaction, if you will; that in effect one acts as an automatic check on the

other. When that happens, there is a safeguard for both those individuals. Whereas if you have the one individual in the position where loss can occur -- and this did happen on the next item, as a matter of fact, in Red Deer -- nothing can ever be proven. But by the same token, that person's reputation has suffered because they are under suspicion that really can't be resolved. Therefore I think that internal control acts in both ways: it protects the government's assets, but it also protects the individuals involved in the transaction.

MR. COOK: Mr. Rogers, I'm very much a layman here. Are the recommendations numbered in any sense to indicate the priority you place on them?

MR. ROGERS: No they're not. They fall into different categories. For instance, the section we're looking at right now deals with losses and possible losses, and relates to the various sections of our mandate. There is no significance in the sequencing of the items.

MR. CHAIRMAN: Do you want to carry on, Mr. Rogers?

MR. ROGERS: Thank you, Mr. Chairman. I have already referred to 2.2.5, Red Deer College. There was an inadequate segregation of duties, which is a basic control. Their attention was drawn to the control weaknesses, but before action could be taken to rectify them they actually found that they had a cash deficiency and there was no way in which they could determine who was responsible. However, I believe they are recovering the money through a bonding company, through an insurance company. To the best of my knowledge the system's deficiencies have now been rectified.

Item 2.2.6 is a situation where there was a lack of compliance with the Act in that the Alberta Government Telephone Commission invested in Westech Systems Ltd. When this was drawn to their attention, there was an amendment to the Act put forward and subsequently passed by this House, therefore making the investment legal. So it was a lack of compliance that has now been corrected.

Item 2.2.7 is a fairly lengthy item dealing with the government's transactions with Wapiti Lodge in Grande Prairie. We had a number of problems with this. We couldn't find a lease, for one thing. This is a part, incidentally, of comprehensive auditing, whereby we look into the whole picture of particular transactions and study them in some depth. This brought up a number of areas which are applicable in other situations, and this is the thrust of the recommendations we have made in respect to the matters found in this situation. While there was no lease, there were, for instance, annual agreements between the Department of Social Services and Community Health and the Salvation Army which required the Salvation Army to supply all utilities, and yet the Department of Government Services paid for all utilities for the lodge -- matters like that.

Again we have this question of liaison between different departments that are involved in a particular situation. So we have made a number of recommendations, as you can see, that not only deal with this particular situation but with similar situations that obviously could occur elsewhere, because this particular transaction was picked at random in the course of attesting. We obviously can't look at every transaction; that would be an impossible task. So on the basis of statistical sampling, we pick certain

transactions, and usually the results of our examinations do sort of correlate with the situation in general.

The next general section, Mr. Chairman, if there are no questions on that .#.#.

MR. CHAIRMAN: Mr. Rogers, time has just about elapsed for adjournment. At this point, it appears as though it's going to take another meeting to go through the Auditor General's report on the recommendations. Possibly we could adjourn our meeting at this time and then start over at our next meeting next Wednesday and continue with the Auditor General's report.

I would like committee members to keep in mind what we'll possibly be doing when we complete the Auditor General's review. I would like each member, or as many members as possible, to have some suggestions to our committee as to what departments we want to examine at future meetings. Possibly we could do that after the completion of the Auditor General's report.

On behalf of the committee I would like to thank our resource people for the information they've given us this morning.

Can we have someone adjourn the meeting?

Motion for adjournment by Dr. McCrimmon

The meeting adjourned at 11:28 a.m.