

Standing Committee on Public Accounts

Wednesday, May 13, 1981

Chairman: Mr. Mandeville

10 a.m.

MR. CHAIRMAN: Order please. We're a little late getting started, and we're going to blame it on the Standing Committee on Private Bills. I see that the minutes have been distributed. Are there any errors or omissions?

MR. STEVENS: Mr. Chairman, it's not an important change, but halfway down on page 3 of the minutes it's indicated that I asked if the turnover of staff is a factor in the government, and if the government uses individual firms. I think the unofficial Hansard indicates that I'd asked if turnover of staff was a factor in the Auditor General's office, and if the Auditor General used .#.#. That's quite a difference in meaning.

MR. CHAIRMAN: Yes. We'll have that corrected, Mr. Stevens. I'm sorry about that. Any other errors or omissions in the minutes? If not, could we have a motion to have them filed?

Mr. Batiuk made a motion that the minutes be filed

MR. CHAIRMAN: We hadn't finished our review of the Auditor General's report, and if we can now turn the meeting over to Mr. Rogers, he will continue with the recommendations in his report.

MR. ROGERS: Thank you, Mr. Chairman. Before proceeding, I have had circulated a statement which I think answers the request that was given to me at the last meeting to show where the vacancies were. In order to do that, I showed an overview of what happened between April 1, 1980 to May 11, 1981. I think the statement is self-explanatory, showing the breakdown between professional staff which includes CAs; ACAs, who are English staff not yet qualified to join the Alberta institute; and professional personnel in the EDP area. The other category of audit staff is the students and technicians, some of whom are CA students studying for their CA qualification. Then we have "other". Many of these are technicians, others are students in RIA and CGA areas. Then there are the administrative and other support staff, and I think you'll see that we're trying to increase the internally generated supply of chartered accountants in that the number of CA students from April 1, 1980, to date has increased from 15 to 21. There were four graduates at the uniform final examinations last December.

The second sheet gives an overview of the last six months, November 1, 1980 to April 30, 1981. The number of applications received during that time from a continuous competition was 22. I interviewed 18 personally. We offered employment to 10; four accepted and six rejected.

Although we're trying to increase the number of CAs internally generated, so to speak, through training, one of the main problems we have is on the third sheet, which shows the number of B.Comms. who graduate. The situation is going to get worse in the near future, according to the projections of

B.Comms. who are going to graduate. Although this problem is one our office has, of course it also reflects on the private sector and on the rest of government.

MR. McCRAE: Mr. Chairman, could I ask a question of Mr. Rogers. We've had a lot of difficulty in a number of areas in hiring professional people. We try to do our recruiting in other parts of Canada. It seemed to me that the general mood was that the opportunities in Alberta were such that people would have come here, but when they came to look the situation over they saw the staggering cost of housing and that has been a deterrent to them. With the recent statements that the real estate industry has been excessively buoyant in Toronto and Montreal and elsewhere so that housing is going up as rapidly and dramatically as it has here in a much shorter period of time, I think housing costs are probably nearly comparable in Toronto, Kingston, Calgary, Edmonton, Three Hills, or wherever. You said that it was a very negative outlook in the future; even worse, I think -- not to quote you. But I wonder if the paralleling of housing costs wouldn't swing the balance back so that we might be able to hire people. Or is it not only the housing thing but a critical shortage of the number of graduates as compared to the number of people required?

MR. ROGERS: Yes, there are two different factors. One is the recruitment of qualified chartered accountants. In that situation what you say is perfectly true: that if there's equality across the country in the cost of houses, one of the problems disappears, because there has been a perception hitherto that they would earn far more money in Alberta than elsewhere, and that isn't true.

I think the other problem having to do with students is quite serious from the point of view that the ultimate solution to the problem is not to go everywhere to hire people, but to try to graduate people within Alberta -- in this case, chartered accountants. And as I say, the numbers of Bachelors of Commerce, which is the entry degree, so to speak, for the CA program, are very much less than what is required. So I was pointing up a problem in that particular area.

Now what is meant is that in order to get our students this year, we have only been able to get two. We interviewed 21 people at the campus in response to the notice that we were interviewing over there. We made 15 offers; two accepted. That meant in order to get an input of students this year, which was less than we had intended, we were successful in getting two students from the University of Saskatchewan, two from McMaster, and two from Windsor. We made a total of 52 offers in the various universities we were recruiting at. At the University of Waterloo, for instance, we made three offers and none accepted. At the University of Calgary we made one offer and none accepted. The very small number in Calgary, for instance -- only eight people came to the interviews. The reason for that is the demand is very great and they are more or less in a position to pick and choose at this present time.

MR. R. CLARK: Mr. Chairman, I look at the numbers on page 3 of the information you handed out. I notice graduates from the U of A: 444 in '79. Then we're slipping down to 350 from '81 on, which is a reduction of 94 graduates. What's the reason for that? Aren't students available?

MR. ROGERS: I'm speaking from general knowledge here, but I believe they have established a quota system for the students in this particular faculty.

MR. GOGO: Thank you, Mr. Chairman. Mr. Rogers, we dealt with this in some way last week. I'm always intrigued with regard to professional classifications and designations, and I often wonder where the difference lies. I look at Japan with 120 million people and 10,000 lawyers; Canada with 24 million, 30,000 lawyers; the United States with 500,000 lawyers. And then I start to wonder about other designations.

Last week I put the question to you, Mr. Rogers: is it a requirement of The Financial Administration Act that you hire chartered accountants. The answer to that was no. As you know, there are in this province registered industrial accountants who are equally competent in many areas, although obviously they do not answer the requirements of the Canadian Institute of Chartered Accountants. The other group I mentioned was the certified general accountants who do government audits in all provinces of this nation except ours. They don't do it here for obvious reasons: we haven't seen fit to put them on the statute books; in other words, I guess in effect we have said they're not competent. I don't want to pursue the issue, except to say that on the one hand we see the result of a quota system where we restrict the supply -- I say "we" in the context of our schools that train these people -- and on the other hand we see where we've set requirements through your department that we must use chartered accountants because, in the judgment of your department, only chartered accountant firms are competent to carry out the complicated audit system -- at least that's my perception.

I guess the question really is, what's the alternative? Are we going to be continuing to go across Canada, perhaps robbing other jurisdictions of these kinds of people, or would there not be merit in a recommendation, sir, by your department to say, let's utilize somebody else. Perhaps we should be utilizing registered industrial accountants and not looking at the total competency of a firm but perhaps the competency of individuals. I really don't want to pursue it, Mr. Chairman, except it was raised now and I'm intrigued because what I'm hearing is that we're not only facing a problem but perhaps a serious problem. Surely there has to be a way to resolve it.

Thank you.

MR. ROGERS: Mr. Chairman, chartered accountants are the only people specifically trained in auditing. They're the only people who possess the necessary combination of technical skills and professional judgment, and as individuals they are subject to a professional code of ethics. I think one has to look at how the office operates, or how any audit office operates. These auditors -- supervisors -- are out in the field throughout Alberta for long periods of time, subject only to periodic management and supervision, and there's a very definite relationship between the quality of the man's judgment and skills and the quality of the audit. I don't want to get too carried away with this, but they, in effect, are my eyes and ears throughout the fabric of government operations. I feel that in order to do a competent job I have to have competent people in that position.

That is not a judgment on the many aspects of accounting where RIAs are very skilled. It is simply that the only body of people trained in auditing are chartered accountants, and for that not only do they have a university degree to begin with, but they have to go through, right now, three years of experience in auditing, pass a series of examinations during that time, and a very rigorous three-day examination which is uniform across Canada. Even at that, we have continuous professional development for these people and that occupies, as I think I said last week, some 6 per cent of the time.

MR. GOGO: May I be permitted a supplementary question, Mr. Chairman? Mr. Rogers, first and foremost, in my opinion you are the dean of Canadian auditors in the public sector. You are indeed the eyes and ears of this Legislature. You're Alberta's Maxwell Henderson who does very competent work without the same headlines.

Mr. Chairman, to Mr. Rogers, would you advise the committee whether to your knowledge other provinces of Canada follow the same policy with regard to Alberta in the auditing procedures, in that they all hire chartered accountants and not the other designations?

MR. ROGERS: I think that I find that a very difficult question to answer because I don't have enough knowledge of the individual staffs across Canada. I know they all have chartered accountants; for instance all the legislative auditors are chartered accountants, and I believe all the assistant legislative auditors are chartered accountants. I think the situation does vary, and there are usually historical reasons for this. Other senior staff may or may not be chartered accountants. I quite agree, that is the case.

The situation we are looking at right here, incidentally, is very widespread. I had a visit from the legislative auditor of the state of Victoria in Australia on Monday. He was telling me that they have exactly the same problem there. They also have to contend with the U.K. advertising -- and this is very strange in view of what we have just been talking about -- in Australia for chartered accountants and accountants generally. The arrangement is apparently that if they remain in the position for one year, they pay them their fare from Australia to London, and if they stay for I think three years, they will also pay the return fare when they wish to go back. So that is the situation in the world. There is a very great shortage of qualified people.

MR. McCRAE: Mr. Chairman, I was going to ask Mr. Rogers a question that had to do with the selection of outside agents. I see to some degree you were into that last week. I've been looking at the transcript here. I was wondering what criteria you use for selecting the accounting firms that will participate in your auditing functions. I gather it's sort of an allocation based on subjective criteria that you make or establish.

MR. ROGERS: I'm afraid it is rather subjective in that we look for the experience of the firm. For instance, when we were faced with the grain terminals, we looked for a firm that had experience in auditing in the grain trade. I think there are a number of factors that come into play in this selection. What we've asked the firms to do is to inform us of their human resources; in effect, what sort of people they have on staff who would be involved in our audits. Beyond that, we sort of have to go on a cyclical basis of rotation, and try and be fair to everyone over a long period.

MR. McCRAE: It sounds very fair.

MR. COOK: Thank you, Mr. Chairman. I was going to follow up on an earlier point of Mr. Rogers' and question him along this line. If we're having problems attracting qualified accountants for the Auditor General's office, what is the state of the ability of internal auditing of departments to attract qualified accountants? And secondly, how does that affect the quality of the performance, the checking, not just in your office but at the departmental level?

MR. ROGERS: Actually the problem does have ramifications for the departments, but perhaps I could ask the controller if he would care to comment on that.

MR. O'BRIEN: Well certainly I think Mr. Rogers has commented that this is a general problem that isn't unique to his office. I think that was reflected in the response which the treasurer gave last fall to the Auditor's recommendations on the expansion of internal audit activities in departments.

The question really of priority, given limited resources of competent financial people in government, I think the difficult judgment is the one of deciding what the priority of internal auditing should be by comparison to the priority which you ascribe to the basic requirements of accounting and financial control in departments in the first place. There isn't, I guess, too much point in attempting to develop internal audit units if the fundamental requirements of accounting and financial control haven't been looked after in the first place. You know what you're going to find then in an audit situation.

So I think it's a very real problem for departments at this stage, given the problems of obtaining adequate financial management and accounting staff in departments, to also attempt to make major or rapid moves in the development of internal auditing. I think really the Auditor General has recognized that fact.

But I would comment also that the issue is somewhat different, particularly with respect to professional qualifications there, because in an internal audit situation, you don't have that attest audit requirement which I think is really where the Auditor feels that the CA qualification is really mandatory. I think that's generally recognized in attest audit situations. In the internal auditing situation, you're really not called on to certify financial statements. You're looking at departmental procedures and systems. You're going to require audit skills, but there are other qualifications, including the certified internal auditors, which are geared more particularly to an internal audit environment.

MR. ROGERS: Thank you. If I could just add to what the controller said. I'd like to first of all say I agree with him on the point that it's necessary first of all to pay attention to the people who do the work in the first place; namely, the financial officers. I also agree that because an internal auditor in a department is working in one environment that he can become completely familiar with, then perhaps a lesser level is required than in the case of our office where the same auditor may be in five different organizations during the course of the year and, in effect, has to come up to speed in his knowledge and his perception of what's involved in an operation very, very quickly. I think there is a difference there. Perhaps it is easier to staff. But even those people, even people who would be adequate or satisfactory in an internal audit area, are not available. So it is a very large problem.

MR. STEVENS: Thank you, Mr. Chairman. To the Auditor General. We're all in this in Alberta. I was just making some notes to lead up to some questions, and I was reminding myself that with 70 per cent of the eligible work force participating in that work force in this province -- I believe it's the highest. I may stand corrected, but I believe it's the highest participation in Canada in a province. That breaks down into 80 per cent of our eligible male work force and 60 per cent of our female work force participating in our services, private and public. It led me to think that I appreciate very much

what the controller said about management having to establish priorities. We have to assign work very carefully to make sure that we hit the areas of most critical need, and I'm sure that you're doing that very well. That's part of your report to us. I hope that our departments are doing as well through the assistance of the controller and our various departments.

My concern is the in-service training. I know that each department has in-service training programs. If not, they should be developing them and we would encourage that, as well as our own in the personnel area. I know there's a responsibility that we compete well through appropriate salaries and benefits. I think this year we'll be making adjustments for the groups that are in the management excluded, opted-out areas that will leave Albertans in those areas in the public service certainly in a competitive position.

My question followed from a comment that you made. How many women are in or entering the audit field: the certified accountants, the ACAs and so on? Does the Auditor General's office have a co-ordinator for the advancement and career development for women? And have the Auditor General and perhaps the controller done, or had carried out for you, exit interviews, either by our office or your offices, to determine in fact -- and it's hard to do that, whether you wait for the person to leave and then go and ask them. But have you actually carried out exit interviews to determine if there's a pattern as to why these professional people are no longer with us?

MR. ROGERS: As to the gender of our chartered accountants, we make absolutely no distinction. As to numbers, I can't give you them because I don't think we keep track of them except through the names. I don't know whether we'll have a figure in a moment or two, but we have no problem in that area whatsoever. We hire strictly on perceived competence and suitability. But that does not include whether it be a man or woman.

In answer to your question as regards exit interviews, yes we not only have an exit interview but make sure it's documented. Because very obviously if there is a pattern of complaint, we wish to get to the bottom of it. In the years past, we have adjusted on the basis of matters brought to our attention by this means. A very important aspect, I think, of staff management is to find out why people are discontented and why people seek to leave you. Very often it's money, but sometimes it's simply to get into a different area. A lot of people, after a certain amount of auditing, like to get in a position where they're doing rather than auditing. There are a number of motives we've found. I don't think right now we have a pattern that we can perceive.

MR. STEVENS: A supplementary, Mr. Chairman. The other question, Mr. Rogers, was whether or not you had any idea of how many women may be entering the field. Is it becoming a more attractive field for the university students and so on, as it has become in other areas?

MR. ROGERS: I really don't have the overall figures. I can tell you that our medal winners are usually women these days. I believe the profession is becoming more popular with women. Out of 10 CA students we have five men, five women.

MR. HEISLER: I was just saying that we have five female CAs and five female CA students.

MR. ROGERS: And that's out of how many students? That's out of 21 is it?

MR. HEISLER: Twenty one.

MR. CHAIRMAN: Any further questions on the staff? If there are no further questions, we can continue with the recommendation, Mr. Rogers.

MR. ROGERS: Thank you, Mr. Chairman. I think we had got as far as page 17.

The next item, having to do with the collection of public money, Item 2.3.1, near the foot of page 17, is a repeat of the '78-79 report item. As it was still very prevalent, we have included instances where during 1980 we had perceived a situation that called for comment in management letters, and these are extracts from management letters. It's intended to stress the importance of proper procedures to ensure the security, timeliness, and proper recording of public moneys received, particularly those received through the mail. I think I mentioned last week that it's not only a question of protecting public moneys, but also to help to protect the individual who can be placed in a very onerous position if any money is missing, and the controls are such that he would be in a position to have been responsible through his duties.

Sometimes in very small offices it's a very serious problem, in that you cannot have the segregation of incompatible duties, which is the normal method of curing this problem. The answer there has to be more involvement with management in the day to day activities concerning the control of cash.

We understand that the controller's manual is being amended to avoid misunderstandings. I'm not sure whether that has actually been incorporated. It's in the course of being incorporated in the controller's manual so that the principles involved relating to the collection of public money are quite clear to the departments. Until we've had an opportunity to see how effective those have been, this recommendation is being continued, but of course hopefully it will not be in next year's report.

MR. CHAIRMAN: Mr. Clark, did you have a question?

MR. R. CLARK: I wanted to ask Mr. Rogers, directly on the last comment Mr. Rogers made. This is the second year we've had this in the report. I'd like to know specifically, Mr. Rogers -- perhaps you'd like to do it in memo to the committee -- exactly what changes were made in departments as a result of the recommendations. Go one step further, Mr. Rogers, and say how many times do you see a matter continue to be included in the report, and what next step do you have?

MR. ROGERS: I think, Mr. Chairman, we touched on this last week. Last year's report, which was the first Auditor General's report, was tabled at the spring sitting, and then there was the summer, and the reply of the Provincial Treasurer to that report was in October. By that time this report was in its closing stages. You see, this report represents work carried out in the calendar year 1980, virtually, as a result of the 1979-80 transactions.

We were beginning to finish our audits about October/November, and they were all completed, if I recall correctly, early in December. Of course there was not time then, because then the rush was to get this report ready to go before the audit committee and have our discussions with that committee. The process of finalization of the report was well under way. So there was no time to go out and audit what had happened as a result of the reply by the Provincial Treasurer to this committee in October of last year.

Some of the responses of course were planned action at that time. I would hope to see the results of that action in the audits we're carrying out this summer and fall.

MR. R. CLARK: May I ask a supplementary question? I would take it then, Mr. Rogers, that we would not see this recommendation in the report next year if the reaction from the Provincial Treasurer is implemented. Is that a fair assessment?

MR. ROGERS: Human nature being what it is, in a very large organization such as the government, I would suggest that perhaps there will be a few instances that are still in need of a little bit of help. But I would say that the pervasiveness of the present situation should be greatly decreased.

MR. R. CLARK: Second question, Mr. Rogers, or to Mr. O'Brien, and I want to be very straightforward, and I would request a very straightforward answer from either gentleman. Are we saying with that, Mr. Rogers, that in most cases when we get recommendations from you, sir, in a report like this, we're going to be looking to at least three years before we can expect the time from a response from the treasurer, then a reaction by Mr. O'Brien's people? We're looking at three years' turnaround. Is that an unfair conclusion, Mr. Rogers?

MR. ROGERS: I don't see it quite that way. As I say, sometimes the development of material for the manual -- and it gets to be a very big pile of paper, as my friend here will attest to -- is not something that is achieved overnight. There is a certain amount of discussion with departments, exposure draft of material in draft form, and this whole process does take a number of months. Considering that they have been working on it since last fall, I really haven't a complaint in that area at the moment. I don't really think it's three years, incidentally, Mr. Chairman.

MR. R. CLARK: Mr. Rogers, I wasn't trying to weasle out a complaint from you about the slowness. I'm simply trying to get a handle as to what kind of time frame we can look at from the time a recommendation comes to the committee till we can expect either the matter to be cleared up or appear in the report again. I take it from your initial comments, sir, that one shouldn't be surprised if an item is in the report for the second time around. Because you really indicated that by the time the treasurer reacts the first year is basically lost. I don't have any problem with that. But I want to get some kind of a handle, so not only I as an MLA but people in the public sector and in the public service itself get some kind of idea of the kind of rapidity that we can expect changes to take place. I got the feeling I'm looking at basically three years. You're telling me that's not right.

MR. ROGERS: No, I would say that what we are seeing here is perhaps what we will see as a norm; that is, a recommendation and then the reaction beginning, but the next report still having the same recommendation carried forward. Even though corrective action has begun to be taken, I think it would take until the next year to be able to say, yes, the corrective action has been adequate and successful. I would see that happening. My first report was '78-79, the second report is this one. I would see dealing with this item in my next report, commenting on what changes had taken place, and that maybe in one or two areas there was still a problem. That is the kind of thing I would visualize if you're asking me for a scenario, so to speak.

MR. R. CLARK: But, Mr. Rogers, isn't that three years? That's three reports.

MR. ROGERS: Except the third one is more or less commenting on actions completed.

MR. R. CLARK: That's what we have to look at, to see if action has been completed or not, isn't it?

MR. ROGERS: That's right.

MR. CHAIRMAN: Any further questions on that topic? If not, we can continue, Mr. Rogers.

MR. ROGERS: Thank you, Mr. Chairman. The next item deals with conditional grant payments. I think it's necessary to realize that once a grant is made, it ceases to be public money. Once it ceases to be public money, it is outside my jurisdiction. Fair enough. But I think that when a grant is made, and is subject to certain conditions that have to be carried out by the grantee, in the interests of accountability there should be some way of following that money to make sure that the grant conditions are being complied with. At the discussion of the legislation back in 1976-77, it was felt not desirable to have the Auditor have automatic right of access to the records of grantees or recipients of grants, and I agree with that.

Now that is not the case in other jurisdictions. For instance in B.C. and Ontario the Auditor General can go and carry out an inspection audit on the records of the recipient of a grant. Permission for that is in legislation. However it was felt here that the recipient of the grant should be aware of this possibility -- that is, the possibility of audit -- at the time he receives the grant. Consequently, the understanding was that in the case of conditional grants, the grant instrument or agreement would contain the clause that would state that the Auditor General would be able to audit a compliance with the terms of the agreement. This is following this up to ensure that all departments comply with this when they make conditional grants.

I also feel that although a number of the grant agreements contain a provision for the departments themselves to audit the records, this is not being followed up in the way it should be, in that very often no action is taken to follow up to ensure that conditions are complied with. I also feel that under certain circumstances it may be desirable for the controller to also do this. But that is simply a recommendation. In any event, I feel our office should have the right to follow up a conditional grant, not with the idea that we would be auditing here, auditing there, but on a very selective basis following up when the conditions seem appropriate.

MR. CHAIRMAN: Mr. Cook, did you have a question on grants?

MR. COOK: Yes, Mr. Chairman. I want to follow up on this recommendation and ask if it were followed on, would the Auditor General have the ability to look at the conditional grants the province provides to the city of Edmonton for urban transit? A number of people have raised some interesting questions about the accounting procedures of the city of Edmonton in depreciating the equipment of the transit system, and then taking those depreciated values and loss and charging that against the fare structure, which seems a little difficult for me to understand. Maybe that's because I'm not an accountant. If this recommendation were to be followed on, would the Auditor General then

be able to go and look, for example, at the accounting procedures used to depreciate or appreciate the assets that flow from the grants?

MR. ROGERS: I think in these situations obviously we would be looking at something less than a full audit, because the auditor of the receiving entity -- in this case the city -- would have audited the city's records. I do agree that one of the areas we would be interested in would be the accounting policies adopted, especially if these had a bearing on the expending of the grant.

MR. COOK: May I make a supplementary question, Mr. Chairman? In speaking to some of the people in the city social services, they complain that seven audits are performed on some of the non-profit but grant-receiving groups. For example, a day care society might be run by a church group that receives grants from city social services but, because the city social services receive funding through a shared cost agreement from the federal and provincial governments as well, they're subject in part to audits. I understand from the federal government the society has its own internal auditor, the auditor general of the city of Edmonton, and I guess the total amounts to seven different people looking at the books. A lot of the time of these groups is spent not in delivering services but rather in checking audits with the auditor or one of the seven auditors. In a sense my question is on the negative side: are we being audited to death with expensive CAs, as the hon. Member for Lethbridge West suggests?

MR. ROGERS: I appreciate that point very much. Wherever possible we try to rely on other auditors. I think a case in point is an exercise we're going through right now -- and there's a recommendation on income tax in this report that will be coming to you later. The idea of every province auditing the Department of National Revenue and Department of Finance doesn't make sense. But to have an audit carried out by, in effect, our agent, who in this case would be the Auditor General of Canada, we feel would make sense, but as long as we were able to work with him in determining what he had done was adequate for our purposes.

I would see in your case of the seven auditors, somebody should have got them together and said, now look, if you all decide what you want to look at, let's have one audit. That's good theory, but not always practical. We are doing that where we can; in other words, trying to rely on other auditors who have already audited the records. For instance, that's why I mentioned that the city's auditor would have audited the records. He is probably the best person to go and discuss the matter with. Our audit may go no further than that auditor's office, if we're satisfied that he has done a good job.

MR. COOK: I'm smiling when I say this, but in the auditing policy would you make a recommendation, for example, on the accounting procedures or policies of the city if, in fact, seven audits were being performed, and we were in part paying for that because of grants to the city's administration? Would their administrative efficiency and auditing come under your purview?

MR. ROGERS: We're getting into a very hypothetical situation. I think I would have to see the effect on public funds.

MR. CHAIRMAN: Mr. Kowalski.

MR. KOWALSKI: Thank you very much, Mr. Chairman. This is really an extension of the question Mr. Cook raised and I appreciate the response of the Auditor General in regard to this. In many parts of Alberta, of course, the strength we have in this province is really the volunteer. In many cases grant moneys are forwarded from a member department of the government to a group of individuals in a community who have got together to work towards a project. They, of course, have received a small amount of money to undertake that particular project. Because they are volunteers, the word "audit" scares them in many ways. It's a terrifying experience, I think, for a number of people who get together and work for a year, whether it's an improvement for a community hall and the like. While I can appreciate the need to ensure that public moneys are indeed properly expended, and expended on the basis of the conditions, I have difficulty looking at the recommendation and looking at several of the words in it, which are subjective in interpretation. Perhaps Mr. Rogers would be kind enough to give us his views on what some of these phrases mean. I look at the recommendation at the bottom of page 20 and the top of page 21, and essentially the sentence at the top of page 21 where it says:

This right may be invoked on a discretionary sample basis or where grounds exist for suspecting that grant monies have not been used in compliance with the terms of the grant agreement.

Perhaps Mr. Rogers might clarify his interpretation of these phrases for me: "This right may be invoked . . .", with an emphasis on "may", sir; the second one, ". . . where grounds exist for suspecting that grant monies . . ."; and your views with respect to the words ". . . grounds exist for suspecting . . .".

MR. ROGERS: Mr. Chairman, I think the whole purpose of these words was to convey the idea that under no circumstances was it considered either practical or desirable to go out and audit all recipients of grants of this nature, conditional grants. I don't think it's any part of the job of our office.

I think the department has a responsibility for doing some auditing in this area to ensure that grant conditions are being met. But again, I don't see the department going and auditing every grant. I think that the fact that there is a right of access is in itself quite a deterrent, if you will, from the recipient of a grant who may have ideas of using the money for other purposes. If he knows that he's subject to audit I think that itself is a control. But in order for that control to have any impact, it has to be backed up with a certain amount of auditing. Of course, all auditing is based on that concept: that you do not audit every transaction. There is no way you could have the resources to do that. But you do sample. You take a statistical sample from the whole body of transactions, so that out of, say, 100 grants you may take two or three grants more or less at random that were selected on some basis, and you audit those. From that you sort of get a feeling for whether or not a lack of compliance with conditions is a problem or not. But the mere fact that you are doing some auditing adds credibility to the fact that there is the right to audit.

The last part of that sentence is that sometimes one does hear through various channels of, let us say -- and this is hypothetical -- an abuse of grant money. In situations like that, if you have the right of access and the right to audit, that is the kind of thing that I think would trigger an audit,

as opposed to a sample selected at random. I don't know whether the controller would care to add to that.

MR. KOWALSKI: Mr. Chairman, if I might raise another question in regard to this. I think it's a very important point, and I appreciate very much the recommendation.

Would it be the intent on the basis of the recommendation that the office of the Auditor General and the office of the controller would be auditing the auditors who would be verifying or putting their signature to say that a local group had expended certain moneys in a particular way? Or would it be the intent in a random sample from time to time to go right to the heart of it and, in fact, audit the group? My understanding is that many of the groups that receive moneys -- again, I really want to emphasize the word volunteer on this -- essentially are registered societies in the province of Alberta. They already have some legal requirement to define that moneys are expended in a certain way and, at the end of a fiscal year, go to a local auditor, whoever that person might be. Would it be your view, sir, that these two officers of the provincial government would be dealing with the local auditor or the local people?

MR. ROGERS: The first step would be dealing with the local auditor, and determining as to what things he had satisfied himself with. He may not have looked at conditions of the grant; he may not have looked for compliance with the conditions. He may simply have counted the cash and audited a statement simply of what happened as far as cash coming in, cash going out. He may not have paid any attention to compliance with the grant conditions. On the other hand, he may have done. I think the very first point of contact would be with the auditor of a society or other organization such as you mention.

MR. KOWALSKI: To extend this just a little further, because this is one I recently had some experience with. It's such a small case, but yet there's a principle, and I guess it's a principle that we're talking about more than anything else.

An agricultural society in the constituency of Barrhead had received a small grant. I think it was \$3,500. At least they had received notification that they were eligible to receive a grant of \$3,500. At the end of the fiscal year they were to supply a certain amount of information to receive the grant of \$3,500. One condition attached to it was a complete listing of all the individuals by name and by an hourly basis: the amount of hours they had put in on a volunteer basis. As you can appreciate, when it comes to a local or county fair, you might have 20 or 30 different groups, and in each of those groups you might have 20, 30, 40, 50, 60 people who usually show up on a given night for an hour or two or three. You have this scenario where, to satisfy the condition of the grant, some individual had to literally make a list of hundreds of people and determine whether or not they spent an hour or two or three. While the local people very much appreciated the opportunity to be eligible for the grant of \$3,500, they thought they were being put in a situation where it was extremely difficult to determine exactly how many people had spent how many hours. So, in essence, they were in a position to fabricate, simply to fulfil the conditions. They, of course, looked at it and said, hey, this is a strange situation.

I appreciate, sir, that this is a very, very small example, but it's just an example to meet the extreme, I guess, of what we're talking about here. The one fear I would have is that we would have a group of auditors investigating

all these volunteer groups and, of course, that's in the extreme as well. You've certainly identified to me that that's not the intent. It's a small random sample, but I felt I had to raise that because in this business it seems that 10 years from now one may have a different view of what may be today, and I think it would cause some negative reactions from local people. I just make that point.

MR. ROGERS: Mr. Chairman, just commenting on that point if I may, I think, one, we'd be looking at the significance of the condition -- referring to that particular condition -- in its impact on the expenditure of public funds, which I don't really think is direct. The other thing we have to look at, of course, is materiality and significance. I really don't think we would be spending any time auditing those names.

MR. KOWALSKI: I appreciate that. Thank you.

MR. CHAIRMAN: Mr. Stevens.

MR. STEVENS: Mr. Chairman, thank you. I just wanted to thank the Auditor General for his responses to the members for Edmonton Glengarry and Barrhead, because it's relieved some of the anxiety I had from the way the words are written in the recommendation.

If you do an audit for reasons of a sample or for grounds of suspecting that the grant moneys have not been used, or if the department itself does that audit, does that become public? Is there a published record that says you are satisfied or the department says it's satisfied? How does the non-profit society or the other agency know that has been done and that it has not been found wanting? How do we as MLAs know? Well, I guess you would obviously bring problems to the attention of the department, but . . .

MR. ROGERS: Mr. Chairman, if it was a material amount, and there was a lack of compliance with grant conditions which had resulted in funds being misused, it would be in this report.

MR. STEVENS: Thank you.

MR. ROGERS: Otherwise, there would not be any communication other than to the department concerned.

MR. STEVENS: Thank you.

MR. CHAIRMAN: Any further questions on grants? If not, you could continue, Mr. Rogers.

MR. ROGERS: I would like to leave the next item which deals with a management information system and some of its weaknesses and combine it with comments on another item we will meet later. So I'll be coming back to this one.

The next item deals with certain matters regarding the nursing home program. We found that grants were being based on unaudited statements. Annual audited statements were called for, but there was no way of reconciling one with the other. Therefore what we really had was a calling for annual audited statements which virtually were not being used. We have simply made some recommendations here for the need for improved reporting and, in effect, substantiation for the per diem grants.

The second recommendation, number 18 on page 23, was a case where we observed a lack of compliance with regulations. In a case like this there are two things. One is: if the regulation is not workable, as was mentioned, then the regulation should be changed rather than just ignored. However, as you know, there have been developments in this area, in the creation of the nursing home review panel. Really, the existing regulations should be reviewed as to whether they should be changed or not.

MR. CHAIRMAN: Any questions to the Auditor General on the nursing home program? If not, we can continue.

MR. ROGERS: Thank you, Mr. Chairman. Item 2.3.5 deals with the segregation of duties on payroll. Basically we're dealing with situations where individuals can put people on the payroll and then, at a later date, they distribute the cheques. The possibility there, or the opportunity, if you will, that could exist in a situation like that is undesirable. We have made recommendations, which I believe the controller agrees with, that at least two individuals have to be involved in that process of placing people on the payroll and receiving the cheques for distribution. This is subject to recommendation number 20. There are strictures in the Treasury Department's manual of finance administration. I think it's a matter of obtaining compliance with the wording in that manual.

There's just one further question. In certain circumstances, it may be that the suggested control in the manual is impractical for various reasons. We feel the alternative there, and I believe the controller agrees, is that alternative procedures should be worked out with the controller's office. I believe that is going on, is it not?

MR. O'BRIEN: Yes.

MR. CHAIRMAN: Did you have a question, Mr. Stevens?

MR. STEVENS: Yes I did, Mr. Chairman. You found no horses on the payroll?

MR. ROGERS: The next matter deals with professional and other manpower service contracts. This is really a continuation of work we carried out in our first year of auditing as Auditor General. What the audit office sought to find is explained in detail under points (a), (b), (c), (d), (e), (f), and (g). We were looking for whether or not departments have procedures to ensure that services were obtained in the systematic manner, and at the best price, and also that documentary evidence of the procurement of these services existed; that is, the contract administration. As you will see from the comments here, we did find quite a number of deficiencies, especially in documentation. The problem with that is that the department is not in a position to be able to satisfy anyone after the fact as to what really happened, unless there is adequate documentation.

I think in this case the recommendation is very similar to the one last year. I believe some action is being taken -- at least is in process -- whereby the controller's manual is being amended to include more definitive contract-letting under administration requirements. I believe that's correct, isn't it?

MR. O'BRIEN: Yes, Mr. Chairman. We have issued in draft form, and will finalize to be effective June 1, some revisions on the guidelines in the

manual in respect to the responsibilities of expenditure officers with respect to contracts, and the terms of those contracts. I believe the Treasurer has indicated that he will be taking some policy proposals in this field to Treasury Board for consideration as we develop these procedures. But this is obviously an area that impacts virtually the entire operations of government. We have literally thousands of contracts involved throughout the government. It involves the whole system of getting things done in government, and I think this might be one where the member's expectation that three years might be required, at least in order to make substantiative changes throughout the administrative systems of government, would be realistic.

MR. R. CLARK: Are you preparing for a general [inaudible].

MR. O'BRIEN: Mr. Chairman, to the member, I think we have made considerable progress in standardizing the terms and provisions of contracts throughout the government, in identifying issues, and in clarifying . . . I think one of the areas the Auditor expressed concern about is simply in being perfectly clear what the authority of public servants is with respect to entering into contractual agreements on behalf of the Crown. I think that significant progress is being made in that area in establishing limits, really, of expenditure officers' authority in ministries so that it's very clear who is authorized to act in a given situation. I think that clarification of responsibilities in this area has improved a lot, and will bring significant benefits, we hope.

MR. CHAIRMAN: Mr. Stevens, did you have a question in this area?

MR. STEVENS: Thank you, Mr. Chairman. Mr. O'Brien, I have two concerns. As we enter into an area of more and more standardization of contracts to achieve all those objectives you are endeavoring to achieve with our departments and following the Auditor General's recommendations and so on, we sometimes create contract forms, or types of contracts, that are at variance with the contracts that have generally been developed by or accepted by professions such as architects, engineers, and so on, and there may be others. I would be concerned that what we establish means that we either find that the individual can't provide the service anymore, where he or they could to someone else, or charges government correspondingly more to do it.

I'm only conveying a criticism I hear from outside. I wonder if we really spend time making contracts we don't need. Are there not standard forms that can be used in many instances, that do not cost more? Why do we hear complaints from private enterprise that they must up their bids 10, 15, 20 per cent -- not because it's government but because of the form of contract, or the extraordinary requirement that we put on them?

MR. O'BRIEN: Well, Mr. Chairman, I'm not sure that I'm fully qualified to speak to that issue because I'm not sure I understand all the concerns that certain people we're doing business with have in this area. But if I might make an observation, I believe that the problem has not been so much the use of standard contracts, nor a failure to accept standard provisions of a particular occupational group or inability to utilize that kind of standard commercial terminology in our contracts, but rather very much the opposite. It's been a problem that individual branches or divisions of the public service, aided and abetted by an individual legal advisor, have, as it were, invented their own wheels as they went. Each contract has been invented

independently, sometimes with some very difficult or unusual provisions. Certainly one area where we have found this to be the case -- and I think it's a problem -- is bid bonds and performance bonds and so on.

Frankly, some of this is problems that arise in this Assembly and in the Executive Council. We've had statutes and regulations that required certain provisions or guarantees -- forms of bonding that were spelled out in legislation decades ago in some cases -- that had become impractical or unusual in the current circumstances; a great deal of confusion and some unusual provisions in requirements as to what form of bonds or guarantees is acceptable. We have now established some standard definitions which, subject to regulation or statutory requirement, with that exception, are recommended by the Treasury as acceptable forms of guarantee. For example, in many cases we are now accepting bank letters of credit and guarantee which historically was not the practice; we would require cash or government bonds or something as a guarantee.

I think that by providing some standard provisions to departments as to what is acceptable, we are easing those problems. Of course, I would mention here the importance of the supply division in Government Services. The most common form of contract throughout government, really, is our purchasing order, which is standardized, and I'm not aware creates any great difficulties for the communities supplying us. I guess the most common concern I hear expressed is with respect to payment provisions, the adequacy and promptness of the payment process, and our usual contractual requirement that we do not pay interest on overdue accounts. But that is obviously a very standard area and, to my impression, works very successfully and perhaps more so than in other areas where we haven't had that kind of central standardized approach.

MR. ROGERS: Mr. Chairman, if I could just add to the remarks made by the controller. I was not visualizing standard contract forms. I think there has to be room for flexibility and tailoring a contract to a particular situation.

I think the things we're addressing are those matters that are often left out of contracts. For instance, you have contracts where, regardless of what the contractor did, there is no method of terminating the contract. We have contracts where it's very difficult to determine what was intended in the payment terms. Very often arbitrary judgment has to be made to try to determine what the contract meant. We have the various things noted at the bottom of page 26: not in all contracts, but this contract would have this deficiency; this contract would have this deficiency, or maybe more. It is to try to get away from that kind of thing that I think the value of the recommendations being made, or the contents of the manual, will tend to avoid that kind of situation in future.

I think if I were rewriting this, I would make quite clear that these remarks do not apply to the purchasing agency, as it used to be called. Mr. Minister, I think in fairness I have to make that comment because these comments were not talking about the central purchasing at all.

MR. CHAIRMAN: Are there any further questions of Mr. Rogers on manpower service contracts?

MR. ROGERS: Thank you, Mr. Chairman. The next item deals with public colleges. As you know, public colleges are exempt from The Financial Administration Act. Therefore the various shortcomings noted in our audits of the public colleges are brought together under one heading. You'll note that

they bear a marked resemblance to some of the shortcomings that exist in the service at large dealt with elsewhere in the report.

I think most of these areas are being addressed by the colleges, and we are in close contact with them. One area that perhaps gave us some concern, perhaps more than the others, is the treatment of outstanding purchase order commitments as current liabilities. That apparently had been practised, but is obviously undesirable. The assets had not been received at the end of the fiscal year, and yet the purchase order commitments were being treated as current liabilities. This causes a distortion, if you will, in the results shown by the financial statements. I think there are now only two colleges that have not changed the reporting practice in this area.

MR. GOGO: Mr. Chairman, to the Auditor General with regard to 2.3.7, Public Colleges. The fact that universities are not mentioned, one would assume that everything is in order under The Universities Act with regard to universities. Would that be accurate?

MR. ROGERS: There are some problems with universities and I think they're mentioned in several places in the general sections. But I think by and large the accounting procedures in the universities are quite naturally far more mature, having been in existence usually as long as they have for the most part. I would say the problems were somewhat less with universities than with the public colleges.

We had a particular problem with the public colleges, for instance, on the transfer of assets and consequently had to make reservations of opinion on their statements of June 30, 1980. I wouldn't like to get the wrong impression. They are very co-operative and I have every reason to believe that by next year this item will not even be in here. They have made quite considerable changes. This is simply reporting on the situation within the colleges generally, especially in view of the fact, of course, that I had to make reservation of opinion on June 30, 1980. That mainly had to do with their fixed assets that were transferred from the Department of Advanced Education and Manpower.

MR. GOGO: Mr. Chairman, to the Auditor. One would assume, then, that based on this report, there are two new public colleges -- publicly governed colleges, NAIT and SAIT -- would be coming under this. Obviously we would hope they wouldn't be seen in this report.

MR. ROGERS: That is correct.

MR. CHAIRMAN: We've got time for one short question, Mr. Clark. Is yours short, or should we save it? We have many more recommendations to go through, and I see our time is about expired. Mr. Clark is not really known for short questions.

MR. R. CLARK: I'd be pleased to surprise you this time, Mr. Chairman. Which are the two colleges?

MR. ROGERS: As the clock has run out, Mr. Chairman, could I bring the answer back? [laughter]

MR. CHAIRMAN: We're noted for being on time, and it's obvious that we're going to have to spend another meeting with the recommendations of the Auditor

General's report. Again, I would like to remind committee members to keep in mind, when we've finished with the report, we would like you to make some recommendations on departments you want to question, so that when we complete the Auditor General's report, we're going to have recommendations from the committee.

Could we have a motion to adjourn?

Motion for adjournment by Mr. Kowalski

The meeting adjourned at 11:28 a.m.