

Standing Committee on Public Accounts

Wednesday, May 11, 1983

Chairman: Mr. Martin

10 a.m.

MR. CHAIRMAN: I'd like to call the meeting to order. I believe minutes of the last meeting were circulated. Are there any errors or omissions? Would somebody like to move adoption of the minutes? It's been moved. Agreed?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: If I recall from the last time, we were going to finish up section 2.4. We had a list of speakers from that time. Then we'd move back with some reports in section 2.1

MR. ROGERS: Mr. Chairman, I believe there were a few matters that . . .

MR. CHAIRMAN: That's after section 2.4. We'll come back to section 2.1. We had speakers in this one section; that's why I'm staying there. The other thing, there was some request for the financial administration accounting and financial control: a little leisure reading for you before you go to bed with your warm milk. There was some request for that, and it's here if people want to take a look at it. It will be part of the committee. Also, I'm told that if you really want an individual copy, they would get it for you. So I'll leave that with you, but it's here for people who want to look at it.

Dr. Carter, you were up. Do you want to continue? I'll call Mr. Moore just to take over for me for a few minutes.

Mr. R. Moore in the Chair

DR. CARTER: Thank you, Mr. Chairman. As I recall, we were talking about electronic data processing systems and security. I wonder if the Auditor General himself might like to comment on the security of the information in the computer in his department.

MR. ROGERS: Mr. Chairman, the fact that we have our own computer itself is a recognition of the need of security. The systems we employ also practise internal security insofar as the use of it by members of the staff is concerned. This is achieved by, when you gain access through a terminal by the use of a code word or password known only to the individual himself -- and, of course, it is on record in the central computer system in our office -- he must use, among other things logging on, his password, which does not print on the screen. Only someone watching which keys he was hitting would know what his password was, because it's personal to yourself. You've thought it up yourself. As I say, it is also recorded in the computer system. The computer system compares what has come in from the terminal with what it has for you as a individual, because you've also put your name in when you were logging on, makes the comparison, and only if that comparison is valid does it allow you to continue operating. So yes, we have a security system within the office.

We also keep track of who has actually accessed the system. We do that not only to see who's using it but to make sure it is getting fully utilized by those who should be using it.

MR. DEPUTY CHAIRMAN: From our last session, Milt Pahl, did you have some questions?

MR. PAHL: I'm sure I did but I no longer have it, so I'll pass. Thank you.

MR. DEPUTY CHAIRMAN: For your information, I just passed over my name. I couldn't remember what I was going to ask either.

MR. McPHERSON: My question from last time, as I recall -- I put a note in my book -- relates to page 32, 2.4.7. It states that

"overtime pay shall be calculated from the annual salary rate in effect at the time overtime is worked regardless of any subsequent retroactive change in that rate."

It goes on to say that

in 1978, public employees were paid for overtime at the new salary rate, rather than at the rate in effect when the overtime was worked. This contravened section 17.08 of the Master Agreement and resulted in overpayments of overtime . . .

Despite this, however, similar overpayments of overtime occurred following a retroactive pay settlement [again] in 1981. An examination of payroll history files revealed that 6,105 public employees received overpayments totally \$127,488.

My question, Mr. Chairman, would be: has the government asked to be paid back any of these funds, or to withhold overpayment from future salaries, in light of this revelation?

MR. ROGERS: Mr. Chairman, I've not received any response on this matter, along with the other matters in the report. But I'm not aware of any attempt to make recovery. To my knowledge, there has been no attempt to make recovery, but I have no information on that I'm afraid.

MR. STEVENS: Mr. Rogers, what would the amount of overpayment be per employee?

MR. ROGERS: I'm afraid I don't have that figure either.

MR. STEVENS: Well, I divided it up. It would be \$20.

MR. ROGERS: No, it would be more than that, wouldn't it? I think it varied so much . . .

MR. STEVENS: On the average payroll, would it not be 6,105 divided into \$127,488? I don't have a calculator, but isn't that about \$20?

MR. ROGERS: Per individual it's not a large amount. Mr. Chairman, if I could add to that.

Mr. Martin in the Chair

I have here a letter from Treasury in response to our management letter. It says

We trust you agree it would not be appropriate to undertake recovery of payments previously made which are not in accordance with section 17.08 of the Master Agreement.

If you ask me what my opinion is, I would say I would agree with that. With the amounts involved, the cost of administration would probably exceed the recovery.

MR. CHAIRMAN: Any further questions on section 2.4?

MR. ROGERS: Mr. Chairman, a little additional information. My colleague here has just told me, from his calculator it's \$20.88.

MR. CHAIRMAN: You got that information, did you? Okay. If there are no further questions on section 2.4, I suggest we move back to section 2.1. There was some information requested from the Auditor General dealing with section 2.1.9 and section 2.1.10, on pages 5 and 6. I'd call on the Auditor General to report back on those matters.

MR. ROGERS: Mr. Chairman, I have a number of handouts. First of all dealing with 2.1.9, this is a paper that deals at some length with the reservations of opinions on the various financial statements included in public accounts for 1981-82. I think the explanations given here are self-explanatory. I'll go over them very quickly. The four reservations on the financial statements of Fairview College, Keyano College, Lakeland College, and Olds College were there because the financial statements did not reflect the assets transferred to the colleges by the Department of Advanced Education and Manpower. The colleges were established in '78. Yet when the June '81 financial statements were prepared, even though there had been that lapse of time, neither the colleges nor the department had determined which assets had been transferred to the colleges or the value of those assets.

In response to the reservation of opinion on their financial statements, action was taken, and during that year the four colleges received details of the assets received from the department. Three of the colleges disclosed these assets in their June 30, 1982, financial statements. The fourth college, Fairview, did not. But the only reason they did not was they were still in the process of checking the figures and assets, felt it was premature to include them in their financial statements at the time, and presumably will be doing so for the year ended June 30, 1983. The four reservations of opinion reported as of March 31, 1982, this year will only be one, because the three have now included the assets in their financial statements.

The four reservations will continue, because the revenue could not be audited because it was donation revenue. This type of reservation, as you see from the explanation, is quite common, especially in the private sector, especially with not-for-profit organizations. This is simply because those revenues are unauditible. You can audit what was received, but you cannot audit that that's what should have been received.

The reservation on the financial statements of the Workers' Compensation Board is simply because there is not enough experience -- I think I referred to this at the last meeting -- to make a judgment. Consequently, that reservation will be continued until such time as we feel that we can make a judgment as to the adequacy of the reserve.

There is one reservation because there were inadequate records to support the value of fixed assets, and that is for the Research Council of Alberta. That is dealt with at some length in the appropriate section in the report which deals with the Research Council records.

There was one reservation for the Health Care Insurance Fund. These were instances where, in our opinion, they entered into transactions which were not covered by their legislation. The information we have is that it is the intention that the legislation be changed.

Mr. Chairman, I think that deals with the reservations. If there are any other questions, I . . .

MR. CHAIRMAN: We'll just deal with section 2.1.9. Are there any questions about the updated information on section 2.1.9? Seeing none, if you would move then into section 2.1.10.

MR. ROGERS: Thank you, Mr. Chairman. Section 2.1.10 deals with the subsequent event item. I think I was asked why this would be in a report which covered the year to March 31, 1982, in view of the fact these events occurred after the end of the fiscal year and the situation reported on was as of January 1983. This matter is dealt with in the first part of this written response. It is in accordance with mandatory practice in the preparation of financial statements and reporting by auditors in the private sector. I believe this is still fully applicable in the public sector too.

This led to a discussion as to the authority for the investment of funds, and of course this varies from Act to Act. So for the convenience of members, Mr. Chairman, I summarized some of the more prominent areas where investment takes place outside the Treasury Department. You'll notice the University of Lethbridge, which was the case that was under discussion:

Section 17(1)(h) of the Universities Act empowers the University's Board to invest in a manner that the Board considers fit, all money that comes into the hands of the Board and that is not immediately required for other purposes.

A number of the Acts refer to the investment provisions of the Trustee Act. Consequently, I have attached an extract from the Trustee Act which does permit the investment in investment certificates and deposits in trust companies. By way of comparison, I've included the investment authorities for the General Revenue Fund, and of course that also includes the Alberta Heritage Savings Trust Fund and other major funds handled by Treasury. You'll notice that the fourth item on page 2 says:

investments within the classes of investments per section 63(1) of the Canadian and British Insurance Companies Act (Canada),

Again, I've attached a copy for convenience. The Canadian and British Insurance Companies Act allows for investment in certificates and deposits in trust companies.

The remaining part of the written response, Mr. Chairman, deals with the history, which was an added question, of the investments reported in section 2.1.10. You will see that in the case of the Alberta Hail and Crop Insurance Corporation, all the \$12,500,000 maturity dates have passed. "All investments were redeemed in full on their maturity dates." In the case of the Public Trustee, you will see that several of the security dates are in the future, but the ones that have occurred, repayment has taken place. In the case of the University of Lethbridge,

None of the investments maturing in 1983 were redeemed on their maturity dates. The University has retained a Toronto law firm to represent it in this matter.

That's in the case of the investments in Greymac. The Alberta Cultural Heritage Foundation, in those cases where the \$150,000 and \$75,000 "were both redeemed in full on their maturity dates". Of course the \$175,000 is not due until September '83.

Mr. Chairman, that is a quick summation of the written response.

MR. GOGO: Mr. Rogers, I very much appreciate this information you've supplied relative to 2.1.10. I would seek your view, as an auditor, on one of the attachments, the Trustee Act, section 8(a) and (b), which is on page 7: "in any bank or treasury branch". I would have thought that would be expressly

stated any chartered bank or treasury branch. Secondly, "in any trust company", and I would have thought that would have been any trust company accepted by or any trust company chartered federally, or some other words. Could you help me out there? I am quite surprised at the terminology, because a bank is really not a bank, I don't think.

MR. ROGERS: I don't have the answer at the moment, but I would say that we should look at the interpretation part of the Act at the beginning, which we don't have with us; unfortunately our excerpt starts with section 5. It may well be that a bank is a defined term. I am not aware of that. Certainly I will bring a very quick comment on that to the next meeting.

MR. GOGO: A supplementary question, again with regard to 2.1.10, page 3, regarding the U of L. As you indicated, none of these guaranteed investment certificates, or whatever they are, were redeemed, and legal counsel has been retained. If we don't return to this in three months or six months, presumably at this time next year we would be at this again, and Mr. Rogers may well be advising us that the lawyers were either successful or unsuccessful. How would a member of this committee find out, for example, next month or the following month whether that issue was resolved? Could you advise me as a member of this committee how it was resolved? Or should I discuss that with the University of Lethbridge? Perhaps that's the other question.

MR. ROGERS: Yes, I think that really is the correct way, dealing directly with the entities we audit. But certainly I can, if directed by this committee, make whatever reports the committee requires on this matter.

MR. GOGO: Thank you very much, Mr. Chairman.

MR. ROGERS: There is a supplementary, Mr. Chairman, dealing with the University of Lethbridge; that is, the majority of the university's cash flow is from provincial grants, of course. But as all moneys are commingled, it is impossible to say how much of each deposit with Greymac came from what source.

MR. CHAIRMAN: If I can just take the prerogative of the Chair before I go on to questions. In the gallery, we have a group of 38 grade 6 members of St. Basil's school, in the wonderful constituency of Edmonton Norwood. The group leader is Jerry Tymkow. I would ask them to stand and if you would give them a warm welcome.

MR. ROGERS: Sir, I have a few more matters arising from the last meeting to cover, if you wish me to dispose of them. These are verbal responses.

MR. CHAIRMAN: Okay. There are questions coming up about 2.1.10.

MR. ROGERS: Oh, I see.

MR. CHAIRMAN: These are still on 2.1.10. So if there are still things you want to cover after the questions, fine.

MR. ROGERS: There is one comment on the written response relating to investment powers. I didn't feel it was proper to include these, but as everyone is aware there is presently Bill 30 and Bill 54 which amend these.

MR. MUSGROVE: Mr. Chairman, I am certainly in favor of institutions like the University of Lethbridge earning interest on money until it is necessary to

use it. I notice the 1983 investments were not redeemed on maturity. Was that because the investment company had some financial problems?

MR. ROGERS: Yes, sir. This is the problem with Greymac right now.

MR. MUSGROVE: What is the possibility of this money being redeemed in full?

MR. ROGERS: I really have no information on that. There have been press reports that indicate the outlook is not very bright. But the matter is now a legal matter, and that is why the University of Lethbridge has retained a Toronto law firm.

MR. STEVENS: Mr. Rogers, if I could refer to 2.1.9 briefly -- is it all right to go back?

MR. CHAIRMAN: Yes, we will go back. We've gone through it. That's fine, go ahead.

MR. STEVENS: Thank you. On 2.1.9, Mr. Rogers, the first page, the supplementary, you say the "four (4) reservations were because . . . of", and one of them is the Canadian Association of Youth Orchestras, who made a number of contributions to Alberta and in Banff-Cochrane, particularly at the Banff centre. My question is this -- and I think every member of the Legislative Assembly would be concerned about this. On page 2 you say "Where revenues are derived from donations . . . [and] no such records exist" then the auditing standards require you to have reservations.

What troubles me is the concern individuals, societies, or companies may have that they will be audited or that in making a donation, they will have to meet certain requirements other than simply making the donation. I guess I'm troubled by what I perceive here -- I could be wrong, and you could explain it then. My question is this: are we as a government, as a Legislature, establishing requirements in legislation that will prohibit or tend to restrict individuals, corporations, societies, and so on, making donations? Because if we are, that's either going to cost the taxpayer more money to make up the loss or turn us away from individual community support. It bothers me to read it that way, and I don't understand it.

MR. ROGERS: Mr. Chairman, this reservation of opinion is not indicating any fault or any irregularity whatsoever on the part of the administration of Youth Orchestras. It is the nature of donations that an auditor, after the fact, has no way of verifying that the entire donations have been reflected in the financial statements. Consequently all auditors, when auditing any organization that derives its revenue from donations, as a matter of course include such a reservation in their opinion. That is standard practice, and I am now talking about private-sector audits of any charitable organization which receives donations. This is standard practice.

MR. STEVENS: Mr. Chairman, a supplementary then. What would clarify this from the point of view of this organization, as an example, or the individuals making the donations? I know, for example, under the Election Act, it's very clear. People make donations, they're recorded or not recorded, and so on. I read this as saying we cannot give you an audited statement, members of the Assembly, because . . . I hope that that doesn't reflect back and the association then says, we can't get that information because people donate money. Is it that they have recorded it improperly, or they haven't issued a receipt? What causes you to say that? That's what's bothering me.

MR. ROGERS: In effect, we are specifically saying that the revenue shown agrees with the receipts issued, but we have no way of knowing -- and auditors in giving their opinion and to protect their position, I suppose . . . I'm now talking about the private sector. We're simply carrying out the same approach as that carried out in the private sector, and for the same reasons. In giving the opinion, you are able to say that the receipts reflected are in accordance with the records by which those donations were recorded. But you're unable to say whether some donations were received but not recorded. Really, that's what you're saying without actually saying it. The inference, of course, is that things may have happened which you have no way of knowing of, because they may not have been recorded in the records of the entity.

MR. STEVENS: A final supplementary, Mr. Chairman. Why doesn't the Auditor General simply say that the record of receipts for donations received correlates with the information provided? I just don't understand why it's not a more positive approach. I'm missing something; I'm not an accountant. I don't understand why it isn't a positive approach; rather than we don't know what you didn't report, we do know what you did report.

MR. ROGERS: I think the reading, though, of the reservation of opinion is quite clear, that that is what we're saying. I don't have a copy of one of those entities here. I'll bring it next week. I think if you read the words, you'll realize . . . It's very precise and, as I say, these are the words used in the audits of all organizations that receive all or part of their revenue by way of donation. It is simply showing the limitation, from a practical point of view, so that the auditor's opinion only reflects those things that he can know, which of course are what are in the records. I would like to defer this, Mr. Chairman, to next week and bring an example.

MR. CHAIRMAN: Any further questions on section 2.1.10? Mr. Pahl had to go out to take a picture with some school children. He does have some questions, so when he comes back, if I could I'd refer back to 2.1.10 for courtesy for him.

In the meantime, if we could move on to the next section that we haven't covered, section 2.5 on page 38. Do you have any initial comments on that section?

MR. ROGERS: Mr. Chairman, I had some items arising out of last week still to cover.

MR. CHAIRMAN: There are still some more items that you want covered? Okay, we'll revert then. Is this on section 2.1.10?

MR. ROGERS: Not 2.1.10; on the various sections we covered last week. I don't think we need to refer back to the specific sections, if I could just talk to several matters.

MR. CHAIRMAN: Okay, these will be some general comments on what we covered last week.

MR. ROGERS: I was asked, for instance, what the current state of affairs is with the new correctional centres. Only one has opened since the report was drafted, and that is the Bow River centre in Calgary. Last fall, we carried out a review, along with the Calgary Correctional Centre. It will be reviewed again this year, because having once seen what happened in the two correctional centres that were the subject of the report, we are paying particular attention in this area. Because the Bow River centre is very closely linked with the Calgary Correctional Centre, and the fact that the

head office has had appreciably more involvement than in the two that were the subject of our report, there has been a smooth implementation.

As you all know, the three additional centres are being planned. In due course we will carry out the same approach, and that is to get involved very early. I'm sure the department also will have learned from the problems that arose in the first two that were reported on in the '82 report.

There was a question on the overpayment to hospitals in district 93. If you remember, we said that there were losses to the General Revenue Fund of \$150,000. The thought was that perhaps there really wasn't a loss, that the government at the time picked up the deficits of hospitals. Indeed there was a loss, because in this case the two hospitals concerned, Rockyview and Holy Cross hospitals, were not in a deficit position for the year ended March 31, 1982. There are three hospitals in district 93, and the audited financial statements of the district show a consolidated excess of revenue over expenditure of \$1,329,794. So there was no deficit involved, and therefore the province did lose an investment opportunity that we estimate to be \$150,000.

There was some question as to why this amount was so small in view of the amount of the overpayment of \$9 million. The answer to that, of course, is that that \$9 million overpayment was on a monthly basis; therefore, the interest earned can't be related to the total overpayment.

I was also asked a question on the control of oil production sale. The question was, can operators misrepresent the amount of oil produced? I think I suggested at the time that there were several factors: the ERCB; the ENR, Energy and Natural Resources Department; and of course the marketing commission, APMC. Field audits are carried out, where the metering of production is checked by ERCB, and operators also have to work within quotas. I believe that the system is such that it would be difficult for any material amount of oil to be diverted in the way that was suggested could happen.

The next and last item, Mr. Chairman, deals with the royalty on gas that is taken from the ground and pumped into other fields. The department system is set up to monitor this operation, of course. The department is attempting to recover full control of this. There are 125 injection systems, and recently 10 large systems were looked at in detail to build up opening inventories. The department is attempting to develop inventories of this stored gas upon which royalty has been paid, and of course royalty will not be payable when it is eventually brought out for use.

One last thing, Mr. Chairman. I was asked about obsolete equipment on the inventory of AGT. I think I was rash enough to say that we would have to be lucky to find it. I underestimated the ability of the auditors on the job. The audit is not completely finalized, and one of the items that will be reported is on obsolete equipment. That obsolete equipment was observed in work that was carried out in the Calgary stores, the Manchester complex, and the Edmonton stores.

Mr. Chairman, that's rather lengthy, but I think that covers the matters that were brought up at the last meeting.

MR. PAHL: Mr. Chairman, I am going to challenge the appropriateness of the Auditor General's presenting section 2.1.10 in his report at all, but I hope I will issue and make my case in a positive way. I guess I would note for the record that none of the investments that have been recorded occurred or were in place within the audit period. I believe that's a correct interpretation, Mr. Rogers, of the information you've provided?

MR. ROGERS: Yes.

MR. PAHL: Therefore, if I read carefully the justification in the handbook of the Canadian Institute of Chartered Accountants, there is, I think, common agreement that matters which provide further evidence of conditions which existed at the end of the report period would clearly not apply. The conditions were, in effect, not there because the investments were not made.

Secondly, I question whether matters that are indicative of conditions that arose subsequent to that date would be with reference to things within the audit period. Otherwise, clearly there is no reason for mentioning them. But in saying that, Mr. Chairman, I recognize both the interest, the topical nature, and the concern that this committee and the Legislature should have with regard to the nature of investments by, if you will, Crown corporations or at-length institutions.

I wonder, Mr. Chairman, whether the Auditor General could suggest ways which these matters could be reported. Am I to conclude from the way they have been included in this report that the Auditor General has no opportunity to report to this committee or to the Legislature on matters of certainly, admittedly, topical interest but that don't relate to the reporting period? Is there a mechanism whereby, at his initiative, he could present a report such as is represented in section 2.1.10? In my interpretation of the facts, I can't find justification for it as is presented here. But I would submit that there is a case to be made for topical reporting on issues like this that are in between, if you will, Auditor General's reports.

I wonder if I could get the reaction that I hope I've provoked.

MR. ROGERS: Mr. Chairman, with deference, I do not accept the fact that this is incorrect, for this reason. The financial statements show at the end of the fiscal year of the university a certain amount of either cash on hand or short-term investments held. In the course of the months subsequent to the fiscal year, those are rolled over into these investments. These investments were -- and of course in the case of Lethbridge, still are -- somewhat suspect at January 25, I believe, when this report was finalized. Therefore, that is a subsequent event that does relate back to the financial statements that were issued for those entities. Even though the actual investments themselves weren't reflected in those financial statements, the assets shown on those financial statements, at least a part of them, became these investments. In fact in the private sector, it is normal practice that events that occur between the date of the financial statements and the finalization of the report are reported as subsequent events.

MR. PAHL: I'll just continue the interchange somewhat. The fact is you're talking about a financial report in the institution, and that's appropriate. But this is an audit, and it's an audit of the period. Surely you could argue, Mr. Chairman, that every event that occurs after the March 31, 1982, date has relevance in that case. I submit that if you were submitting an audit of the financial report of the University of Lethbridge as of March 31, 1982, at this date it would be an entirely appropriate observation to make. But you're really only auditing the financial period, and there is nothing relating to the financial period in your report of 1.10, Mr. Chairman.

Rather than trying to argue this point -- which I think it could deteriorate to -- I wonder whether you could answer the second question, if I could call it that, Mr. Chairman; that is whether you have a mechanism for out-of-period reporting, if you will, which I think is of legitimate interest to this committee and the Legislature.

MR. ROGERS: The question, Mr. Chairman, is whether I can report matters that have occurred after say, March 31, 1982?

MR. PAHL: Well, I guess in this specific example. Let me just point out the example. If the concern with respect to trust company investments occurred after the printing date of this report, you would not have an opportunity to have placed it in this report. That would mean you could either report an exceptional occurrence to this committee and to the Legislature, or you would have to wait until the next reporting period, which would cover the year end to March 31, 1983. That is the thrust of my question. Could you report to us in a topical way on a topical issue of concern?

MR. ROGERS: Mr. Chairman, if I could just suggest that we look at 19, the reporting mandate included in the Auditor General Act, which is at the end of this report. If we look about halfway down the page, the end of subsection (2): and shall call attention to any other case that he considers should be brought to the notice of the Assembly. That is not restricted by any time whatsoever. Although this report directs its attention to the fiscal year ended March 31, 1982, in actual fact it reports matters that have come to our attention right up to the end of last year when we sort of closed off our work.

So I don't feel restricted to any particular time frame, because I think it is appropriate to bring to the attention of the Assembly matters, depending on their relative importance, at the earliest opportunity. Indeed, under section 20, I have the right, in fact the responsibility, to prepare a special report . . . on any matter of importance or urgency that . . . should not be deferred until the presentation of his annual report under section 19.

So the mechanism is there.

In this case, Mr. Chairman, as I said, I believe this is a legitimate subsequent event. But even if it were not, I would still feel that it was of significance and should be included in the report.

MR. CHAIRMAN: Supplementary?

MR. PAHL: Mr. Chairman, not so much a supplementary, but I say I quite agree. I feel much more comfortable with that explanation. I suppose the way my mind works in terms of an audit period, I would have preferred to have this entitled "special report".

That's the only point I wanted to make. Having been assured that he has that capacity, I think my inconsistency is minor. I appreciate the time of the committee to clear it up.

Thank you.

MR. CHAIRMAN: Are there any further questions with regard to any of the answers or comments that the Auditor General brought back?

Seeing none, if we could then move on to section 2.5 on page 38. I'd ask the Auditor General if there are any initial comments on this section.

MR. ROGERS: Under 19(3) of the Auditor General Act, I'm permitted to comment on accounting policies and disclosures. These matters that are included, and I think there are three in number, deal with the accounting for program costs, the pension plans liability, and the program charges offset against revenue. None of these is new. I know that discussions within the government are continuing on these matters, at least on the first two.

Mr. Chairman, perhaps we could get into questions.

MR. CHAIRMAN: Are there any questions from members dealing with section 2.5?

DR. CARTER: Mr. Chairman, with respect to recommendation 34, when we are talking about fixed assets, I wonder if the Auditor General would care to comment on whether or not it would be . . . What is in place in the various departments with respect to -- is it better to be leasing or purchasing equipment? Do we have any kind of standardized policy that's been in place through the various departments of government? I guess a supplemental question with respect to all that is, is there any way of trying to give a recommendation to various departments as to which types of assets should be leased or purchased outright?

MR. ROGERS: Mr. Chairman, the question as to lease or buy, of course, is one where judgment has to be made on the merits of individual situations. Really, this is not addressing this particular problem so much as it is addressing the problem of a department that receives its assets -- I'm thinking particularly of its building space, the space it occupies, furnishings to that space, and so on -- that do not have a dollar figure tag on them to the people using or acquiring them, because the cost is paid by and charged to another department. So the question of leasing or buying isn't really addressed by this particular recommendation.

I think the problem is that when a program department is not held responsible for the expenditures it causes to be incurred, control is somewhat diminished in that there is not that feeling of responsibility that would otherwise exist.

MR. CHAIRMAN: Could I just interrupt for two seconds -- I'll come back to you -- and call on Mr. Pahl.

MR. PAHL: Thank you very much, Mr. Chairman. If members will cast their eyes upward, they'll note that there are 17 members of the Menisa elementary school grade 6 class entering the members gallery. They're accompanied by their teacher Mrs. Barb Lockert and parents Mrs. Chen and Shannon Sherett. I want to let members know that Menisa stands for "many berries" in Cree. So it relates as well to my portfolio responsibilities to have the linkage with the Cree names. I wonder if the class, parents, and teacher would care to rise and be welcomed to the Assembly.

DR. CARTER: With respect to the comments made by the Auditor General, do I then assume that when we're talking about the fixed asset of a building or leased office space, all of those costs are to be found within the budget of the Department of Public Works, Supply and Services?

MR. ROGERS: Mr. Chairman, that is correct.

MR. CHAIRMAN: Any further questions on section 2.5? Seeing none, we'll move over to section 2.6, beginning on page 44. I'll call on the Auditor General to make some initial comments on this section.

MR. ROGERS: Thank you, Mr. Chairman. Under the Act, it is permitted to defer reporting in the report to the Legislative Assembly where the department or entity is taking proper steps to rectify any situation revealed in the course of an audit under section 19(2)(d) and (e); that is, where we are speaking of systems' weaknesses where no loss has occurred or can be detected, but where there is a potential for loss.

We have used this approach very successfully. It has been responsible for a great number of situations to be very quickly cleared and rectified. But in instances where corrective action is not taken promptly, then on a rule of

thumb basis of a one year deferment of reporting, these are brought into this section 2.6.

In the case of the Alberta Research Council, this was a situation that we found in the audit year -- that is, well into 1982. I recognize that the administration and management of the Research Council activities have made, of late, considerable efforts to rectify the situation. It is a fairly massive job because of the state things had got to. They are developing new computer systems which, as I said earlier, in themselves do not rectify the situation but certainly can be useful tools to that effect. I am concerned about the length of time that these system deficiencies have remained uncorrected, because this has now been several years.

MR. PAHL: Mr. Chairman, I note that the first one on the list, as you said, is the Research Council. I'm sure many of their problems will be resolved when they gather under one roof in their new facilities in the constituency of Edmonton Mill Woods. I wonder whether you could indicate whether -- you mentioned that recently there had been some improvements. Is that relative to the salutary effects of your report, which was issued just recently, or is this from the time of the audit?

MR. ROGERS: It did appear in the previous report, Mr. Chairman. This tends to be an ongoing process. I'm not picking particularly on the Alberta Research Council. It was the first of several, as you see, which are in this section. I'm not saying that one is worse than the other.

MR. PAHL: A supplementary. I appreciate his acknowledging the different locations, but by its very nature there are some accounting difficulties. They have to interface, I understand, with the private sector on their project accounts. In your view, would this exacerbate the problems they've had? Or is it something you've run across in other areas and is more organizational, managerial, and lack of staff than a unique function?

MR. ROGERS: I think that the type of function they carry out, and therefore the individuals involved, definitely has added to the problems in this area, but I think the main problem was the inability to get suitably trained staff at an earlier time. Of course, once a situation develops and conditions get into a bad state, it is always difficult to recover and always a very protracted thing.

I would like to read a letter to me from the Research Council. They say: Implementation of a project accounting system is a top priority at the Research Council and is a key part of the new financial system. It is a complex matter, and some components, such as time sheets and labor costing, account for project, and contract work are under review and should be revised by April 1, 1983. The total project costing system should be implemented during the fiscal '83-84 as a new financial system becomes operational.

As I say, I think they are making correct and right moves right now. It is now a matter of timing to get the matter cleared as quickly as possible.

MR. NELSON: Mr. Chairman, to the Auditor General. I notice in reviewing this particular section, 2.6, there seems to be a considerable concern raised regarding the receiving and paying of accounts outstanding. Rather than go into each one individually, could you tell us if some of these areas have been substantially corrected in the last year or subsequent to this report? It looks like we have a couple of problems we really need to get on top of here.

MR. ROGERS: I think that each situation is, of course, different. We're talking about different departments under different management, different administrative people involved. But if we're talking about the payment of accounts as a topic, I suggest that statistics government-wide are showing an improvement in the delay in paying these accounts.

In the last year, the office of the Controller instituted a monitoring system whereby we as users of the payment system are reminded on a quarterly basis what our performance has been and how our performance relates to or compares with the performance of the payment system as a whole. I think the government is very much aware that delays in payment are a very serious matter to those people who are owed money by the government.

The Research Council, for instance, agrees that:

the deficiencies in invoice procedures have been properly identified as a problem area. These deficiencies will be eliminated on implementation of the new project accounting system.

But we know in other instances, having drawn these situations to people's attention for at least two years running in these cases, that improvements are now being made.

MR. NELSON: A supplementary, Mr. Chairman, in that particular area. When is it proposed that this project accounting system will actually be on stream to assist in the efficiency of the various departments?

MR. ROGERS: Mr. Chairman, this system is purely for the benefit of the Alberta Research Council. They will have that system on stream in the '83-84 year.

MR. NELSON: Mr. Chairman, another question relevant to the area of accounts receivable. There are a number of comments in there; for example, similar services were invoiced at varying rates, calculation errors, lack of control, delays, lack of formal procedures. What is happening in these areas that can be corrected, so that the government receives the due moneys coming to them, as should private enterprise or whoever is receiving moneys that are due to them? Has there been some noticeable correction in this particular area?

MR. ROGERS: Mr. Chairman, don't forget we are speaking here of only one entity out of many, many entities that comprise the whole government. By far and large, the accounts receivable and accounts payable operations of the government overall are satisfactory, as I said at a much earlier time. These, as you will realize, are the exceptions; that is why the spotlight, if you will, is focused on them. I can assure you that my information indicates that corrective action is being taken in all cases. I think the problem is that sometimes this corrective action takes longer than it's felt it should.

MR. NELSON: Through the Chair, what you're suggesting in general terms, Mr. Rogers, is that the accounting procedures of the government are progressing in a reasonable manner, and those items that have been identified in the past are, in your opinion, being satisfactorily looked after to the benefit of the taxpayer.

MR. ROGERS: I believe that overall, that is a true statement, yes. They are being adequately and properly addressed.

MRS. KOPER: Mr. Rogers, my question is related to the reconciliations for the Alberta Health Care Insurance Fund. I am wondering if you could tell me how Alberta health care premiums are paid for people on social assistance. I understand that the recommendation relates to the cash received from employers

and the registered contributions. I wonder if there is any problem in this other area.

MR. ROGERS: No, not in the social assistance area. The main problem reported here deals with group billing for employees, whereby the groups report to the Health Care Insurance Fund on their employees and remit premiums. Having received those premiums, the problem then lies in the department and the Health Care Insurance Fund in reconciling those premiums they've received to what they should have received, and billing the groups for any shortfall, or if they are overpaid -- in other words, if someone leaves employment at one place and goes to another place, there's always the problem that a certain month may be paid by his old employer and also by his new employer. That, of course, causes the health insurance fund to have to make a refund to one or the other. That is the problem. That is very much in arrears.

MRS. KOPER: I see. You see no problem in that area then . . .

MR. ROGERS: I'm not aware of a problem, no.

MR. CHAIRMAN: Any further questions on section 2.6 from members? Seeing none, we'll move on to the next section, section 2.7, beginning on page 52. Has the Auditor General some initial statements to make on this section?

MR. ROGERS: This deals with limitations of access to information. These are two items. One is a carry-over, and I'll deal with it first. On 2.7.2, a very minor situation occurred that was reported in the '80-81 annual report and was, I might add, promptly cleared. I believe that perhaps it was more a communication problem than anything else, because we've had nothing but full co-operation from that department since that time.

In the case of 2.7.1, I'm reporting on something that has been reported in previous years and is, I fully appreciate, really, outside the control of this government or any other single government, in that it relates to an agreement with the government of Canada and all the provinces. Although they are individual agreements, they all follow the same pattern whereby the auditor of a province has the right to audit but not the right to -- the effect of the terms of the agreement is that he doesn't have the right to look at the records. How you can audit and not look at the records is rather a problem. But we're overcoming this to some extent through working with the Auditor General of Canada, who does have the right to look at the records. We are taking certain steps in co-operation with him that at least takes us quite a part of the way toward solving the problem.

Obviously, the best solution would be that, when the tax collection agreement is up for review, perhaps somewhat different provisions be made for auditing, because one of the responsibilities I have is to audit that the terms and provisions of the Income Tax Act, which is an Act of this Legislature, are being properly complied with, that there is compliance. In effect, I'm unable to do that because of limitations of access to the information.

Also, of course, in our case there are the considerable tax expenditures. These are benefits that are received by individuals by the fact that they are given relief from tax, renters credits being one case in point, royalty credits, and so on and so forth.

The problem with relationship to corporations, of course, goes away to a very large extent since the province undertook the collection of its corporation tax.

MR. CHAIRMAN: Are there any questions from members on section 2.7?

MR. STEVENS: Mr. Chairman, this may not be in our committee's purview. Please let me know, Mr. Rogers. When individuals or corporations pay quarterly or whatever other way they pay, and it's confirmed by the federal government, does the province receive income due it during the year, or is it only on an annual basis when the calculations are made? I'm just curious about that.

MR. ROGERS: No, the province does receive a part of that cash flow from the federal government. It's based in effect on a model of the population of Canada. We are losing out to some extent because our actual population, at least until recently, was changing at a faster rate than they were plugging figures into the model. This is why we were getting a very large adjustment at the end of the period rather than getting it earlier. Therefore, we were suffering an investment loss. But yes, the whole system is based on getting the money to us on a reasonable basis.

MR. McPHERSON: Mr. Chairman, that prompts a question from me to Mr. Rogers. If a corporation has historically been paying its tax on a quarterly basis, as I believe they should be -- if they don't, if they miss a quarterly statement or in fact two or three, they're charged interest. Does the provincial government receive any of the interest charged to the taxpayer through the federal government?

MR. ROGERS: If you're talking about corporate tax, Mr. Chairman, that of course is collected directly by the province. The federal government is not involved in that. Any instalments on tax are paid to the province. As a matter of fact, it was the repayment of some those instalments that was the subject of one of the early matters reported in this Act, because the provisions of the Act did not allow for that. This was a comment on the *ultra vires*, but very reasonable refunding of instalments that had been paid, and the assumption that the tax would be payable. But as the economy deteriorated, of course, people found they were not going to be paying tax but they'd already paid instalments. Those instalments were repaid. But because this had not been foreseen when the Act was drafted, technically this was an *ultra vires* action, but one that I feel was justified, perhaps, in the circumstances.

MR. McPHERSON: You're right, of course. I'm sorry, it slipped my mind. The province does collect its corporate tax. I don't know if this is within this purview either, but certainly the federal government collects personal tax. So my question would stand with respect to personal income tax; if you could answer, just for clarification.

MR. ROGERS: They do not remit the interest to us, but then neither do they charge us with any bad debts where it's unrecoverable. It's a kind of saw-off. They are paid an administrative fee as well.

MR. CHAIRMAN: Any further questions from members on section 2.7? Seeing none, we'll move on to section 2.8, which begins on page 54. I call on the Auditor General to make a few initial comments on that section.

MR. ROGERS: Mr. Chairman, this is an opportunity I've been waiting for. I would like to make a statement at this point to the effect that on no occasion did I ever say billion dollar calls on two-bit data, as the headline states in the *Journal*.

This 2.8.1 deals with something I feel would be an improvement, and that is that stating, at the time the provision of money is being discussed in this House -- that the information that is available to all members include some of

the matters that are mentioned on page 54. I feel the discipline of even preparing this information would help government in its decision-making, because there have been some instances, which we're all aware of, that have created problems to some extent due to the fact that perhaps the work carried out before the project was even commenced should have been a little more full and comprehensive. That is the reason for recommendations 45 and 46.

Also in that section we deal with the time limits of financial reporting, which has been mentioned here several times, with which I fully agree. But there is no easy, single solution to that problem. It would help, though, if this committee and this House expressed the desire for improved timeliness. What I would like to see eventually is that these reports be available for the fall session; a matter of months after the end of the fiscal year. But right now, closing off a fiscal year is not a priority in the minds of many department administrators. I can quite appreciate that. They have the new year's programs to get off the ground. There's a lot of work usually going on at that time. The work involved in closing off an old year is almost like ancient history at that point. I think it has to be conveyed to all involved that this is the wish of this House that the timeliness be improved.

Even then, the amount of work involved in making systems that will provide the data when it's required is fairly considerable. Right now the systems are based on recording payments when those payments are made. As opposed to that, in order to improve the timeliness I suggest it would be necessary to record accounts payable when the liability was incurred rather than basing it on the payments after they are made. Many payments, for various reasons, are not made until some considerable time after the end of the fiscal year. Sometimes it's a matter of suppliers not providing invoices properly. Other times there are items under dispute. There are many items. I think there would have to be some trade-off for precision with timeliness. Right now the whole emphasis is on completeness and precision, and however long that takes, that is the time reports are closed off.

Of course the aim is always to have everything ready for the spring session. If you are talking about having public accounts and the Auditor's report available for the fall session, then some trade-off would have to take place -- more estimates for instance -- rather than the precise information that is presently recorded. From a materiality point of view, I don't think the difference would be noticeable or that great.

Mr. Chairman, I think those are the general comments on that section.

MR. PAHL: Mr. Chairman, I note there was an annual meeting and I'm sure Victoria was lovely in July, and somewhere else will hopefully be equally enjoyable sometime this year. I wonder whether the Provincial Auditor could indicate how we're doing with respect to accountability, or if there are other jurisdictions where the accountability models that you have proposed in recommendations 45 and 46 have been implemented. I guess those are two questions: are there any other jurisdictions where there are models we might want to look at, and how are we doing relative to the jurisdictions you are familiar with across Canada?

MR. ROGERS: Mr. Chairman, I would say that we're meeting in Toronto, which is not quite as nice as Victoria. If it would be useful, I certainly would like to prepare some information for this committee, perhaps for the fall session, relative to the activities in this area and other jurisdictions.

MR. PAHL: Mr. Chairman, I was only asking for the Auditor General's verbal response, but I guess that's up to committee discussion. I wasn't asking for it specifically other than in a general impression.

MR. CHAIRMAN: Do you have a general impression from previous meetings?

MR. ROGERS: I think it is true to say and I know my colleagues in other jurisdictions have indicated that our Treasury could be considered to be in the lead in the development of financial statements and in its reporting. As you know, I am also on the public-sector accounting and auditing committee, which is developing recommendations for both accounting and auditing in the public sector. I think it's true to say that we are looked upon by a number of jurisdictions as an example. We have introduced accrual accounting, which means that we are reflecting not the cash that flowed in and out but rather the revenue and expenditure that took place, which is a more accurate measure of what happened as a result of the programs authorized by this House.

In a number of areas we have been in the lead. In this area too, I suggest we could be in the lead. But I do know that in the federal arena, a number of steps have been taken to try to improve accountability. There is also the Comprehensive Auditing Foundation, which is mainly influenced by the Ottawa Auditor General's office. As far as the techniques there are concerned, I certainly would be happy to discuss these at a future occasion. But I haven't got examples right in front of me.

MR. PAHL: A quick supplementary. Would it be fair to say that the accrual accounting method is the first step towards more timely reporting?

MR. ROGERS: I'm not sure it's the right move to more timely reporting. I'm afraid the timely reporting is perhaps most easily brought about if you ignore what you owe at the end of the year and only record the cash that you've received and paid. I don't think anyone was on a truly cash basis. As far as revenues were concerned, people on other jurisdictions are on a cash basis. In other words, their revenue is the amount of cash they received right up to the March 31 cutoff.

I think most jurisdictions in Canada, as far as expenditure is concerned, are on what is called the modified accrual basis; that is, they keep their books open until the end of April. Therefore, they have paid the bulk of their accounts payable. But what that results in, of course, is the invoices-in-the-drawer syndrome, where rather than showing that they've over-expended the amount of money provided to them by the Legislative Assembly, bureaucrats, shall we say, hold back payments so they can charge it against the new year's funds. I'm not saying that ever happened here, but it does happen elsewhere.

MR. CHAIRMAN: Could I intervene. We have come to the end. We will continue section 2.8. Mr. Stevens, I have you down as first speaker the next day and any other people who want to get in section 2.8. It's my understanding that there'll be information coming back from questions from you, Mr. Stevens, and from Mr. Gogo, at the next session. We will continue then.

Also, is there a manual still out? I'll keep them in my office. If any members of Public Accounts want one, they can get it from me. Or if a person wanted an individual one, they have volunteered that they would get it to them. Other than that, would somebody like to move adjournment? It's been moved by Mr. McPherson. All those agreed?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: The meeting is adjourned to next Wednesday, same time, same place.

The meeting adjourned at 11.32 a.m.