

8:30 a.m.

Wednesday, October 25, 1995

[Chairman: Mrs. Abdurahman]

THE CHAIRMAN: I'd like to ask members to take their seats, and we'll come to order, please. I'd like at this time to acknowledge some change in the membership of the Public Accounts Committee and acknowledge our new deputy chairman, David Coutts. Welcome this morning, David, and congratulations. Also, another new member to the committee, replacing our former deputy chairman, is Dr. Lyle Oberg. Welcome, Lyle, wherever you are. Once again, it's good to be back in the chair for Public Accounts and to welcome our Auditor General, Mr. Peter Valentine.

The first item of business is Approval of Agenda. Could I have a motion to approve it, please? Moved by David Coutts. All in favour. Any nays? Thank you.

Welcome, Dr. Oberg.

DR. OBERG: My delight and privilege.

THE CHAIRMAN: I hope you don't live to regret that statement.

As I mentioned previously, it is my pleasure to welcome our Auditor General, Mr. Peter Valentine. I'd ask him at this time to introduce his staff. We've also got a distinguished guest in the gallery, who I believe you will be introducing, and also other staff members.

Peter.

MR. VALENTINE: Thank you, Madam Chairman. First, let me introduce my colleagues who are with me today. On my immediate right is Andrew Wingate, who is my deputy and has senior responsibilities for the annual report, a number of significant clients in the office, and our involvement in performance measurement.

Next to Andrew is Merwan Saher. Merwan is the senior director responsible for the office's professional practices. He's here today because of his familiarity with the report as a whole, having managed its entire production.

On my immediate left is Mike Morgan, who is the Assistant Auditor General responsible for agriculture, social services, and the environment. In addition, Mike was a lead player in our work on Swan Hills.

Next to Mike is Jim Hug. Jim is the Assistant Auditor General responsible for the largest engagement in the office, Treasury, and also the Energy department.

In addition, all the individuals here today are heavily involved in the financial institution engagements conducted by the office.

Missing today is Nick Shandro. Nick is the Assistant Auditor General responsible for Health, transportation, public works, and advanced education. Nick's responsibilities require him to be with a client in the college sector today and out of the city.

I would also like to acknowledge several of my audit directors who are in the members' gallery. I've encouraged them to be here to observe the critical review activity of this Public Accounts Committee. The members of this committee will be particularly pleased to welcome Auditor General emeritus Bill Rogers, FCA, who is also in the gallery.

Thank you. Madam Chairman, that's the introduction. I can proceed with my opening remarks, if you wish.

THE CHAIRMAN: Just before you do that, Auditor General, I've overlooked a very important lady who is with us this morning replacing Corinne. I'd like to thank you, Diane, for all the work

you've done up to this time, and I look forward to working with you.

MRS. SHUMYLA: Thank you.

THE CHAIRMAN: With that, if you'd like to do your introductory remarks.

MR. VALENTINE: Thank you. I believe it would be useful for me to make some introductory comments about the 1994-95 annual report. On the 1st of March, 1995, I joined a group of professionals committed to solutions in the public sector. The staff of the office went out of their way to ensure that my transition from that of a senior partner in a major international accounting and auditing professional service firm to the head of a legislative audit office went smoothly. I thank them all, and in particular I want to commend Andrew Wingate, who was the province's Acting Auditor General for a period of 11 months while the position was vacant. His wise counsel, both within the office and to our clients, is much sought after, and I'm very fortunate to have him assisting me.

I'm challenged by the professional opportunities that exist in Alberta and in the legislative audit office. This is my first report, and it represents both the culmination of a body of work, some of which has been in progress for over a year, and the efforts of all of the personnel at the office. They can be very proud of their professional efforts. However, as Auditor General, I'm mindful that the annual report is my report to you, the Members of the Legislative Assembly. The report is therefore designed to assist the Public Accounts Committee in discharging its legislative role, that of advocating that the policies and programs of government be implemented in an effective, efficient, and economical manner.

I say in my report that my interest in government issues is not theoretical. Albertans have chosen to include the Public Accounts Committee in the process we use to make sound decisions about public resources and services. I believe that in itself our 1994-95 annual report is a constructive contribution to improving Alberta's prosperity. The report contains 38 main recommendations, all of which are numbered. There are 36 other recommendations. Of the 38 main recommendations, 10 are repeats. I may add that only two of the recommendations relate specifically to my audit of the government's involvement in the Swan Hills special waste treatment facility. To give you some idea of the scope of our work, the recommendations break down as to 40 percent relating to suggested improvements to systems and processes, 30 percent relating to performance measurement, 20 percent relating to suggestions for improved use of resources, and 5 percent relating to the need for compliance with legislation. The main recommendations are addressed to departments and agencies within 14 of the 17 ministries of the government. The report is larger than past reports because it includes my findings and conclusions on the Swan Hills audit.

I am pleased to report that Alberta continues to lead Canada in areas of financial reporting and disclosure and accountability. In my view, the new Government Accountability Act is a foundation cornerstone and will provide the vehicle by which the theory of accountability can be turned into practice. If I were to identify a theme for this report, it would be that measuring the cost and effect of government-funded services is vital to the accountability process and key to reducing costs and increasing effectiveness. As the Auditor General, I believe that the biggest contribution my office can make to improving the financial administration of the province is to encourage public-sector managers to measure the cost and the effect of their programs. Performance measurement

and reporting is, in fact, progressing very well. Progress in Alberta in the last year has been significant. However, there remains much to be done. You must recognize that to integrate the disciplines of multiyear business planning and comparative reporting will take some period of time.

Turning to Swan Hills, we decided to perform this work because of the public perception that the government's involvement in the Swan Hills waste treatment facility had not been successful, and serious concerns were being publicly expressed. We have not reviewed matters relating to the current negotiations by the government to dispose of its interest in the project. Since negotiations under the July 1995 letter of intent are ongoing, it's inappropriate for me to make any comment on the plan for disposal. If appropriate, I will consider doing so at a later date and in a separate report.

We have, however, done two things. One, I have opined on the consolidated financial statements of the Alberta Special Waste Management Corporation as at and for the year ended March 31, 1995. These statements appear on pages 141 to 151 of volume 3 of the 1994-95 public accounts. Two, I have prepared the report that appears in section 2 of the 1994-95 annual report. Since the government's involvement started many years ago, a chronology of events is provided. Against that background I explain my findings and conclusions, which in summary are as follows.

First, as to cost: if you turn to page 12, you will see that I show a total cost of \$441 million. If you add this to the low-, mid-, and high-range estimate of the cost of providing for future removal and site restoration, less salvage value, the total will ultimately be between \$470 million and \$496 million, the mid-point being \$483 million.

8:40

Secondly, as to the nature of the government's involvement, some people have characterized the Swan Hills facility as a business venture and its financial results, the \$483 million, as a loss. Other knowledgeable and serious observers have viewed the facility as a government program that was delivered in conjunction with a private-sector partner. If one supports this view, then the \$483 million was not a loss but rather a cost, not unlike the annual investment that is made in highways in this province and from which the private-sector trucking industry enjoys a substantial profit or benefit.

Significantly, in my view, the government did not clearly identify its involvement in the Swan Hills venture as either a program or an investment, and this has led to substantial confusion in the minds of the public. The Swan Hills facility has incinerated over 70,000 tonnes of hazardous waste. I believe it is generally recognized that there's a cost associated with making Alberta PCB free. The question I've attempted to answer is whether the cost Alberta has paid is reasonable, and my conclusion is that the benefits could have been achieved for much less cost.

Let me try to answer the question: how much less? It's not possible for me to compute a total amount of excess cost or even provide a range, because I have no means of calculating what the cost of various alternative courses of action would have been. I can, however, comment on one specific alternative. As I say on page 32 of the report:

If the Province had built and owned the Swan Hills facility and paid a private sector organization to operate it, I estimate that the \$62 million paid to BVRs as a guaranteed return on investment could have been reduced by an amount ranging from \$12 million to \$17 million. Furthermore, while I have no evidence that Chem-Security operated the facility in an uneconomic fashion, I am confident that operating costs would have been less if

BVRs/Chem-Security had been sharing the facility's business risks.

For your information, operating costs, excluding amortization, over the period covered by our table on page 14 amounted to approximately \$156 million.

On page 46 of the report we say we are certain that the expansion of the Swan Hills facility has significantly increased the cost to the Province of divesting itself of its investment in the Joint Venture.

The province could possibly have purchased Bovar's investment for \$40 million prior to the expansion in 1992, whereas after the expansion the cost increased to \$147 million, as set out in the letter of intent. The \$147 million represents 10 years' future guaranteed return to Bovar on their investment in the expansion, a large part of which could be viewed as an excess cost.

I'm confident that many of the problems that resulted in excess costs could have been avoided if, one, the government's current three-year business planning process and, two, the standing policy committee review procedures had been in place at the beginning of the 1980s. It is recognized that these accountability processes are a quantum improvement over the system they replaced. My colleagues and I are of the view that some of the things that happened on this project in the late 1980s would not be allowed to happen today.

Now, Madam Chairman, with your permission, I would like to ask Andrew Wingate to explain our Swan Hills recommendations.

MR. WINGATE: Our first recommendation is that the effect of significant changes to plans should be quantified before the changes are made. In other words, if it's decided not to follow an agreed plan, then it's important to know how results will be affected.

Our second recommendation is that risks should be evaluated and disclosed in three-year business plans. Plans and budgets should be realistic, not optimistic or pessimistic. However, even when realistic, plans can be overtaken by events. What we're recommending is that downside risks should be evaluated and disclosed. This is already happening to some extent at a high level. For example, following one of our previous recommendations, the budget now discusses the effect of movements in interest rates and oil prices. That was included on page 146 of Budget '95. It's really a question of extending that practice to the three-year business plans, particularly where the potential for downside risk is significant. If you quantify the risks involved, you can make better decisions. It's really as simple as that.

MR. VALENTINE: Madam Chairman, as I said earlier, only two of the 38 recommendations relate specifically to the Swan Hills audit. Our auditors have completed considerable other audit work. With your concurrence, I would like to have Jim Hug and Mike Morgan briefly explain to the committee the key matters within their audit portfolios.

MR. HUG: Let me start with the four numbered recommendations under Executive Council. Our recommendations are designed to assist the government improve accountability. Last year's recommendations were accepted and work was started on implementing them. This year we have repeated two of last year's recommendations and made new recommendations in order to present a comprehensive view of what we believe needs to be achieved. The recommendation I would particularly like to draw committee members' attention to is number 3 on page 52. It says:

It is recommended that the government review the form of the Estimates to assess whether information on the cost of outputs and performance targets should be included.

We have moved forward gingerly, recognizing that the form of the estimates has a long-standing parliamentary tradition which has stood the test of time. The estimates are the means by which the Assembly exercises its fundamental right to approve the expenditure of government; therefore, any changes to the form of the estimates must be carried out carefully. We do believe, however, that the current form of the estimates should be reviewed to see whether the form is meeting your needs.

Under Treasury, and with respect to the province's consolidated reporting, we comment favourably on the timeliness of reporting, the production of the new Measuring Up report, and the progress made in the preparation of a consolidated budget. Further, we acknowledge the improvements made to the consolidated statements in 1994-95 and make recommendations for further improvements in the area of revenue and program costs.

Also, recommendations for improvements are made in the areas of revolving funds, the government's proposed new accounting system, pensions, governance of the Alberta heritage savings trust fund, risk management, and investment management. In all, under the Treasury ministry, we have made seven numbered recommendations, of which four are repeat recommendations.

In my view, recommendation 35 on page 172 is most significant from a risk perspective. We have

recommended that the Treasury Department closely monitor the strategy, progress and implementation of the government's proposed new accounting system.

In summary, our main concern at this time is that the implementation of the new IFS carries the risk that the government may lose control of its business and financial plans, including the ability to make payments on time. This is a crucial time for the province, and the decision-makers must know precisely what is happening in their departments. Any problems arising from the proposed new IFS might prevent departments and the government from achieving the targets for which they are accountable.

With respect to the Energy ministry, we have made two recommendations. The first is with respect to the risks associated with continuing the development and implementation of the mineral revenues information system. The second, number 19 on page 102, has a longer-term horizon and recommends

that the Department of Energy determine the extent to which it has achieved the intended royalty simplification initiatives, and complete its planning for further royalty simplification efforts.

Both recommendations are made to facilitate the Department of Energy's efforts in implementing an appropriate royalty revenue system. The report sets out as background the consequences of not properly planning or managing a complex systems development and, in particular, failing to identify and adequately deal with many of the risks.

Mike now has a few comments about his portfolio.

8:50

MR. MORGAN: First, I'd like to draw the committee's attention to the two numbered recommendations under the Department of Family and Social Services. The first, being number 21 on page 116, recommends that the department

determine the impact and cost of the various initiatives it has implemented to reduce [the caseload under] the Supports for Independence [program].

Our findings are that no clear link has been established between caseload reductions and the various reforms and initiatives introduced. Furthermore, by not costing outputs, there is no way of knowing the cost of or the savings achieved by each of the initiatives. This information is important in determining the ongoing cost effectiveness of each reform and initiative, its continuing impact on caseloads, and for future planning purposes.

During the audit period we again conducted an examination of benefit payments under the supports for independence and assured income for the severely handicapped programs. The cost of benefits provided under these programs during 1994-95 totaled almost \$770 million. Our examination included reviewing the procedures used by the department to ensure that its clients receive appropriate benefits, and the progress being made in addressing the recommendations in this area in previous years.

Long-standing concern arising from work in this area has been the large number of client files that lack sufficient evidence to support the calculation of benefits. Of the files examined during 1994-95, 35 percent had deficiencies. This compares to 22 percent of the files examined during 1993-94. In fact, the department's own testing of client files during '94-95 revealed similar results. We believe that a 35 percent error rate demands attention. This is why we have recommended on page 119 in recommendation 22 that the department

extend the present testing of client files that contain irregularities, to determine the monetary impact of the deficiencies found.

We believe that fully evaluating these irregularities will help the department determine the extent of monetary loss occurring as a result of the deficiencies. It should also help focus the department on areas that require improvement.

Turning now to the Department of Agriculture, Food and Rural Development, I believe the most significant recommendation here is on page 79; that is, recommendation 11. Here we are recommending that the department

use the criteria developed for the [proposed new] whole farm safety net program to assess the appropriateness and effects of [the remaining] farm income support programs.

For example, the Alberta farm fuel distribution allowance currently provides farmers with a rebate of 6 cents per litre on diesel fuel purchases. However, support of this nature may no longer be needed because the proposed new safety net program is designed to support farmers' margins, and after all, fuel costs are a component of those margins.

MR. VALENTINE: In closing, Madam Chairman, I want to refer to two matters that my office previously brought to your attention. We believe that in order for performance information to be really useful, it should be audited. The best way to make sure this happens is to include accurate performance information in audited financial statements. My office's most recent financial statements for our year ended March 31, 1995, are displayed on page 213 of the report. They have changed substantially from previous years and go a long way towards improving our performance reporting and thus our accountability. Last year Andrew Wingate introduced to you the office's document on government accountability. It was produced for our clients and staff to use in assessing the effectiveness of an accountability framework. Publishing the guidelines has stimulated debate on the important subject of accountability and the need to report on cost effectiveness.

As an aside, we originally printed 600 copies. However, interest in accountability is not limited to the province of Alberta, and we have had requests for the document from jurisdictions around the world. Demand required a reprinting of 500 copies, and just recently we sent for a second reprint.

Although it's not an academic document, we submitted it for consideration by the Canadian Academic Accounting Association, and we're pleased to report that it was selected for presentation at the Learned Societies conference in June 1995. The document was also presented at the annual Institute of Public Administration of Canada conference in August 1995.

Madam Chairman, that concludes my introduction of the 1994-95 annual report of the Auditor General. Nick Shandro will be with me next week, at which time, if you approve, I will ask him to introduce to you our recommendations in the Health, advanced education, and transportation ministries.

Thank you.

THE CHAIRMAN: Thank you, Mr. Valentine, and thank you to your staff.

Mike Percy.

For the benefit of all members, could you keep any opening comments as concise as possible before you ask a question.

DR. PERCY: Thank you, Madam Chairman, Auditor General, staff. First, I'd like to start off by commending the Auditor General and his staff for a very thorough Auditor General's report. It's very clear and certainly provides a lot of food for thought.

My questions relate to the Swan Hills review. My first question is: in terms of performance-based budgeting, you look at outcomes relative to expenditures, and given the environmental standards we'd hoped to achieve, did your office in assessing this look at ways other than the plant itself, the cost of shipping hazardous waste to other jurisdictions, for example? Did you in assessing this just confine yourself to the facility as built? Did you look at other ways of meeting environmental standards?

MR. VALENTINE: No, we did not look at other ways. We examined the project itself. That was the mandate that I formulated when we decided it was appropriate that we look at this project. It was this project that was in the public eye at the time.

DR. PERCY: One area your report with regards to Swan Hills dwells on is the issue of oil field waste. On page 45 of the report you mention December of 1992, "the December 1992 decision to exempt oilfield waste." Could you tell us exactly when that decision was made? Was it December 10? Was it December 14? When you say the decision was made, exactly how was the decision made from your review of the records? Was it an OC, an order in council, a cabinet decision?

MR. VALENTINE: Mr. Percy, it was made on December 11, 1992, and it was a decision of the department of the environment. It was published by way of a press release.

DR. PERCY: In reading the discussion on oil field waste - you make the distinction "the Corporation and Chem-Security" - they had the expectation of increased oil field waste, and that was because of assurances from the Department of Environmental Protection. But you then draw a distinction as well that the NRCB in their review appear to discount the importance of oil field waste. Could you tell me what was the nature of the assurances you saw from the Department of Environmental Protection that would have led the corporation and Chem-Security to proceed?

MR. VALENTINE: I'm going to ask Mike Morgan to supplement my response. On pages 43 and 44 we set out some of the contradictory evidence on volume, some of which supported the fact that forecasts were not based on the expectation of new regulations, and other forecasts were based on the expectation of new regulations. The conclusion we made at the time is the middle paragraph on page 44. I say:

I have examined the NRCB decision report on the incinerator expansion, and have discussed it with NRCB officials. I am satisfied that the NRCB based its approval of the expansion project on the assumption that the waste stream forecasts were not dependant on a change in the regulations.

9:00

THE CHAIRMAN: Mr. Morgan.

MR. MORGAN: Thank you, Madam Chairman. Our reading of the situation back then is that there was a certain amount of confusion. Prior to the draft waste control regulation being published in May of '91, the hazardous waste regulation of I believe it was 1987 was in effect. That regulation only regulated non oil field waste. The oil field waste was regulated by the ERCB. There was a view that the two were very similar. Whether that's true or not we've been unable to determine. When we look at the evidence given at the NRCB hearings, it is obvious from some of the responses given and the information provided that some people viewed the situation as being the same no matter which regulation was in effect. Certainly at the end, after the decision had been made not to include oil field waste under the waste control regulation, the department issued a comment, which we quote here on page 40, which stated that

oilfield waste exempted under the new Waste Control Regulation should receive the same level of care and management as non-oilfield . . . waste subject to the Waste Control Regulation.

That is our solid evidence for pointing out that the department did in fact have that view.

THE CHAIRMAN: Thank you, Mr. Morgan. Thank you, Dr. Percy.

Julius Yankowsky.

MR. YANKOWSKY: Thank you very much, Madam Chairman. Good morning, Auditor General and support staff. On page 164 you mention the 22 core measures of government performance and acknowledge the first-in-the-nation status of the Measuring Up report. In the interests of striving to make government more efficient, are there any measures which need to be added to the list of 22 core measures?

MR. VALENTINE: Well, I am of the view that the core measures we use for the whole of the public sector, whether it be the government as a whole or any of the constituent parts, will evolve over time. Some of them we may discard because we find them not to be of the use we thought they would be, and we will bring others in where we find there's some other measure we want to make. I think they'll also be influenced on the extent to which we can validate them. That is, I personally believe we'll have the opportunity to subject these measures to a certain degree of auditing and therefore give them a propriety they wouldn't otherwise have. So I don't see it as a fixed number, and I don't see the constituent members of the group as being there permanently.

THE CHAIRMAN: Supplementary, Julius?

MR. YANKOWSKY: Yes, thank you. For the Treasury Department you recommend that all revenue be recorded on the accrual basis instead of the cash basis. The revenue arising from income taxes, licences, and fees is easily recorded on the cash basis, but is there any other justification for maintaining the present system?

MR. VALENTINE: Well, our point is that the general purpose accounting financial statement model is one that uses the accrual basis of accounting, so that your entitlements and your obligations are accounted for whether or not they have been satisfied. That is the appropriate model for financial reporting in the OECD nations. It's widely accepted, more than generally accepted, and it would be appropriate to account for all the government's revenues on the accrual basis.

THE CHAIRMAN: Final supplementary, Julius?

MR. YANKOWSKY: Thank you, Madam Chairman. Are there any specific steps you would like to recommend to change the system to an accrual basis, and how much might this cost?

MR. VALENTINE: As to your first question, I believe the Treasury Department is well aware of the mechanics of establishing estimates which could be verified such that the accrual basis revenue would be recorded in the accounts. For the most part and perhaps with the exception of the corporate income tax accrual, they are relatively straightforward. In the case of the corporate income tax accrual, it is more complex because there is a delay in the flow of information. The information is in Ottawa first; then it's divided amongst the provinces. It's much complicated by the fact that in corporations there is a substantial period of loss carried forward and back which can adjust the revenue items of a particular year.

As to your second question, as to cost, I don't have any particular numbers on cost, but the cost of determining an accounting accrual is very much a part of the decision to use the accrual and to use the method of estimation you choose, and I would not be happy if it weren't a cost-efficient method.

THE CHAIRMAN: Supplementary, Mr. Wingate?

MR. WINGATE: I was only going to say that the complicated area, as the Auditor General has pointed out, is the corporate tax area. Members of our office are working with Treasury to come up with a simple yet accurate way of putting corporate tax on an accrual basis, and that's something we're still working with. The thing we want to avoid is an overly complex system. The other thing we want to avoid, obviously, is recording revenue on a cash basis. From time to time that can be misleading, particularly for instance if the licence period covered is extended to more than one year, because what happens is that you end up with more than one year's revenue in the year concerned if you're dealing on a cash basis. So the idea is to allocate the revenue to the period in which it's earned. That's the simple objective.

THE CHAIRMAN: Thank you, and thank you, Mr. Yankowsky. Nick Taylor.

MR. N. TAYLOR: Thank you, Madam Chairman. Good morning, Auditor General and all your assistants. I hope you enjoy my low-profile seat here. He had complained, Madam Chairman, because he could barely see over the desk, and I said that was on purpose because you never knew what the government was going to throw at you.

On page 32, near the top, it says, "Yet despite these misgivings . . ." This is referring to the fact that Woods Gordon recommended in '85 that the joint venture shouldn't go ahead. "Yet despite these misgivings" – and I've got the Woods Gordon report – it did do so; it was announced in March '86. I was wondering, Mr. Auditor General, did you see anything in the files

on why this reversal? Was there something from the cabinet or from the government of the day to the group ordering them to ignore the misgivings of the Woods Gordon report?

MR. VALENTINE: I'm going to ask Mr. Morgan to respond to that question, Madam Chairman.

THE CHAIRMAN: Mr. Morgan.

MR. MORGAN: Thank you, Madam Chairman. We tried to give an extended view here of the negotiating process that occurred until that time. It's always difficult to determine what the motivation was, and during negotiations, of course, people take positions and change positions and the like. As to whether they had overcome those misgivings, it's not clear at all from the minutes, but there obviously had been, until that point of time, a majority of the board of the corporation that was unhappy about the proposed agreement as put forward by BVRS. In fact, those misgivings had been confirmed by the Woods Gordon report.

MR. VALENTINE: There's some additional information you may wish to refer to on pages 24 and 25 of the report. It takes you through the period following December 16, 1985: the termination of the chairman, the appointment of a new chairman and his comments to us when he told us that he believed his first priority was to reach an agreement with BVRS that was acceptable to the government without further delay. That would tell you, Mr. Taylor, where the direction was coming from.

9:10

MR. N. TAYLOR: In other words, the cabinet subcommittee just ordered that it had to be done.

The second thing, then, involves the change in ownership. As you know, it was Tinker to Evers to Chance. There was a group of U.S. investors that owned the original that was thought by the government to be unsavoury, so Bow Valley Industries, which is the Seaman family, came in. Then, somehow or another, Bovar's name changes, which means that control went from the Seamans to the McCaig family in Calgary. As Auditor General, did anybody inspect the share transfers or ownership between the Americans to the Seamans group to the McCaig group? Was there any cabinet approval for the change? Normally, when you're dealing with the government, you can't go changing your ownership, but two changes of ownership there went on. Is there any evidence in the files that the government okayed this or cared who the owners were, or what? That's on page 22.

MR. VALENTINE: Mr. Taylor, we searched the corporate records of BVRS, which later became Bovar. BVRS went through a restructuring that was approved by shareholders. It was a public company. It was subject to the securities laws of the province of Alberta and the corporate law in the province of Alberta. We didn't find any issues that we had to bring to your attention in that work.

THE CHAIRMAN: Final supplementary.

MR. N. TAYLOR: Oh, do I have another supplement?

THE CHAIRMAN: One. That's what I said: final supplementary.

MR. N. TAYLOR: I'm sorry. I'm so used to being told to keep quiet from the chair.

THE CHAIRMAN: You haven't quite reached that point yet.

MR. N. TAYLOR: I couldn't quite understand being encouraged to talk again.

As you know, in the public transfer of shares in a corporation and so on, it is necessary to inform – as you know, I've gone through a lot of this – the stock exchange and the public that the contracts you're doing still will remain in force. In other words, the transfer from Bow Valley to Bovar and a public company couldn't occur if there was any evidence that the government would rescind the contract because of change in ownership. So there has to be some sort of okay coming from the government to these regulatory authorities that nothing will happen. Did you see any letter or anything to that effect?

MR. VALENTINE: Well, Mr. Taylor, I'm not sure that was my role. I would have thought that would be a role for the legal counsel advising the shareholders of BVRS and the creditors of BVRS who included a debenture group and the Royal Bank of Canada.

THE CHAIRMAN: Mr. David Coutts.

MR. COUTTS: Thank you, Madam Chairman. Good morning, gentlemen. Mr. Auditor General, I would like to compliment you and your staff for a very thorough and in-depth report covering a number of areas. I notice there are some areas in some departments you have made no comments on – not the fact that you haven't looked through them thoroughly but the fact that there was nothing necessary to report there. That gives me an indication that from some of the things you've said we're on the right track, and I appreciate that.

My comments this morning come from page 160 and have to do with the disaster assistance program. I'd like to just ask a few questions regarding some of the claims that are outstanding, and that particularly refers to the 1987 Edmonton tornado damage. Because the federal government is waiting for sufficient evidence to support the claim seems to be the reason we as a province have not been able to recapture the dollars we paid out as up-front money. I was wondering if you were able to determine why the claim is being held up and why there's a need to provide that sufficient evidence. Is the department not able to provide the evidence? Is that the reason it's being held up?

THE CHAIRMAN: Mr. Wingate. Oh, sorry.

MR. VALENTINE: It's all right, Madam Chair.

THE CHAIRMAN: Habits die hard.

MR. VALENTINE: You see, in my household it has to be Madam Chair.

There is a difference of view as to the form of evidence required between provincial officials and federal officials. The department is quite well aware of the issue, and I believe it's on the right track. Nonetheless, they need some prodding, and here comes the prodding. I could undertake to have more detail with respect to the particulars of the claim available to you next week when Mr. Shandro is with us.

THE CHAIRMAN: Supplementary, David.

MR. COUTTS: Thank you very much. That would be very helpful in view of the fact that we've got another one on the

books now close to \$50 million or \$60 million down in southern Alberta.

I guess that leads to my supplemental. That tornado claim is also, then, holding up the payment of two larger claims; name ly, that flood in Slave Lake and the 1990 flood. Can you inform the committee as to how much money is owed in total – not including the southern Alberta floods – to Alberta by the federal government for past disasters?

MR. VALENTINE: \$0.7 million.\*

MR. COUTTS: Thank you.

In your recommendations, did you do any in-depth studies on how we could maybe standardize the way the disaster claims, particularly ones of the magnitude we've experienced in the last few years, are compiled and maybe how they could be submitted to the federal government so we could have a more efficient, more timely resolution? Or are there circumstances that hamper that timely return of dollars back to the province?

MR. VALENTINE: I'm speaking entirely from memory and from conversations with Mr. Shandro, but I believe we think this is an area we might provide some assistance to the department on. But we're not there yet. Mr. Wingate might add to this.

MR. WINGATE: Yes. We have provided some advice already. It doesn't appear in the report, but we're talking about some of their accounting systems. In the case of one disaster, it took them a long time to get an accounting system to work as it should. That delayed the claim process. Obviously, when dealing with a disaster, you want to deal with the claims very quickly because people are suffering. You've got to bring up a system that works and you've got to do that quickly, and they were having some difficulty with that. So we have made some detailed recommendations in that area.

Getting back to the problem with the tornado claim, it's basically a disagreement as to whether some costs are eligible for a federal claim. Debate has been going on, I think, for some time, but clearly it's a question that must be resolved speedily because it's now holding up a considerable amount of money which is due to the province.

MR. COUTTS: Thank you very much.

THE CHAIRMAN: Thank you, Mr. Coutts.  
Mr. Sekulic.

MR. SEKULIC: Thank you, Madam Chairman. Good morning, gentlemen. My questions follow some of those that Dr. Percy raised earlier, specifically on page 45 where you note that both the Corporation and Chem-Security have also indicated that the expectation of increased oilfield waste was based on assurances from the Department of Environmental Protection. I'm interested to know specifically the comment "based on assurances." What assurances were made that you came across? Were they records, memos, correspondence? What assurances were there from the department of environment?

MR. VALENTINE: Mr. Morgan, do you want to answer that?

MR. MORGAN: These essentially are assertions made to us by executives of both the corporation and Chem-Security. The situation at the time was that hazardous waste was building up. It could not all be treated at Swan Hills. The plant was operating

\*See page 142, left col., para. 3

at capacity. Given the urgency created by that situation and also the fact that the change in the regulations was about to perhaps increase that problem, the department, we were told by Chem and the corporation, was saying to them, "We cannot put in place these regulations until such time as you have the ability to be able to treat the waste that it creates." So those were the sorts of indications we received that the department was sending that message to them. They are the assertions of the corporation and Chem-Security.

9:20

MR. SEKULIC: Despite the urgency that appeared to be taking place at that time, there was no written correspondence to supplement or to confirm this?

MR. MORGAN: At that time there were draft waste control regulations in existence, and they were being discussed and debated publicly. Those regulations at that time were calling for oil field waste to be sent to Swan Hills. So that, if you like, was written evidence that the department was hoping more facilities would be available to deal with that waste.

THE CHAIRMAN: Supplementary.

MR. SEKULIC: Okay. My supplementary is with regard to an earlier response that the exemption of oil field waste – that decision was made on December 11, 1992, by the department of environment, and the public was informed by way of a press release. I'm interested to know as to whether there was again a trail of correspondence, something in writing, as to the hierarchy of how that decision was made. In particular, I'm referring to government accountability. When decisions of that magnitude are made, generally there are memos that go from one level to another to instruct them to undertake this press release. Did that take place in this instance?

MR. VALENTINE: The evidence is that there was a press release by the department on December 11, 1992.

MR. SEKULIC: So other than the communications department, there's no indication as to who or how that decision was made?

MR. VALENTINE: We didn't go below the press release.

MR. SEKULIC: Okay.

THE CHAIRMAN: Dr. Lyle Oberg.

DR. OBERG: Thank you, Madam Chairman. I have a couple of questions. First of all, I would like to qualify my statements by saying that I have been cleared by the Ethics Commissioner to ask these questions, as they do come into a realm I am actively employed in.

You have stated on page 128 and 129 that the RHAs be responsible for all health care costs. You've also stated that physician services along with drug costs are health care costs. Have you suggested in your report that physician remuneration along with drug costs be a regional as opposed to a provincial responsibility?

MR. VALENTINE: No, Doctor. We're interested in the disclosure of health care costs in their entirety by region. We are not making any suggestion to who writes the cheque. But we think it appropriate that we report and that regional health

authorities be accountable for the total cost of the delivery of the health system within a region.

THE CHAIRMAN: Supplementary, Dr. Oberg?

DR. OBERG: Thank you. Actually, no supplementary.

THE CHAIRMAN: No supplementary. Thank you.  
Terry Kirkland.

MR. KIRKLAND: Thank you, Madam Chairman. Auditor General and staff, welcome this morning. A couple of questions. One that was very evident to me – and I believe it's the third year that it's surfaced here – is in Transportation and Utilities on page 161. It seems their gravel inventory is an ongoing problem, and every year there's a recommendation that in fact they should get a handle on it and determine exactly what's required and what reserves they have. Is there a reason, as you've reviewed it one more time, as to why the department is incapable or not able to get a handle on this particular aspect of their inventory?

THE CHAIRMAN: Mr. Valentine.

MR. VALENTINE: Thank you, Madam Chairman. I think it's not the same priority in the mind of the department of transportation as it is in ours. Our priority comes from the appropriateness of accrual-based financial statements. Another factor is that the department is in the process of moving some of these inventories out to both the private sector and to municipalities, and therefore the obligation and the responsibilities will move to others. I know there were a number of municipalities that took on the responsibility for some of these gravel pits in the past year; nonetheless, there is a substantial amount of the province's money tied up in these pits, and we think it's appropriate to account for them.

MR. KIRKLAND: Just along that line, you indicated, Mr. Valentine, that some municipalities have taken over control of gravel stockpiles in their jurisdictions. Is there an actual financial transaction that would show that, or is it a gift?

MR. VALENTINE: I will have to undertake to get back to you on that.

MR. KIRKLAND: Okay.

The last supplemental, Madam Chairman, if I might, would move back to Bovar. As I listened to the questions that came forth here this morning, Mr. Valentine, it appears there are several areas or gaps that can't be answered because they are beyond the Auditor General's mandate. Have you got a suggestion as to how those answers can be secured?

MR. VALENTINE: You would have to be more specific with me on the areas.

MR. KIRKLAND: Well, I'm thinking of the comments Nick Taylor had and the area in particular that he alluded to, where you had commented that that was beyond your mandate and it really wasn't your responsibility to look into it. I also think back to some of the comments of Peter Sekulic, who indicated there were some, I guess I would call it, gaps again. I'm thinking of the press release and where that originated. How does one as an elected member attempt to determine how the process works and why we would find ourselves in a situation where we can't secure required information?

MR. McFARLAND: Point of order.

THE CHAIRMAN: Point of order, Mr. McFarland.

MR. McFARLAND: Madam Chairman, I think I heard the Auditor General adequately explain that some of the dealings of Bovar as a publicly traded company fell under the realm of the Alberta Securities Commission. I don't know if this member is suggesting that perhaps the Auditor General should be able to obtain knowledge and documents from the Alberta Securities Commission, but I understood him to say that there are proper laws in place regulating trade disposition and transfer of assets.

THE CHAIRMAN: Could you clarify what your point of order is, because you're getting into areas where I haven't heard the Auditor General state the Securities Commission or . . .

MR. McFARLAND: Well, I believe the Member for Leduc is talking about something that is outside the reporting in public accounts dealing with the government of Alberta.

THE CHAIRMAN: Would you like to speak to the point of order, Mr. Kirkland?

MR. KIRKLAND: I responded to a comment that the Auditor General had indicated earlier that it was outside his mandate, and I was simply asking: how does one as an elected official arrive at that particular point of filling the gaps in, Madam Chairman? I think the member indicated very clearly that if it's beyond his mandate, then how do we do it. That was the simple question I asked.

THE CHAIRMAN: I would certainly rule that obviously there is a disagreement between the two members, but it is a straightforward question. Has the Auditor General any suggestions as to how you would arrive at determining answers to the question? That's a fair question. So if you'd like to proceed, Auditor General.

MR. VALENTINE: I don't think I said that anything was outside my mandate. I stand to be corrected.

Our involvement was with respect to the agreement between Alberta Special Waste Management Corporation and Chem-Security which became a wholly owned subsidiary of a company called Bow Valley Resource Services which, in the period under review, underwent a transformation due to its financial condition and a restructuring and continues today as a listed public Canadian company. In response to Mr. Taylor, I said that I had looked at materials with respect to the public corporate records of BVRS, and I found nothing that I had to bring to your attention in this report. So I don't think I used the phrase "outside my mandate."

There was a second part to your question, and it had to do with the matter of the conclusion I reach on page 45. I was asked whether or not there was a series of materials that led up to the support for that statement, and I responded that the decision is a December 11, 1992, decision publicized by way of a press release by the department. That's the evidence that we're using to support this paragraph.

THE CHAIRMAN: Thank you.

Mr. Wingate.

9:30

MR. WINGATE: Yes. The salient fact here is that the decision was made in December '92. That's when oil field waste was

exempted. On the preceding page, page 43, the second complete paragraph, you can see that in the draft regulations, which were prepared in May 1991, the oil field waste was included, and the Canadian Petroleum Association and the Independent Petroleum Association of Canada both concluded that the regulation would be costly for the upstream oilfield industry.

Now, that was the start of a process of talking about the increased costs of that particular clause of the draft regulations, which I think was probably the start of the process which resulted in the exemption of the oil field waste in December.

MR. VALENTINE: I would point out to the Member for Leduc that the issue of "Were the numbers in; were the numbers out?" is not clear, and that's why we've gone to some lengths to try to give you in the out category three instances and in the in category another three instances of where the contradictory evidence was. We then have to deal with what the NRCB decision was, and we conclude on that.

MS HALEY: I'd like to talk to you about rewarding performance. On pages 55 and 56 you state that rewarding performance would help managers to keep the right staff and prevent them from being encouraged to move elsewhere. If we were to assume that financial incentives are the best way to encourage performance, how could this system be best implemented given the current atmosphere of fiscal restraint and general public opinion on civil servants receiving pay increases?

MR. VALENTINE: Our concern is that in the fullness of time and with a cap on the salary envelope in government that the government explore methods by which productivity can be increased and performance rewarded without violating the borders of the salary envelope. It's a suggestion that we've made to the Executive Council. We think it has merit that it be explored. We believe the budget process can ensure that the increases are only those that are budgeted and linked to savings, and we think this would provide for the cost-effectiveness of operations in the government sector.

I'd like Mr. Wingate to add to this.

MR. WINGATE: Thank you. If you look at the third paragraph on page 56, we indicate that "at the present time, all government agencies include details of salaries paid in their financial statements." What we're suggesting is that if that's linked with information on the cost and effective outputs, then it would be quite clear that salaries are being linked to improved economy and efficiency as far as outputs are concerned.

Now, there are many instances where output costs are being reduced and the effectiveness of those outputs is being increased as a result of management's efforts. That's becoming increasingly clear in financial statements, because increasingly there's information on performance included in financial statements.

All we're suggesting here is that comparing that information on performance and the cost of outputs can readily be linked to the information that's already available on salaries. There's adequate disclosure of salary information. So by linking those two bits of information, you can make an assessment of whether the increases awarded were appropriate or not. What we're suggesting is that taxpayers, ministers, MLAs, and public servants would be able to assess the merits of the salary increases given.

As to your remark about fiscal restraint, it's quite possible to give salary increases but at the same time reduce overall salary levels. In other words, because of economies and efficiencies overall salary levels are reduced, but individual salaries within a

budget are increased to recognize increased performance. So I don't think that awarding salary increases is necessarily at odds with fiscal restraint. In fact, it might encourage further reductions.

THE CHAIRMAN: Supplementary, Carol.

MS HALEY: Actually, they answered all of them.

THE CHAIRMAN: Thank you very much.  
Mike Percy.

DR. PERCY: Thank you, Madam Chair. My questions relate to Bovar, pages 30, 31. At the bottom of page 30 there is the statement:

Yet throughout the four and a half years of negotiating, the Province's negotiators continually surrendered their bargaining positions.

You then go on to provide two examples under which the province basically surrendered their bargaining position in terms of not enforcing various contractual agreements. My question is: when you examined the paper of this four, four and a half years, could you determine why the negotiators in fact concluded such a lopsided deal? It's clear why Bovar pushed hard, but what was the process by which the government negotiators yielded so much territory?

MR. VALENTINE: I'm afraid, Dr. Percy, the short answer is no.

DR. PERCY: When you say no, is it because it is outside your mandate?

MR. VALENTINE: No, it's not because it's outside our mandate. It's just that what we discovered in the course of our work is disclosed to you here with examples, and we are not able to get ourselves in the minds of the people at the time. One can make their own presumptions or conclusions from this, and that's all we've been able to do, is to give you this and let you draw your own conclusion.

DR. PERCY: With statements such as this, though, in the Auditor General's report it inevitably leads to the conclusion that there was political pressure employed by which a private company received significant gain at public expense. Given that you can't answer those questions, what are we to think? How can we in fact learn from this experience?

THE CHAIRMAN: I'll accept the last part of that question as a question, but what came before it I don't think is appropriate.

MR. VALENTINE: Thank you, Madam Chair. What can we learn? What can we learn is embodied in our two recommendations, both of which we believe will contribute to the timely recognition of matters which require immediate attention. Perhaps Andrew Wingate would like to supplement that.

MR. WINGATE: Yes. Obviously the job of an auditor is to present the facts, and hopefully that's what we've achieved here. We have presented the facts, and we've presented the facts from both sides, particularly in the question of oil field waste. But to get into areas of opinion and supposition, where things get very, very murky, I don't think it serves the cause well to present that sort of information or conclusions in that area. So we've really concentrated on presenting the facts and drawing conclusions

based on those facts. I think as an auditor that's what we should be doing, not getting into realms of supposition and that sort of thing.

DR. PERCY: We'd call it accountability.

THE CHAIRMAN: Thank you.

Mr. McFarland, Barry.

9:40

MR. MCFARLAND: Thank you, Madam Chair. I guess I'd just be repeating myself if I complimented you folks, all of you, for the very thorough report that you have.

Mr. Valentine, or Auditor General, I find it amazing that we've got 37 pages covering some 15 years of a problematic situation with Swan Hills. I think you've laid it out in a very clear and concise way. I guess I have a concern with the balance overall. You alluded to it in your opening remarks, about whether it was a program or whether it was a business venture. I just wondered if you'd considered, albeit political pressure's been mentioned here, some of the business venture pressures and negotiations. Have you any determination on how much of this whole process was a result of the pendulum swinging over to the environmental concerns raised by the public at large in the creation of this whole problem of hazardous waste management?

MR. VALENTINE: My colleagues on my left and right are anxious to contribute to this, and they will. Let me just start off by saying that I think human nature is an interesting thing, and it's worthy of a great deal of observation. On the one hand, the government puts a substantial amount of money, as I said earlier, into the highways in the province. I think last year it was \$114 million in new highway construction. When you drive out on the road on the way home, you automatically take an ownership position on the road. I think one naturally does that. I can demonstrate that to you. If someone cuts in front of you, you get mad. They're in your space. I can also suggest to you that on garbage day, which might be Monday at your house - it's Tuesday at mine - when you put the sack of garbage out on the curb, you don't even want to talk to the guy that picks it up. You want to disown it. Some of the reaction to this whole project is part of that natural human nature that we all have, that when we throw the garbage out, we literally throw it out. We don't want to know anything about what happens to it after that. It's gone.

With that, maybe Mike would like to contribute to this answer.

MR. MORGAN: We began our story of Swan Hills back in 1979 with the situation in Fort Saskatchewan, which I think Madam Chair would probably remember quite well. At that time the problems in environmental pollution were definitely coming to the fore. There were numerous scare stories or at least stories which we now look back on as being problematic, but that's scare stories. People were told about these terrible things: PCBs. They weren't sure what they were, but they knew they were terrible. There was certainly a public perception that something had to be done. We started our story with the government's policy decision that it would do something about it by creating a waste management system, part of which would be an integrated facility at Swan Hills. To the extent that that public concern promoted that policy, it's difficult to tell after all this time, but I suspect it was a big influence, yes.

THE CHAIRMAN: Supplementary.

MR. McFARLAND: I believe Mr. Wingate wanted to supplement.

THE CHAIRMAN: Mr. Wingate.

MR. WINGATE: Thank you, Madam Chair. In reading some of the early material, I think cost was distinctly a secondary factor, which I think was the point you were alluding to. Of much greater concern was: how do you deal with this hazardous waste? How do you destroy it effectively? That was what was driving the initiative as far as the public was concerned. It was for that reason that they decided to destroy waste to a very, very high standard, and we quote the standard here. That again, I think, indicates that the cost was distinctly a secondary consideration. Effective destruction of waste was the primary concern.

THE CHAIRMAN: Supplementary, Barry.

MR. McFARLAND: Thank you, Madam Chairman. May I have your indulgence in just giving an example so that I can clarify my supplemental to the Auditor General?

THE CHAIRMAN: Depends how long you go.

MR. McFARLAND: I'll try to make it really, really quick.

Auditor General and staff, in the riding that I represent traditionally all of it's farming, but there are gas wells, there are oil batteries and so on scattered throughout. Some of them have been there for 30 years. Now they're nearing the end of their life expectancy, and they're being reclaimed. Kids aren't going to go out and eat the dirt, because it'll be converted back to farmland, and all the farmer wants to do is reclaim that land and seed crop. That soil has to be transported all the way up to Swan Hills. I don't know if this is part of the oil field waste that is alluded to in the report, but surely to goodness these truckloads of soil, which it took 30 years in some cases to contaminate, if that's the proper word, through the process - it suddenly has to be solved within one year. The cost is horrendous.

THE CHAIRMAN: Can we get to the question, please?

MR. McFARLAND: Well, the question is: have you addressed any recommendations dealing with the exorbitant costs of reclaiming some of these contaminated soils when actually all they're going to be used for is production? I think the proof is there that they won't be detrimental to public safety in the middle of a quarter section.

MR. VALENTINE: The answer is no. That was a part of this project, and I think it's probably in the area of the Alberta Energy and Utilities Board, if I have the correct name.

THE CHAIRMAN: Final supplementary.

MR. McFARLAND: No. I took enough time, and I'll pass. Thanks

THE CHAIRMAN: Thank you.  
Nick Taylor.

MR. N. TAYLOR: Yes, Madam Chairman. Back to page 32. In the middle of the page you make the statement:

Furthermore, while I have no evidence that Chem-Security operated the facility in an uneconomic fashion, I am confident that

operating costs would have been less if BVRs/Chem-Security had been sharing the facility's business risks.

Would you explain why you made that statement?

MR. VALENTINE: Well, it's very simple. If they had had a percentage of the bottom line, if you like, then they would have been encouraged to become more efficient to increase the bottom line, but they had a guarantee to the bottom line, and they had a guaranteed greater return on top of it.

MR. N. TAYLOR: In other words, a sweetheart deal.

THE CHAIRMAN: Question, Nick.

MR. N. TAYLOR: The second one leads, I think, to page 30, where you said that time and time again they "surrendered their bargaining positions." This is further to the Member for Edmonton-Whitemud's question. As Auditor General, and knowing this bottom line was in, wouldn't it come to you that if they surrendered their position time and time again - using your car on the road analogy, if it kept going right when you wanted it to go left, you would go and see the Auditor General or mechanic to see why it was doing it. Why didn't you investigate why they surrendered their positions time and time again?

MR. VALENTINE: We are the auditor of the Alberta Special Waste Management Corporation. We are not the auditor of the joint venture. Our role in auditing the corporation was to ensure that the financial statements presented fairly the financial results of the entity. I have been back over all the financial statements which were opined upon by the office of the Auditor General in the applicable period, and I am satisfied that those financial statements are appropriate. In fact, I thought it was necessary to do that in order to assure that I didn't have to withdraw an opinion that had been issued previously. As I say, I'm satisfied that those opinions are appropriate. We relied on work done by other auditors in connection with the joint venture, and we saw no reason to believe that the terms of the agreement were being violated or not adhered to.

9:50

The fact of the matter, Mr. Taylor, is that there was an agreement negotiated at the time, and it provided for a certain risk and reward opportunity for the two players. The issue doesn't appear to be much of an issue until such time as the volumes disappeared on them. At that point this matter becomes a substantial issue, because the volumes weren't there to support the costs of operating the place.

Those volumes disappeared for a number of reasons - I think there are probably four or five - one of which was the oil field waste issue. Another reason the volumes were not what they thought they would be was the fact that some wastes were becoming competitive fuels in the cement industry, and where they before would have gone for destruction, they were being now burned in cement kilns.

The general economic health of the province in 1980, '81, and '82 - and you'll be very familiar with this period of time - some people would characterize as going into the ditch. Those are three out of a number of situations that arose. At the end of the day we have a plant with a substantial rated capacity and not an awful lot of throughput volume.

MR. WINGATE: The only thing I would like to supplement is that quite a lot of this information was publicly known anyway

during the course of the history of the project. For instance, Chem-Security proposed a facility in '82, that was projected to cost \$47 million, with an incineration capacity of 12 and a half thousand tonnes. What they actually built in '87 cost \$57 million and had an incineration capacity of 3,700 tonnes. Now, that sort of information was public information at the time through the financial statements and through information that was released publicly.

Another example is the expansion itself. The information provided to the NRCB in July '91 was that the expansion would cost \$60 million, and in October '93 the final cost was \$104 million. Again, that was public information. So these changes in plans were in fact publicly known in large part.

MR. N. TAYLOR: Do I gather, then, that although you criticize the operating costs – on page 43 you talk about being overbuilt, and regulations – and although you describe what went wrong, you analyze what went wrong with the car, it is not your job to make anyone accountable for these errors?

MR. VALENTINE: I believe the matter was more one of process than of people. The most difficult thing in the whole project was the estimation process. Andrew just related to you the outcome of the estimation of the capital cost of the plant expansion, which was a disaster. It was a 73 percent overrun, and there was no process to follow that.

The original plant was built on a fast-tracking basis. There are other examples of cost overruns in fast-tracking construction contracts that you'd be familiar with, one of which is the Saddle-dome in Calgary. That's dangerous country when you get into it.

The methodology of forecasting the waste volumes that would be available at the plant was at best virgin territory. Bear in mind that there wasn't a similar plant in North America. The technology came from Europe. This was leading edge stuff.

MR. WINGATE: If I could just supplement, one of the things we talk about and the reason for the recommendation, which again emphasizes that it was a process deficiency, which is what the Auditor General is saying – this question of quantifying downside risk might look like a humble recommendation, but in fact it's a significant recommendation. We feel there are a number of projects where insufficient attention is given to downside risk and what effect downside risk would likely have on the numbers if it started to emerge. For instance, in the question of the major expansion, if they'd dealt with the question of downside risk on waste volumes, it would have been quickly revealed that a significant reduction in waste volumes from the oil field industry would have a dramatic effect on the utilization of the expansion. So the process deficiency, I think, is that insufficient attention is being given to downside risk assessment.

THE CHAIRMAN: Thank you.

Ms Calahasen, do you wish to ask your main question or hold it over to next week?

MS CALAHASEN: Are we going to be adjourning?

THE CHAIRMAN: That's up to you.

MS CALAHASEN: Okay. Then I don't mind. He will be back, won't he?

THE CHAIRMAN: Yes. We can start with you next week.

MS CALAHASEN: Okay. Sounds good.

THE CHAIRMAN: Based on that, is there any other business at this time? If not, I'd like to express my sincere thanks to the Auditor General and his staff for appearing before Public Accounts this morning. We look forward to you appearing next week, November 1, at the same hour, 8:30 a.m.

I'd also like to point out that at the present time there's no minister available for November 8. Of course, that's dependent on whether the House is still in order or still sitting. I think the first is probably more appropriate.

I will declare that we stand adjourned. Thank you.

[The committee adjourned at 9:57 a.m.]

