

8:30 a.m.

[Mr. White in the chair]

THE CHAIRMAN: Hear ye, hear ye, the appointed hour has arrived. I'm Lance White, the chairman of the committee. I will not be normally standing. It's not that I lack energy; it's just that I have to make sure private members do have the opportunity to have the limelight.

There are a number of formal arrangements that must be made today, and that's the reason we have about a three quarters of an hour meeting prior to commencement of regular business.

I'd like to first introduce to yourselves, both returning members to this committee and new members to this committee, in alphabetical order: Moe Amery, Calgary-East; Laurie Blakeman, Edmonton-Centre; Denis Ducharme, Bonnyville-Cold Lake; Gary Friedel, Peace River – Gary is probably preoccupied with a little bit of water at the moment – Ron Hierath, Cardston-Taber-Warner; Mark Hlady, Calgary-Mountain View; LeRoy Johnson, Wetaskiwin-Camrose; Rob Lougheed, Clover Bar-Fort Saskatchewan; Greg Melchin, Calgary-North West; Ken Nicol, Lethbridge-East; Mary O'Neill, St. Albert; Raj Pannu, Edmonton-Strathcona; Shiraz Shariff, the deputy chairman of this committee, Calgary-McCall; Ron Stevens, Calgary-Glenmore; myself; Julius Yankowsky, Edmonton-Beverly-Clareview; and Gene Zwozdesky, Edmonton-Mill Creek.

Also, we have with us this morning what you'll see on a regular basis. They will move from where they currently are in the hot seat down to an advisory capacity a little farther south, closer to the Speaker's Chair. We have with us the Auditor General of the province of Alberta and his staff. We have Mr. Peter Valentine, the Auditor General, sitting in the middle. We have Jim Hug, and to his right we have Merwan Saher; and to the Auditor General's left, Nick Shandro, and Mike Morgan at the far end. They will be further introduced a little later by the boss.

I'll just read for you a small passage of a summary of the guidelines for this committee, the *raison d'être* for this committee:

The Public Accounts Committee should operate in a non-partisan fashion if it is to effectively conduct a searching and rigorous scrutiny of government expenditures.

In brief, that's what we are to do to discharge the responsibility we have as private members to our electorate and to the Legislature.

There are a number of agenda items that you'll see before you, not the least of which is approval of the agenda. We'll do this every time we meet, so we might have a motion to that effect. Mr. Zwozdesky. Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Carried.

The powers of this legislative authority are seen in Standing Order 50. It's one line; it's easily reviewed. It does not give us a lot of direction. However, the traditions of this committee are well known to most members, and we will review those in brief.

The powers of the committee are quite simply to scrutinize the past business of the government and to review the Auditor General's report for those years that we have before us. Currently we have '95 and '96. You'll note that in the past questions revolved around the performance of those duties discharged by the administration, not the policy. All members would recognize that there are many other options in private members and government members and opposition members dealing with policy. This is supposedly, I repeat, a nonpartisan committee to scrutinize the past actions of an administration, not so much to scrutinize the past performance of a minister or the policies of the day.

The committee funding. You'll see a budget that has arrived in your package. You'll note that there are two main areas of expenditure. You'll note also that there are no provisions for funding of this committee outside the sittings of the Legislature. We traditionally have met Wednesday mornings from 8:30 to 10 o'clock. I see no reason to change that. In discussions with the vice-chairman, we've agreed that there isn't any reason to review that. However, this would be the place to do that in a moment or so.

We recognize that also there's \$20,000 approved for the expenditure of the 1997 Canadian Council of Public Accounts Committees Conference. It's held here in Edmonton in conjunction with a conference that's held annually with the auditors general. We will speak of that a little further. Periodically in these committee meetings we'll have an update as to progress in the organization for the conference.

Item 4, the date and the time of committee meetings. I would look forward to a motion that would set out the time – this is the only venue we can use, so we needn't set the place – as 8:30 until 10 o'clock on sitting days on Wednesdays. It's moved by Dr. Raj Pannu.

Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: It's carried.

The scope of the questions. I've briefly reviewed what has been the history of this committee; i.e., that policy is left to other places. It's agreed that there is a gray area between policy and implementation of that policy. I shall do my best to try and interpret that. We certainly do need a motion to the effect that questions be delivered in that fashion. Might we have a motion?

MR. ZWOZDESKY: I would like to propose a motion for consideration by the committee:

that the voting order within this committee be in keeping with the traditional practice wherein government members and opposition members in turn ask one main question followed by two related supplementary questions.

THE CHAIRMAN: The motion is accepted. Any discussion of the motion?

MR. SHARIFF: I believe that last go-around it was one question with one supplementary. I see no reason to change that if it has already worked well in the past. It gives more opportunity for people to ask questions.

THE CHAIRMAN: I take that as an amendment to the motion. On the amendment by Mr. Shariff, which is to limit the questions of a questioner to one main question with one supplementary – that's the effect of the motion – is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: That's carried.

The main motion as amended. Discussion?

DR. PANNU: Just for clarification, Mr. Chairman. One question and one supplementary for each member in the opposition and each member on the government side? Is that the understanding?

MR. SHARIFF: When recognized by the chair, I guess. I don't know.

THE CHAIRMAN: In turn, from government to opposition. I assume you'd be an equal member of the members of the opposition. That's what I assume you'd work out with your members.

Is it agreed?

8:40

SOME HON. MEMBERS: Agreed.

THE CHAIRMAN: All those contrary-minded?

MR. SHARIFF: We voted on the amendment.

THE CHAIRMAN: Yes. This is the motion as amended, the effect of Mr. Shariff's one and one. That's correct.

Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Agreed. It's carried.

Oh, as a matter of information, the media and the public are invited to these meetings under Standing Order 111. That's just a matter of information.

You'll find before you a schedule that the secretary and I took the liberty to propose. Because sessions oftentimes do get very short of time, we have – it's in the very back portion of your package. It's titled Draft, Schedule of Meetings Relating to 1995-96 Public Accounts/Auditor General Report Review. You have those before you. Could we have a motion to confirm the schedule as presented? Dr. Pannu. Any discussion on the matter?

MR. SHARIFF: Just one second. I just want to make sure we pull it out.

MRS. O'NEILL: Excuse me, Mr. Chairman. Could you help us out as to where we're at, what you're speaking of?

THE CHAIRMAN: I'm sorry.

MRS. O'NEILL: Is it at the back of the notice of the meeting?

THE CHAIRMAN: Yes. It's titled Draft. Standing Committee on Public Accounts is the first line. It starts with April 23, today's organizational meeting; April 30 . . .

MRS. O'NEILL: Yes. Thank you. Got it.

THE CHAIRMAN: That's the one.

MR. SHARIFF: Just a point of clarification. In the event the House is not sitting on the dates that have been identified here, our meetings will stop.

THE CHAIRMAN: That's my understanding, unless it's otherwise directed.

MR. SHARIFF: Okay. That's fine.

THE CHAIRMAN: Personally I would think that's a dereliction of duty, not carrying on with the business of this committee, but it seems to be the will of the Legislature that that not occur.

MR. SHARIFF: That's right.

THE CHAIRMAN: Ms Blakeman.

MS BLAKEMAN: Sorry. I just want to return to the scope of the questions. I have a housekeeping motion. Can I do that?

THE CHAIRMAN: If we can complete this item of business.

MS BLAKEMAN: Sure.

THE CHAIRMAN: Any further discussion on the draft schedule as presented and moved? There being none, is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: It's carried.

MS BLAKEMAN: I move

that the questions that are asked deal exclusively with the accounts for the fiscal year in question and, for the department that is before the committee, they be put in a specific and brief fashion.

THE CHAIRMAN: Does everyone understand the effect of the motion? The motion is just that all the questions on the day of questioning are directed to the department, that they don't go beyond the department, and that they be brief and specific. Is that pretty well understood? It's the function of the committee to do such. Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: It's carried.

A further motion by Dr. Nicol.

DR. NICOL: Mr. Chairman, I'd also like to move that the standing committee adopt the guidelines of the Canadian Council of Public Accounts Committees as the framework we would use in discussions and guidelines for the committee.

THE CHAIRMAN: Is that understood?

MR. SHARIFF: For the benefit of members who haven't been on this committee before, we are not familiar with what the motion entails. So I'd like to know: has that been a practice in the past?

THE CHAIRMAN: I understand it has not been the practice of this committee in the past, although they are the accepted guidelines of the association of which this committee is a part. In fact the \$20,000 expenditure I was speaking of earlier is the convention of that body. This is a brief embodiment. I think you've had this delivered in your package before. It is simply a summary of the guidelines. If you wish, we might have our Auditor General speak on the matter, as he's very familiar with the guidelines and how they function.

MR. SHARIFF: Then I'd like to move that members be given at least a week to kind of reflect on that and vote at the next meeting, so that they know what they are voting for the next few meetings.

THE CHAIRMAN: That is in order. There is discussion on the matter. It's a tabling motion.

DR. NICOL: I see no problem with that. It's normal practice of the committee that when substantive motions like that are introduced, there be a week before the vote. So I think it would be just normal practice to have it voted on next meeting. That's no problem.

THE CHAIRMAN: Okay. On the tabling motion, is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Contrary-minded? There being none, it's carried. It will stand as one of the first items of business in our meeting one week hence.

I'm informed that everything is according to plan save one item. I neglected to introduce one very important person on the committee. She so informed me, not of her import but of the fact that I had neglected to introduce her. This is the linchpin of the committee, the area all paper funnels in and out of. This is the one that keeps us together, and she's not very far away when we need her. She's called the administrative assistant to committees, but basically she runs the show and reminds me again and again when errors are being made: Mrs. Corinne Dacyshyn.

We've come to the point where we actually start our business of the day ahead of the hour we had intended, so it will give us a little more time to scrutinize those accounts that are before us. I'll turn the floor to the Auditor General, Mr. Peter Valentine, and ask him to further introduce his members and commence the day with a brief description, I understand, of how you see your role and the performance of it. Thank you, sir.

MR. VALENTINE: Thank you, Mr. Chairman. I'll start by introducing my colleagues with me here in the Chamber, and then I will introduce some of my colleagues who are in the public gallery.

On my right is Jim Hug. Jim is the Assistant Auditor General with key responsibilities for the Department of Energy, Treasury, and Municipal Affairs. On Jim's right is Merwan Saher, Assistant Auditor General responsible for the office's professional practice and quality assurance. Merwan has overall responsibility for the production of our annual report. On my immediate left is Nick Shandro. Nick is an Assistant Auditor General responsible for Health and advanced education ministries. Beside Nick is Mike Morgan, who is an Assistant Auditor General with responsibilities for agriculture, Family and Social Services, Environmental Protection ministries and the Alberta Treasury Branches.

I'd like to also acknowledge a number of my senior staff who are in the public gallery this morning: Lori Trugeon, Dave Henderson, Doug Wylie, Kelly Aldridge, Gerry Lane, Bruce Laycock, Erwin Hunkey, Shaukat Moloo, Ellen Vlieg-Paquette, and Mary-Jane Dawson. With those introductions, I'll proceed to make some opening comments in connection with the 1995-1996 report.

As the committee has some number of new members, let me start by describing the business of our office. The work of our office is directed toward supporting the objectives of the Legislative Assembly. Our intent is to make a positive contribution to greater public confidence in governance including improved performance programs. We're in the business of legislative auditing. Accountable to the Members of the Legislative Assembly, we are ultimately accountable to the public, who require assurance that the government's performance reporting is creditable. We do this by providing cost-effective professional assurance services which add credibility to the performance reporting of organizations which are accountable to the Assembly.

8:50

In addition, we provide advice in the form of recommendations designed to improve the economic and operational health of the province. In short, our purpose is to identify opportunities and propose solutions for the improved use of public resources and to improve and add credibility to performance reporting, including financial reporting, to Albertans.

Our 1995-96 annual report was made public at the end of September 1996, immediately following the release by Alberta

Treasury of volumes 2, 3, and 4 of the public accounts. The purpose of our annual report is to assist you in your work of holding the executive accountable for the management of public resources. It's designed to meet the expectation that we assist government and public agencies to improve their performance.

Without the co-operation of our client's staff our contribution to improve business practices at all levels of government organizations would be far less successful, and I wish to acknowledge that in carrying out our work, we have received all the information and explanation, reports, and other information that we required. The office of the Auditor General is served by dedicated, professional staff, and to them goes the credit for the work before you today.

The annual report contains those matters of significance that in my view should be brought to the attention of the Legislative Assembly. When determining significance, I consider the nature and materiality of the matter relative to the individual entity and to the government as a whole. This year's report contains 69 recommendations. Of these, 35 recommendations that we consider particularly important and therefore warrant a formal government response are numbered. Of the 35 numbered recommendations, 10 are repeat recommendations. The government responded formally to the chair of this committee in November 1996 with respect to all 35 recommendations.

The report does have a particular theme, and that is the importance of setting performance expectations. My message is that focusing on setting performance expectations is a practical way of improving performance. Many of our recommendations are designed to improve the information needed to set performance expectations.

Overall, progress in improving government accountability is satisfactory and proceeding according to plan. There is an increasing awareness that the government must demonstrate when it spends money that it does so with an understanding of the desired result, and that the government should provide objective information on what was actually achieved.

Mr. Chairman, with your permission, I would like to have Messrs. Hug, Morgan, and Shandro briefly highlight the key matters within their own portfolios. Jim.

MR. HUG: Thank you, Peter. Two important cross-government issues relate to information systems. Firstly, will government information technology be year 2000 compliant, and secondly, will the PeopleSoft computer development project be implemented successfully?

The government is exposed to the risk of systems failure on January 1 in the year 2000. We completed our review and concluded that the action taken to address the year 2000 problem was inadequate. The risk to government operations was unacceptable. Recommendation 2, addressed to the chief information officer, was designed to encourage appropriate action now. We believe it is critical to ensure that ministerial plans to be year 2000 compliant are comprehensive. The government has accepted the recommendation, stating that the council of chief information officers will work with the Ministry of Public Works Supply and Services. This ministry has lead responsibility for a government plan to ensure that technology is year 2000 compliant.

The PeopleSoft project, now referred to within government as the IMAGIS project, is a computer development project whose end products will replace the province's existing central accounting and reporting systems and provide human resource systems. For the project to be successful, many significant challenges needed to be addressed. We reported in recommendation 3 that improved co-ordination and integration would assist in the identification and resolution of concerns, thereby increasing the likelihood of the project's success. The government responded to our

recommendation by stating that a deputy minister had been seconded full-time to establish and oversee an appropriate project management structure.

The third recommendation that I wish to draw your attention to is 32. The recommendation reads as follows:

It is recommended that the three-year business plan instructions issued by the Treasury Department require appropriate disclosure of the major assumptions, and in particular the downside risk to ministry plans, when proposed major programs or capital expenditures are dependent on future events.

This recommendation, which was a repeat from the previous year, had its origins in the work we did with respect to the Swan Hills special waste treatment facility. Treasury has accepted the recommendation in principle, stating that ministries will be asked to provide information about major assumptions to Treasury Board.

We believe there is a danger, particularly in future years, that underlying assumptions about future events and an assessment of their impact may not be included in the business plans and may not be identified and considered during the review by the standing policy committees and the Treasury Board. In essence, we are saying that risks should be evaluated and disclosed in three-year plans. Even when realistic, plans can be overtaken by events, so it is wise to disclose the downside risks so that better decisions can be made.

I'll now hand it over to Mike Morgan.

MR. MORGAN: Thank you, Jim. Mr. Chairman, I'd first like to draw the committee's attention to recommendation 13, which is on page 110 under the Ministry of Family and Social Services. Here we recommended that the Métis Settlements Transition Commissioner encourage Métis settlement councils to develop their own business plans, setting out longer term operating strategies and financial forecasts. Such plans we believe would enable the commissioner, settlement councils, and the settlement members to understand and guide each settlement's progress towards the degree of self-sufficiency that is envisaged by the Metis Settlements Accord Implementation Act.

Our main concern here was that the settlements seem to be moving towards self-government but without the strategies for dealing with the economic impact and reduced provincial funding that was to occur over the 10-year period beginning this month. It seemed to us that most settlement councils were focusing far more on their individual annual budget cycles and not enough on their longer term financial considerations. We believe that longer term plans would help settlement councils explain to settlement members how future funding would be used to administer settlement affairs, to build healthy communities, and to stimulate each settlement's economy. Such plans, for example, could show how and to what extent settlement councils expected to match costs and revenues again when the funding under the accord was set to diminish after 1997.

I'm pleased to say, Mr. Chairman, the government accepted this recommendation and informed us that the Métis Settlements General Council, with assistance from the Métis Settlements Transition Commission and aboriginal affairs, is developing a business plan for the 10-year posttransition period commencing in 1997. To further assist in this regard the commission, which was to have been wound up in March of 1997, will now continue until the year 2002.

Turning now to our audit of Alberta Treasury Branches, the most important recommendation we made here is 35, which again I'm pleased to say has been accepted. Here we recommended that ATB adopt a more businesslike and profit-oriented approach when approving and monitoring their large commercial loans. It's fair to

say that a substantial portion of Treasury Branches loans are generally well administered and, indeed, profitable. In recent years, however, loan losses and foregone interest income have caused the portfolio of large commercial loans to perform less profitably than similar portfolios in other lending institutions. In some instances ATB's business philosophy has resulted in it assuming disproportionate amounts of the borrowers' business risks, often without adequate prospects of commensurate compensation. We believe that a more businesslike approach to approving and monitoring these large commercial loans would help to reduce the risk and exposure to loss.

9:00

Three administration functions which we particularly identified as warranting attention were approving loan applications and extensions, temporary credit facilities for customers, and customers' financial reporting.

I'll now pass it over to Nick Shandro, who will brief you on recommendations from the Health ministry and the lottery fund.

NICK SHANDRO: Thank you, Mike. The recommendations made in the Health ministry are based on effective governance, information needed to deliver high-quality health services and the systems needed to support this information flow, improving financial reporting by the regional health authorities and provincial health boards, and improvements needed in health program administration, including the medical fee-for-service system.

I'll concentrate on recommendations 14, 15, 16, and 17. Their thrust is that significant risks in the health system can be minimized through effective governance and the use of appropriate information. In short, there is a major need for improved health information and systems to deliver that information.

Much of the information produced in the health sector is not directly linked to accountability reporting processes. Budget processes often consist of a top-down allocation of funds rather than the process of establishing the best practices and related costs through consultation with the various stakeholders, including those who work at the front line. Information systems in the health sector do not integrate clinical and financial data in ways that can help to improve setting expectations, delivering service, and evaluating performance. We intend to work with the Department of Health and regional health authorities to assist in resolving these issues, which we have raised in previous reports.

The goal is threefold: to have information and systems supporting health workers, management, boards, regulators, legislators, and the public in the process of aligning health service expectations with the results achieved, to have information systems driving the allocation of resources to achieve cost-effective services, and to have information and systems pointing the way to improving quality and level of health services. I'm pleased to note that the Department of Health has accepted our recommendations and is working towards their achievement.

Now, turning to lottery grants, we are concerned that the province is not determining whether it is achieving the expected benefits from the use of all lottery grants. By means of recommendation 1 we asked the Executive Council to consider having beneficiaries or grant recipients report their results in terms of the expectations set out in their business plans. I'm pleased to be able to report that the accountability framework for grant expenditures from the lottery fund will be reviewed by government. A comparison of results against expectations is crucial to a decision on whether to continue to award grants in individual cases. Also, obtaining accountability from grant recipients should be solely the responsibility of the appropriate ministry.

Now I'll turn you over to the Auditor General.

MR. VALENTINE: Thank you, Nick. Mr. Chairman, the Public Accounts Committee is charged by the Assembly with examining the government's management and control of public resources. I believe the usefulness of the process is dependent upon the incisiveness of the questioning of ministers and their officials. In this regard there is a direct correlation between the questioning and the quality of the information on the results achieved. I'm optimistic about the contribution that my office will make to decision-making by ensuring that Members of the Legislative Assembly have accurate and reliable information from independent audits. I'm also optimistic that this committee's work will assist those who are charged with managing public resources to improve their performance.

This concludes our introductory remarks, Mr. Chairman. I'll be pleased to address the questions of the committee, and I would ask that members identify the page in the Auditor General's report to which their question relates as they ask those questions.

Thank you, sir.

THE CHAIRMAN: Members of the committee, you've heard the introductory remarks. We're open now for questions.

MR. ZWOZDESKY: Well, Mr. Chairman, before we take up the generous offer from the Auditor General to actually get into the public accounts themselves on a page-by-page, blow-by-blow basis, I wonder if we could just address one larger question with regard to special duty reviews. I listened very carefully and was very encouraged by the words I heard from the Auditor General and his staff with regard to things pertaining to improved performance by the government as well as expectations being met and holding Executive Council accountable, making decisions based on understanding of desired results, and so on, all of which we as members on all sides of the House are pledged to uphold as well.

In keeping with that, I'd like to propose a motion at this time, Mr. Chairman, if you'll accept it:

that the Standing Committee on Public Accounts be given the authority to require the Auditor General to perform special duty reviews as requested and report the findings of those reviews back to the Standing Committee on Public Accounts.

THE CHAIRMAN: Is the effect of the motion understood, and is there further discussion on the motion?

Mr. Shariff.

MR. SHARIFF: We need to have a little more clarification as to what is intended in this exercise.

MR. ZWOZDESKY: I thank you for the question. I think the intent here is to help the Auditor General's department deliver on what has just been explained in the overviews by the five gentlemen present, and that is to help them through this vehicle, being the Public Accounts Committee, assist in the performance of government in meeting expectations and in explaining openness and honesty and accountability back to the Assembly through the Public Accounts Committee. I guess in a nutshell the effect of the motion simply says that the Auditor General could be required by this committee from time to time to conduct special duty reviews as outlined in the Auditor General Act.

THE CHAIRMAN: Mr. Shariff first.

MR. SHARIFF: In my opinion the Auditor General and his team do put together a really large package for us to review, and given the

time lines that we have in meeting during the session, I don't see this being practical. We probably may not even have the budget or the timelines to be able to accomplish this.

MR. VALENTINE: Mr. Chairman, I would refer the committee to page 207 of my report which sets out the legislative mandate for this office. I can make several observations. First of all, the Auditor General Act in the province of Alberta is probably the most efficient Auditor General Act in Canada. I often say that we have the best legislation with which to operate a legislative office.

I have the authority and the obligation to conduct whatever inquiries or investigations I consider necessary. The Premier has the authority to request me to do an examination, and if he does, he has the authority to set the terms of reference. If I choose to do an investigation, I have the opportunity to set the terms of reference. If I choose to do an investigation, I have an obligation to report back to the Legislative Assembly, whereas if the Premier asks me to do an investigation, then I have an obligation to report back to him.

So with all due respect to the member's desire to give me more things to do – and this sort of work is challenging and interesting and probably the most professionally interesting part of my job – I think I have all the powers and authorities I need, save and except that of commanding witnesses, and I don't think I need that.

9:10

MR. HIERATH: I'm not exactly sure what the member that made the motion had in mind. The special duty review sounds not very specific for me, and I'm not sure what "special duty review" means.

THE CHAIRMAN: You're asking for an explanation?

MR. HIERATH: Yes, please.

MR. ZWOZDESKY: As I understand it, there might be from time to time special circumstances. The Auditor General might be invited in to conduct a review where taxpayer moneys are involved. My intention with the motion is simply to give this committee, which is comprised of some 15 members, obviously weighted much in favour of the government side, the power from time to time to ask the Auditor General to go into some specific areas that we might deem necessary, which perhaps in rare instances the Premier hasn't had or doesn't share the same degree of urgency on but this committee might.

I didn't intend, Mr. Auditor General, to create more work for you, although I respect the result. My intention with the motion was simply to further the statements made by the Auditor General in terms of holding Executive Council accountable. Obviously in this instance the Auditor General does have powers to go in on his own, should he so wish, or as directed by the Premier, he may go in sometimes. But if we are truly doing our job as a Public Accounts Committee and we are assuming the government has some disposition towards being open, transparent, and accountable, I don't think there would be a problem. I don't see it as being something we would abuse or overuse, and in any event, it would require a majority vote for a special duty review to go forward by the members who sit on this committee. I see that as a kind of win/win situation, because there is a protection here given that government members hold the balance of power by a large margin in any event.

So it would likely be a very rarely used motion, hon. member, but I think it would speak volumes in terms of openness, transparency if this committee were given that type of legislative power from time to time to request the Auditor General to perform those types of additional reviews, if you will.

MR. MELCHIN: I guess my only comment on that would be that if we had such an event I'd rather deal with it at that time. If there was something that we really felt was urgent, critical, we deal with it at that time rather than putting a motion forward to deal with all contingencies, whatever they may be.

THE CHAIRMAN: Further discussion on the matter? There being none, all those in favour of the motion?

SOME HON. MEMBERS: Aye.

THE CHAIRMAN: All those contrary-minded, say no.

SOME HON. MEMBERS: No.

THE CHAIRMAN: The motion's lost.

Any motions? Mr. Zwozdesky, did you wish to ask some questions now of the Auditor General?

MR. ZWOZDESKY: Yes, we have some questions that we'd like to pass on, as soon as I find my stack here. This being my first meeting, Mr. Chairman, I have so many notes and things that I've reviewed here, I have to just see where I put them. Bear with me a moment, if you will, and I'll try and find my stack here. In the meantime, perhaps you could move on to someone else.

MR. DUCHARME: To the Auditor General. In your introductory comments, you indicate that setting performance expectations is an integral part of improving the programs and services provided by boards, commissions, and authorities. You have outlined the process and considerations which must be made in order to measure performance expectations effectively, including communication at all levels and a clear understanding by all individuals of expectations and how these will be measured. Are there boards, commissions, or authorities which have successfully initiated this process, and have they realized improvement in their programs and services?

MR. VALENTINE: The implementation of three-year business plans and setting of expectations is a relatively new process to governments. Much has been done in developing those processes not only in Alberta but elsewhere. An example that comes to mind – and I'll ask my colleagues to comment – is the Southern Alberta Institute of Technology, which includes in their financial statements, and we report on them, I believe five performance indicators indicating performance with respect to the things they consider to be important in running their business.

The Department of Advanced Education and Career Development is in the process of developing what are known as key performance indicators, or KPIs. That is an ongoing process which at the moment is in the hands of the institutions for comment back to the minister.

Your own government has a number of performance indicators contained in the document Measuring Up. We report on specific audit procedures applied to those indicators in that document giving assurance as to the nature of the collection of the information underlying the disclosure of the performance indicator.

Have I answered your question, sir?

MR. DUCHARME: Yes.

THE CHAIRMAN: A supplementary, Mr. Ducharme?

MR. DUCHARME: The supplementary's been answered.

THE CHAIRMAN: Thank you kindly.

Mr. Zwozdesky.

MR. ZWOZDESKY: Yes. Thank you. Another section of the overview as presented by the Auditor General and his staff that really zeroed in on something that is of great importance was with regard to Treasury Branches. Specifically, Mr. Chairman, I refer to recommendation 35, on page 198 of the Auditor General's annual report, which I understand was accepted by the government: that Treasury Branches will be asked to adopt "a more business-like and profit-oriented approach when approving and monitoring large commercial loans." As I understand it, Alberta Treasury Branches are projected to lose in the neighbourhood of \$23.3 million in '96-97 year-end, which increases its accumulated deficit to approximately \$51 million as of March 31, 1997. I suspect the reasons for this increase in the annual deficit relate to an increase in the provision for credit losses as related to the lending portfolio.

My question to the Auditor General is: given the extraordinary \$200 million, or 150 percent, increase in loans classified as impaired as at March 31, 1996, which is from the previous year – that's public accounts '95-96, volume 3, page 255 – can the Auditor General please provide an explanation as to how his office assesses the provisions that are made by management in relation to the collectibility of these loans?

MR. VALENTINE: The audit of Alberta Treasury Branches is conducted in accordance with generally accepted auditing procedures and generally accepted auditing principles applied to a financial institution. The extent and timing and the employment of the audit procedures to provide us with sufficient and appropriate audit evidence in order that we can support an audit opinion on those financial statements has been gathered and is contained within the files of my office.

9:20

MR. ZWOZDESKY: A brief supplementary. Are those provisions that you require management to follow available to members of this committee for review as well? Would you be willing to share them?

MR. VALENTINE: No, sir, I'm not. None of my files are available to any member of the Legislature, nor are any of my files available to anybody outside my office. That is a very understandable principle that's contained within the Act I operate on. If I were to make the files available, I would be violating the code of professional conduct of my profession. I can't do that.

MR. ZWOZDESKY: Thank you for clarifying that.

THE CHAIRMAN: Mr. Hierath, followed by Dr. Nicol and then by Dr. Pannu.

MR. HIERATH: Yes. Nick was talking about the audit of RHA books in the regional health authorities and that there is not clinical data linked to financial information. So the information systems are not able to give breakdowns on costs, and there's no information on performance measures of procedural costs in some of the hospitals in the province. Nick, am I reading your comments correctly in regards to where the Auditor's office is attempting to get the regional health authorities to, and being able to, analyze some of the procedural costs for performance measures?

MR. SHANDRO: Our recommendation 17 deals with this issue of systems that are inadequate in that they are not providing financial information linkages to actual clinical information. There's a lot of information in the health system, plenty of it. The problem is that it

comes out at different times, and we're not able to establish a good linkage between what the activities are and the cost of those activities on a timely basis.

MR. HIERATH: Then, my second question is: does the Auditor's office directly audit the books of all the 17 regional health authorities in the province?

MR. VALENTINE: No, Mr. Hierath, we do not. Under the provisions of the accountability Act we have responsibilities in connection with ensuring that there are appropriate systems in place to manage the health care sector, and that includes systems in the various regional authorities and in the two boards. We are the auditors of the two boards, the Cancer Board and the Alberta Mental Health Board. We enter into arrangements with a number of other regional health authorities whereby we are the named auditor, and we then appoint an agent of choice to the local regional health authority and in that way have them perform the attest audit work and opine on the financial statements and, jointly with my office, do the additional work to ensure that there is compliance with legislative authorities and that I've fulfilled the section 19 mandate that we have under the Auditor General Act.

Under those arrangements we do approximately 88 percent of the beds in the province jointly with private-sector auditors who are paid an appropriate fee for their work. The experiment of the first year has gone exceedingly well, and in my next report we will provide you with a review of the reporting from the first year, where the good news stories are, where some of the hiccups occurred, and move on to the second year of reporting. Unfortunately, health authority year-ends and the provision of the audited information to the ministry and the follow-up of that material including management letters doesn't fall exactly in sync with the report of the Auditor General. We are at the moment grappling with: do we do a special report on that aspect of our work and leave it out of the Auditor General's report, or do we delay and put it in the Auditor General's report? We have not concluded on that issue at the moment.

Mr. Chairman, if I may, I'll just come back to Mr. Zwozdesky's question about audit process. It's management's responsibility to present the assertions of a financial statement to the auditor. The preparation of the financial statements is the responsibility of management, including all the assumptions that are necessary to appropriately estimate assets, liabilities, income, or expenses. It's our job to apply the appropriate audit procedures in order that we can pass an opinion on the validity of those assertions.

I wouldn't want you to go away understanding that you weren't going to have an opportunity to understand what management's assertions are in any of the audits we do. To the contrary, the financial statements should present those assertions very clearly and succinctly. I believe that in the case of every audit we do in my office, that's the case. If it were otherwise, I should be qualifying my opinion, because the opinion reads: in my opinion, the accompanying financial statements present fairly at a point in time and for a period of time in accordance with generally accepted accounting principles. I might not have all the commas in the right place there, but I think I got the words out. So if management's assertion is either wrong or not appropriate or in fact the accounts have not been compiled in a way that follows the assertion, then you're going to hear from us.

The procedures we use to satisfy ourselves that management has been correct in its assertions are numerous and varied and depend on the circumstances not only in a particular entity but from account to account within that entity. Some things are immaterial; other things are material. Those are all professional judgments that we have to

make. Evidence of that professional judgment is contained within our files, but it is not public evidence. The public evidence is my report and the professionalism that stands behind it.

Have I sort of set that okay for you?

THE CHAIRMAN: That would have to be another round of questioning. Unfortunately the questioner's at a bit of a disadvantage when the answer is a subsequent answer, unless of course we have the general agreement of committee members to allow this discussion and questions to go on. Actually, it's the opposition's turn to question in any event. If Dr. Nicol will give leave to allow Mr. Zwozdesky to continue . . .

DR. NICOL: Yes.

THE CHAIRMAN: Mr. Zwozdesky.

MR. ZWOZDESKY: Thank you, Mr. Chairman, and thank you to the Member for Lethbridge-East for allowing me to just pop in a quick supplementary.

I appreciate the Auditor General's clarification. I don't think I was going away with the wrong assumptions here, but he's put me straight on that.

As I understand the machinations of government here and how budgets and so on are developed, we take a look at Treasury Branches and see that from year to year over the last several years they've been projecting getting out from under the loss umbrella. I guess as we look back and assess that performance, what I'm really interested in knowing from the Auditor General's department is: how do you go about verifying management's assertions about the collectibility of these ATB loans, which seem to be slowly improving in terms of us getting out of that debt, but overall we still see management, I suppose, in conjunction with government being off in their projections by millions of dollars from year to year. There seems to be a pattern there. So what verification process do you have?

9:30

MR. VALENTINE: I think, Mr. Chairman, that part of the member's question relates to the business practice of the entity. That question's more properly addressed to management; they make the assertion. The question you're asking has both audit implications and management assertion implications, and maybe if we move to the point at which you have an opportunity to visit with the Treasurer, which I think is coming up in early May, you may want to pose that question. I can tell you that as to the extent of the audit process involved, I pay particular attention personally to the audit of ATB and ensure that a proper audit is done. I have a variety of checks and balances in ensuring that we do an appropriate audit and we have the appropriate experienced personnel on that engagement, and I'm satisfied that the audit is done properly.

THE CHAIRMAN: Supplementary?

MR. ZWOZDESKY: Thank you. In the interest of more questions, I'll move on.

THE CHAIRMAN: Mr. Johnson.

MR. JOHNSON: Thank you very much, Mr. Chairman. On page 155, relating to Municipal Affairs, it is indicated that the Alberta Social Housing Corporation is using an accounting system which is labour intensive and inadequate for their financial reporting needs. As a result, many inaccuracies occur, creating delays in their

financial reporting process. Do you have an idea what the cost would be of implementing an accounting system which can accommodate the corporation's needs?

MR. VALENTINE: No. That's a question you probably will want to address to the administration of this department when Municipal Affairs is before you.

MR. JOHNSON: Okay. A supplementary question then. You have noted that financial information for management bodies administering social housing projects is not received promptly by the corporation to update its financial statements. Yet the ministry has agreed to require this information according to the deadlines specified in legislation. Do you know why management bodies are consistently late in providing their financial statements to the corporation? Is there a systemic problem which must be addressed before the deadline is imposed?

MR. VALENTINE: Management bodies are comprised of a variety of levels of qualified people. The important part of our observation is that the management of the Department of Municipal Affairs needs to ensure that the management bodies are held accountable to the department. Until they are more diligent about that, we will be critical of the process that's in place now.

Nick, you may want to expand on that.

MR. SHANDRO: I just want to make a comment that these delays and the methods used actually increase overall costs. You'll notice part of our report where we're talking about unit costs. If you examine that carefully, you'll notice that costs are higher than they otherwise need to be. So we believe that getting the accounting systems both at the corporation and at the managing bodies more streamlined, capable of delivering information promptly is going to result in lower costs to the government.

DR. PANNU: Mr. Chairman, my question is to the Auditor General. I'm seeking information on whether or not the financial statements, which also include, I guess, sections from public entities, be they RHAs, boards, or ATB, are available to the public. Are they available routinely to members of this committee, or can they be made available on special request by this committee to its members?

MR. VALENTINE: The assertions of management in any of the entities that we audit are contained within the financial statements. So the first note to the financial statement is generally a note which in some way or other explains the authority under which that organization is – I call it the birthing rights paragraph, how it comes into existence and what authority it has. The second note to the financial statement will be the significant accounting principles, so that is the assertions of management as they account for their transactions. One of my charges as an auditor is to ensure that there is contained in the financial statements an adequate explanation of those principles on which the financial statements are based, and I so opine. So the management's assertions are contained within the financial statements as a whole.

DR. PANNU: Are the financial statements available to members of this committee?

MR. VALENTINE: The public accounts. Yes.

THE CHAIRMAN: Thank you.
Mr. Lougheed.

MR. LOUGHEED: Thanks. With respect to Education, page 78, their provincial learning expectations are outlined requiring students to be able to read, use math to solve problems, demonstrate leadership and initiative. Some of those, of course, are assessed on a provincial level through standardized achievement tests, and they provide an objective measure. You recommend that skills such as performance tasks must be assessed by observation in the classroom, and those are subjective evaluations. They should be recorded and monitored on a provincial level. How would the results of subjective assessments by all the various teachers be utilized at the provincial level to monitor the achievement of students?

MR. MORGAN: Mr. Chairman, our point here is based very much on the general philosophy of performance measurement setting and reporting. In essence, we're saying that if you're going to set performance expectations, it's important that at the end of the day you measure your performance against those expectations or targets and decide whether or not there's need for improvement or otherwise.

Here we have a situation where the province sets expectations. It measures some of them but not others. I guess we're saying that if it's worth setting an expectation or a target, it's also worth trying to decide whether you've hit the target, and in this particular case we don't seem to be getting the information to be able to determine that.

MR. LOUGHEED: I have a supplemental, then, to that. The subjective evaluation is done by classroom teachers. Do we have to have another assessment procedure beyond that?

MR. MORGAN: It's an interesting question. How you measure the achievement or the scoring of a subjective goal is a problem which is being wrestled with throughout this government in many, many spheres. Some things are easy to measure, other things are more difficult to measure, and this is obviously one of the latter ones. I can name you a score more of them which are also having difficulty.

As a rule, we as auditors point out where there's a need for some information. If we get down to telling management exactly how to get it, we're getting involved in management's own business. Providing we can be satisfied that there is a reasonable way, the how we leave very much to management, and that is the case here. The department has agreed with this recommendation. They acknowledge that there is a need.

You infer in your question that subjective assessments from a whole lot of people across the province may come up with some rather uneven results which may have perhaps not as much value as those that can be measured. I think that inference is correct, but I think it's something which has to be tried. If indeed we're going to set these goals, then indeed we have to decide whether or not we're achieving them.

9:40

THE CHAIRMAN: Ms Blakeman.

MS BLAKEMAN: Thank you very much. Mr. Auditor General, on page 116 of your annual report, you made a recommendation to the Department of Family and Social Services to determine the impact and costs of various initiatives implemented to reduce supports for independence caseloads. On page 106 of your report, you say that the department has accepted the recommendation and is in the process of tendering a contract to do an independent evaluation to determine the impact of the welfare reform initiatives since 1993. Can you tell us what, if any, progress the department has reported back to your office? If so, when can we expect to see this type of useful assessment made public?

MR. VALENTINE: I don't think we have any reporting back at this point other than the acceptance of the recommendation. That's not to say that's wrong. What we do as a matter of course is follow up on – well, the usual way is that following this, we will hear back from a department, and they will tell us what they intend to do about the recommendation. Then in the normal course of our audit activities in the next year, we will actually see what happened. That gives us an opportunity to report again the next year. So as to the details, whether or not we have details about what they've been successful in doing yet or not, I don't know.

In any event, we're just in there doing the audits now on the March 31 government year-end. Over the course of the summer and leading up to the release of our 1996-97 report, we will find out what happened to our recommendation, and we will test whether or not whatever corrective action they've taken has actually been implemented and is operative.

Mike, you might have some more details.

MR. MORGAN: Yes. The department, Mr. Chairman, kept us very much involved in their activities on this one. They retained a firm to do the work, to get the information. They provided us with a copy of the contract with that firm to see that we felt they were seeking the right information.

We haven't seen the results of that work as yet. It's not our position, though, just to report the results of that work; it's for the department to incorporate it into their activities, et cetera. In the event that that work is not done or the information obtained isn't what we had been pointing out and we still think there's important work to be done, then of course we'd raise the matter again. The purpose of obtaining the information was that we felt it would provide the department with a basis for deciding which of their initiatives are working, which of them are cost-effective, and which of them are efficient and all the rest of it. Providing they now get that information and use it, we consider our job is done.

MS BLAKEMAN: Okay. Thank you.

THE CHAIRMAN: Mr. Stevens.

MR. STEVENS: Yes. I'd like to follow up on some of the questions asked by Mr. Hierath. As I understand it, you indicated that the Auditor General is the auditor for certain of the RHAs, that in conjunction with private auditing firms audits are done, and that some 88 percent of the beds in Alberta represent that process. I was wondering if you could comment on how it came to be that you have that arrangement and whether it assists your performance and responsibility.

MR. VALENTINE: How it came to be is very easy. It was a proposal that we made to all the RHAs, and the majority accepted that proposal. The efficiency of it is that we only bother management once; we don't bother them twice. The further efficiency is that we get to use the resources of those private-sector audit firms in planning and executing the total package of work, which really has three elements to it: attest, legislative compliance, and systems work. It's the systems work that's my charge; it's the attest work that's really the agent's charge.

So the procedure is now well into its second year, and it has from our own point of view in our office enabled us to provide some substantial additional services to the health care sector where there are a great number of problems as the regional health authority concept matures. Two examples would be the budgetary work that we did in connection with the budget process at the capital health authority in Edmonton and the work we did in connection with the

laundry contract issue in the Calgary regional health authority. We have since supported some work in a number of other regional health authorities in dealing with their budgetary problems. The Red Deer one comes to mind, where we just concluded some work and made some recommendations for the improvement of their budgetary process.

Have I answered your question?

MR. STEVENS: Yes. As a supplementary, would you be able to indicate today which of the RHAs chose to decline your offer?

MR. VALENTINE: The ones that accepted are on page 40. My memory isn't good enough to remember the names of them all. I know there are 17 numbers, from one to 17. That's fairly easy for me to remember.

MR. STEVENS: And some of their names are hard to pronounce. I'll be able to work backwards.

MR. VALENTINE: There are two names that have been in the press lately that I don't think are on that list.

THE CHAIRMAN: Ever so diplomatically answered.

Dr. Nicol.

DR. NICOL: Thank you, Mr. Chairman. Mr. Auditor General, in your opening statements I think you alluded to understanding the desired results of government. I take that in reference to the performance indicators that the government has now put into their business plans. I'd like to ask how you see your approach. You've made a couple of references in response to some of the other questions in terms of how important these performance indicators are. Do you see it as part of your audit evaluation to look at the appropriateness of the performance indicators, or do you take those as a given from the department?

MR. VALENTINE: Let me say at the outset that the whole concept of performance measurement is relatively new, particularly in terms of outputs and in terms of the public sector. There is a huge amount of work going on, and it's rather exciting. It's going on in Oregon; it's going on in Texas. Texas always does things big. They have over 10,000 measures in Texas. So they do it right; it's the big way. Minnesota is a big player, New Zealand is a big player, Western Australia is a big player, and there is tremendous interest in this subject in a lot of other areas of the world.

Now, when you move to recognizing that you should measure something in terms of its output, not its inputs, and when you recognize that you need to set some sort of benchmarking or performance measurement or target that you can then measure and say that you were successful to a certain extent and to what extent, you have to develop the right measures, and you will only do that by an experimentation process. You will design some measures which you think for all good and valid reasons will be the right ones, and at the end of the day you find they are not doing what they should do, and the measures will evolve.

I have publicly said that I will not be critical of an entity that develops a measure that fails in that context, but I will be very critical of those organizations which fail to develop measures. We're going to have a special section of the report next year for those who don't measure so that everybody understands that they're not with it yet in terms of looking at their outputs and the value of them.

9:50

I think also, in coming back to the kind of discipline my

profession works with, one of the things that we hold near and dear is consistency. It's one of the important tenets of a financial statement that the principles of accounting are applied consistently. We think that the principles of measurement should be applied consistently, and in those situations where they're not, we have an obligation to tell the reader that this measure was not applied consistently.

I'm happy to say that progress moves on quite well. There are some very substantial issues in coming to grips with how you audit this sort of thing and how you express an opinion on it, particularly if the information flow is not financial system controlled. We were just talking about a measure a few moments ago to the hon. member with respect to the Education area that will be very difficult to put your arms around when you're trying to provide some assurance relative to those measures. Will you be satisfied the teacher actually did it, will you be satisfied that the right criteria were used, and so on? Well, these procedures are evolving. There's a great deal of work being done by the CICA, the Canadian Institute of Chartered Accountants. There's a great deal of work being done by another organization of which I'm a member, the Canadian Comprehensive Auditing Foundation. We are pleased with the progress.

Nick, do you want to answer that?

MR. SHANDRO: I want to just relate an experience that Peter mentioned earlier with SAIT. When they presented their first report to us in draft form – we were working with them for several years before they actually published their first performance measures in a financial statement. They had a book at least two inches thick of performance information that they were going to produce as a report. When we reviewed that, it became clear to us that the principal characteristics of reporting should be understandability, relevance, reliability, comparability, and also that the cost of reporting shouldn't exceed its benefits. We rapidly came to the conclusion that not many people would read a big tome of information.

The good news was that in discussing this with management, they rapidly settled into those few key performance indicators that make a difference in terms of decision-making and the like. I think this is not unlike some of the information private-sector people use. I don't think they use tons and tons of information. They decide what is truly important, what is relevant, what they can understand and then report on that basis.

DR. NICOL: As I look through the business plans of a lot of the departments, you know, collectively through them all, some of them have some very specific performance indicators that really are a reflection of response to the expenditure of a public dollar. Other departments have a lot of kind of very broad-based indicators, total exports . . . These things are driven by the total action of the economy as opposed to the expenditure of a public dollar, and I don't see a usefulness in that kind of indicator. Do you make those kinds of comments? You know, the idea of the college having the two-inch thick manual being distilled down to a couple of pages is great. It gets it right down to the expenditure and how it relates, I hope, in response to a public dollar. Would you be making those kinds of recommendations to some of the other departments, some of the other agencies as well? It's so important that we have a high correlation between the public dollar and the performance measure as opposed to the public dollar being an infinitesimally small part of the causal effect that gives us a change in the indicator.

MR. VALENTINE: Well, let me go back to my earlier remarks. I'm very anxious that the process of experimentation continue. If we criticize the development process, in the end we won't get to where

we want to be.

The second comment I would make is that some of the expressed indicators are outcomes and some are outputs. To go to the health sector, the number of interventions that are accomplished by a particular surgical facility would be an output; the general health of the community surrounding that surgical centre might be an outcome. I would agree with you that there is less influence – to use the favourite saw in the health area, there's far more influence in what mother did with the baby for the first six months affecting the outcome than whatever the outputs might be of taking out a variety of gallbladders or appendices.

Also the measurement and the correlation of these things requires that latitude for experimentation in order that we eventually get it right. I would think in the fullness of time we will come around to being able to be constructively critical of those things that people want to try to measure and perhaps are not so well connected as they might think.

THE CHAIRMAN: We're getting painfully close to the hour. Dr. Pannu, would you have a brief question to be answered today, or could you put that off. It would be the first order of business.

DR. PANNU: I think I'll do that, put it off to the next meeting.

THE CHAIRMAN: Is there any other business or new business that the committee wishes to deal with today?

Mr. Shariff.

MR. SHARIFF: Will the Auditor General be coming back next week?

THE CHAIRMAN: Yes.

MR. VALENTINE: The Auditor General will be here every week trying to assist you with the application of my report to the particular ministry you'll be talking with, and we'll be sitting down there. For next week we'll be back in this section, and we'll carry on with my report from last year.

THE CHAIRMAN: There being no further business to conduct today, a motion for adjournment. Dr. Nicol. The motion has been made. Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: It's carried. We stand adjourned.

[The committee adjourned at 9:55 a.m.]

