

[Mr. White in the chair]

8:30 a.m.

THE CHAIRMAN: Order please. This committee is now in session. First of all, I'd like to welcome a new member, Albert Klapstein from Leduc. They say Albert has a long history of looking at accounts and that he served the county of Leduc for – how many years? Thirteen years?

MR. KLAPSTEIN: Fourteen.

THE CHAIRMAN: Fourteen. Out one. Sorry, Albert.

I should also advise members that our next meeting, Wednesday next, the 7th of May, has been in fact canceled, or rescheduled shall we say. On the second page of your handouts, you'll notice that there's a rescheduling there in the confirmation of ministers of the Crown to come before us. The reason for the cancellation is that we had a major problem with scheduling some of the committee work for the subcommittee of supply.

Might we have an approval of the agenda as it's presented? Mr. Zwozdesky. Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Carried.

We have a motion that is tabled from the last meeting. Would the mover so move the motion as presented? It was moved by Dr. Nicol, it said.

Dr. Nicol moved 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: Open for discussion. Mr. Shariff? No discussion on the matter?

MR. SHARIFF: I have had a chance to review the proposed motion. I'm of the opinion that it will entail a lot of duplication of services, that we will not have the budget to put it into place, that at the present time we have a number of different avenues to deal with questioning the government and its policies, and as such, I do not support this motion.

THE CHAIRMAN: Any further discussion?

DR. NICOL: I think if we support this motion and bring in and use the guidelines that are accepted and adopted across Canada, it will give us some consistency in terms of how we deal with the public accounts in Alberta compared to other jurisdictions. So I think this is a good initiative in terms of creating that consistency, and I would encourage everybody to support it.

THE CHAIRMAN: Any further discussion on the motion? Ms Blakeman.

MS BLAKEMAN: Yes, I would support the motion. I find documents like this and guidelines like this very useful so that we're all running on the same racetrack. I have gone over it, and I think it's a good comprehensive model for us to be following and should be very helpful. Rather than costing us money, I think it should keep us on track. I would support it.

THE CHAIRMAN: Further discussion on the motion?

MR. ZWOZDESKY: What intrigues me is that this is a set of guidelines for public accounts committees right across Canada. Perhaps somebody from the Auditor General's department may wish to comment, but my understanding is that most other provinces have adopted these guidelines and do use them and follow them. Apart from comments by the hon. Member for Calgary-McCall about there being some possible duplication, I don't see what there is of a substantive nature that anybody would be objecting to. I think it's just an exercise in transparency and openness and one which I would certainly endorse. Perhaps somebody might give me some additional explanation, beyond what's been offered from the hon. Member for Calgary-McCall, as to why we in Alberta are not following this or out of tradition perhaps have not followed it when indeed the rest of Canada appears to be doing just that.

MR. STEVENS: Mr. Chairman, it's my understanding that the public accounts in Alberta lead the nation. We have had an Auditor General in place since 1978. That Auditor General appears here and stays here for the entire process that this committee goes through, and each of the ministers appears here to answer questions. It seems to have served us extremely well. I see no basis for us to change our approach, as it has worked extremely well. Thank you.

THE CHAIRMAN: Further debate? Mr. Zwozdesky, were you asking the Auditor General for an opinion on this matter?

MR. ZWOZDESKY: If it's appropriate, Mr. Chairman, I wouldn't mind hearing some comment from the Auditor General or from members of his staff.

THE CHAIRMAN: If he so wishes.

MR. ZWOZDESKY: If he would offer an opinion.

MR. VALENTINE: Mr. Chairman, we don't have a scorecard that would tell you where these guidelines differ from practice in various provinces, so I can't help you on that score. In general, I think my office supports the concepts that are enunciated in these guidelines. I would comment that the guidelines provide for some things that I don't think I would support, and one of them would be the review of the estimates of my office by the same committee that has the responsibility to review the report. I don't think that sets an element of the independence that – or I would say that's a deterioration of the independence we have.

THE CHAIRMAN: Further discussion, Mr. Shariff, please. None? There being no further debate on the motion, is it agreed?

SOME HON. MEMBERS: Agreed.

THE CHAIRMAN: Those opposed, say nay.

SOME HON. MEMBERS: Nay.

THE CHAIRMAN: The motion is lost.

We move on to item 4. The Auditor General again brought four of his colleagues, the assistant auditors general: Mr. Hug, Mr. Morgan, Mr. Saher, and Mr. Shandro. Last time we started with the opposition members, so I believe it's the government members' turn.

MR. DUCHARME: You've indicated on pages 18 to 20 that it is difficult to establish an accounting framework for lottery fund grants provided by the minister responsible for lotteries since another minister is responsible for reviewing the results of the funding for programs and services provided in areas under their jurisdiction.

You recommend that each minister with areas of responsibility serviced by these grants should be responsible for administration and accountability of beneficiaries through direct annual allocation of lottery funds by appropriation Acts. What additional costs would be incurred by these ministries to administer this accountability framework if these changes are made, and what benefits would result?

MR. VALENTINE: Well, I can't tell you what the costs are, but I don't think they would be material. The benefit to be gained from it is to achieve the appropriate level of accountability that people have with respect to public funds being expended.

MR. DUCHARME: Next question. You also mentioned that ministries do not always provide adequate information to the minister responsible for lotteries to ensure accountability. Are there merits in approaching this situation in a different manner by ensuring that ministries provide this information to the minister responsible for lotteries and consolidating the administration of the accountability framework, instead of following your recommendation and appropriating lottery funds to individual ministries?

MR. SHANDRO: The view we have is that the responsibilities should be closely aligned with the ministry responsible for delivering the program. When money is being expended in particular program areas, the ministry responsible for the program areas is best equipped to evaluate the results of such expenditures.

THE CHAIRMAN: Dr. Pannu, followed by Mr. Klapstein, followed by Mr. Zwozdesky.

DR. PANNU: Thank you, Mr. Chairman. My question is to the Auditor General, of course. In the last few years, it seemed perhaps within fiscal '94-95 and '95-96, the transportation department went on a large-scale sale of equipment, buildings, and property due to the privatization of most of the department's operations. Were these sales recorded in the public accounts for the transportation department? If so, how? I had some difficulty going through the public accounts to see these sales recorded. Perhaps I don't understand the mechanisms. Auditor General, you can assist me in understanding the entries.

**8:40**

MR. VALENTINE: Through the chair: I think the purpose of today is to examine my report. It wasn't my intention to explain things that I think are properly explainable by the minister responsible. If you're having difficulty with the particular display in the public accounts, my office would be only too pleased to assist you in getting a clarification on that matter, but for one, I don't have the accounts of the Transportation and Utilities department in front of me at the moment, so I can't help you.

I can tell you that at the end of the day we were satisfied with the accounting treatment for the dispositions that occurred in the two years you mentioned. We expressed our opinion on those financial statements both in consolidation and in volume 2 where the detail appears.

DR. PANNU: I have perhaps a more specific question. It refers to some entries on page 112 of the public accounts. On page 112 of public accounts there is an item showing . . .

MR. VALENTINE: Sorry; which volume?

DR. PANNU: This is volume 2, '95-96.

MR. VALENTINE: If you'll give me a moment until I turn to it. Yes, sir.

DR. PANNU: Write-down of capital assets. There's an item that's showing \$68.39 million in losses, it would appear, on the disposal of capital assets. Would you have some information on this, as to the nature of these losses, how they were incurred, say?

MR. VALENTINE: Again, Mr. Chairman, I think it's my responsibility to defend my report. I'm perfectly willing and I'm here to discuss any aspect of my report that you like. This financial statement is the assertion of the transportation department, and I really think if you want further details you should inquire of the department or the minister.

MR. KLAPSTEIN: In recommendation 24 you suggest that it would be advantageous for the Department of Municipal Affairs to determine a cost per unit for social housing facilities to better manage its costs. Currently they only determine a net cost per unit, which does not allow comparison with the cost the private sector is able to provide the services for. When this comparison is made, the department may find that they need to reduce their costs. I understand the need for this recommendation and certainly agree that where costs can be reasonably reduced by this government, they should be. How can we be sure that the service provided by the public and private sectors is the same or has the same goal so that a true comparison is being made?

MR. VALENTINE: Well, that's all wrapped up in the issue of performance measurement. If you have the right measures, you'll be able to make the right comparisons using performance measurement as an effective management tool. What we're encouraging is the effective management of the assets employed by the Minister of Municipal Affairs in connection with social housing.

Nick might want to contribute to this answer.

MR. SHANDRO: We are very much in favour of having proper measurement tools here. Our recommendation focuses on the need to understand the total costs of the units themselves. I think once you begin to measure your costs on a full-cost basis, better decisions come out from it. I think part of the problem is that when people are not measuring their full costs, they don't have a benchmark to compare themselves against what they know rental in the private sector might be.

MR. KLAPSTEIN: Supplemental, Mr. Chairman. You also mentioned that operating costs of some units are cost-shared with the federal government, so the ministry may need to co-operate with the federal government to reduce its costs. I think there may be some way of copying the work of other departments which may have done this already with the federal government. Have you come across other departments which have these types of shared costs with the federal government and have needed to co-operate with them to calculate their costs? Would their experience be applicable here?

MR. SHANDRO: The reason for this comment is that in order to make changes in the programs – there's joint cost sharing of various housing projects with the federal government; therefore, to change the structure of these housing projects the federal government would have to be part of the restructuring of them. That's the reason we made this comment.

THE CHAIRMAN: Mr. Zwozdesky.

MR. ZWOZDESKY: Thank you, Mr. Chairman. As members of the Auditor General's department are no doubt fully aware, there's quite a bit of discussion going on at the moment regarding the Alberta Treasury Branches. At the outset I would just direct the Auditor General and his staff to public accounts 1995-96, volume 3, page 258. While they find that, I'll just make a quick comment.

It's always been curious to me, Mr. Chairman, why it is that the government of Alberta has stayed in the banking business by backstopping the Alberta Treasury Branches. I think we're all very aware of the tremendous services the Alberta Treasury Branches have provided in a number of centres, particularly in rural Alberta where I grew up. The fact is, though, that after some 50 years or more in business, there are a number of other banks that perhaps could be stepping in now and taking up where the ATB has left off. Notwithstanding the fact that ATB has been very fair and very good in terms of offering particularly small loans to small businesspeople, farmers and the like, in these areas, I think history has proven that there has been a relatively poor return on our investment or our backstop in the areas where the Treasury Branches have been involved – not all, but enough to warrant some additional discussion. I further believe there is quite a large hit coming to Alberta taxpayers in the next while as we wrestle with this problem. To come to the point here, I note that the Auditor General has on a couple of occasions made comments which I think I would at least interpret as red flags.

My question to the Auditor General is with regard to the provision for guarantees. As you are no doubt aware, Mr. Auditor General, between 1994 year ended and 1995 year ended we see a significant increase in the guarantees that were issued by the ATB. I think the figures are approximately \$350 million difference between 1994 and 1995. I wonder if the Auditor General could provide some indication as to whether a provision for these guarantees is accommodated for in the ATB financial statements.

MR. VALENTINE: Mr. Chairman, again, I should say that the assertions of the financial statements are the responsibility of management. I can tell you that in principle what the member is referring to, I think, is note 16 which appears on page 258 of the public accounts, volume 3. If that's correct, then it's the discussion surrounding the contingent liabilities, and contingent liabilities are not yet liabilities by definition; they are awaiting the expiry of either a period of time or the occurrence of a future event. Then I would have to say that I would refer you to my audit report, wherein I say that the financial statements represent fairly the financial position of the entity as at the year-end and for the year then ended in accordance with generally accepted accounting principles and by implication consistently applied.

**8:50**

MR. ZWOZDESKY: Can we then conclude that there are provisions within the ATB statements . . .

MR. VALENTINE: I would have to tell you that the question you're asking with respect to provisions is a matter that you should direct to the Treasurer. I can tell you that my audit report is without reservation. It renders the opinion that the financial statements present fairly the financial position of the entity. If there was something that was not there, then I couldn't express that opinion.

MR. ZWOZDESKY: Do you then provide some sort of assessment of these provisions other than the global statement that you've just made?

MR. VALENTINE: Well, it's not a global statement; it's a very

specific statement. It appears on page 250, and that's the audit opinion with respect to the Treasury Branch deposit fund.

MR. ZWOZDESKY: I'm sorry; which page?

MR. VALENTINE: Two hundred and fifty.

THE CHAIRMAN: Mr. Zwozdesky, one supplemental. It's not a forum for discussion regardless of how much you agree or disagree with the presenters. We'll have to move on. We can come back to you again, of course, and you can follow the same line.

MR. ZWOZDESKY: My apology. I was enjoying that repartee there.

THE CHAIRMAN: I was too. Unfortunately the rules of the committee are set. It cuts into other members' time.

Mr. Melchin.

MR. MELCHIN: Yes, I'd like to go on to recommendation 10 on Education, where it was mentioned:

It is recommended that the Department of Education require school boards to include performance information on the various instructional programs . . . and to include information in their financial statements that links costs with performance.

I know this goes back to last year, and you may not have the answer yet. I was just curious as to what extent the school boards were asked to link which areas of cost to performance, whether or not they've provided information as to what performance criteria are and, if you have any information, the extent of that improvement in this area.

MR. VALENTINE: Well, we are just now in the middle of doing the work. In fact this is the busiest time in the office. We are concluding work in every department in anticipation of being able to sign the audit opinion on the consolidated financial statements of the province by the end of June. So some of our work is ongoing, and it would be inappropriate for me to report on any of the ongoing work until we're concluded.

I think there was a comment by the government in the material where they either accepted or accepted in principle the comments we made last year. With respect to recommendation 10, the response from the government was:

The recommendation is under review. Other factors such as commitment of staff, content covered, quality of teaching, and parental support also significantly affect results. The Ministry has agreed to work with the Auditor General's office to address this issue during the next year.

My report in the fall will bring you up to date with respect to that matter. There are a large number of school boards. There is some substantial work going on with respect to the financial reporting in school boards in a collaborative way. The task force that did some work last year is reconvening to deal with some problems school boards are having with respect to financial reporting and with some problems some of their auditors are having with respect to opining on those financial statements. There is difficulty in the area of school-generated funds and the accountability for that. On the other hand, there have been some public disclosures in the newspaper with respect to situations involving school-generated funds which indicate some lack of controls. All of this will enter our work for the current year.

MR. MELCHIN: Last year I suspect that all the school boards were maybe at different levels in looking at this linking of cost with

performance. Had you found any of the school boards really making good progress as of last year, or was this fairly new to all the school boards, to start taking a look at it in this respect?

MR. VALENTINE: Mr. Morgan can answer that.

MR. MORGAN: Mr. Chairman, I'm not sure if the member realizes the Auditor General is not the auditor of school boards, so we do not see too many of them necessarily. The financial reporting by school boards has undergone tremendous change over the last year or two, partly as a result of the work of the task force the Auditor General referred to. That process is ongoing. I think it was felt that the performance reporting and the attributing of costs to those performance figures was something which probably should wait until the other financial reporting matters had been dealt with and were in place.

I have seen a few school board statements that have been experimenting with performance reporting – not many, but experimentation is ongoing. I haven't seen any that do it with a cost basis yet. So as with much of the performance reporting that's going on at the moment or being developed at the moment, I think there will be a certain period of evolution on this, but certainly work is ongoing in this direction.

THE CHAIRMAN: Ms Blakeman.

MS BLAKEMAN: Good morning. Thank you. In the 1995-96 report, the Auditor General discusses the Alberta Treasury Branch portfolio of commercial loans as performing below that of similar portfolios in other lending institutions. I'm wondering if the Auditor General is prepared to adopt a verification process in auditing these performance measures that are being developed by the Treasury Branch board to include in the '96-97 report.

MR. VALENTINE: Which recommendation?

MS BLAKEMAN: This is following recommendation 35.

MR. VALENTINE: At the moment we have not been asked to audit performance measures that ATB may include in their annual report. On the other hand, most of the statistics that flow from their financial results that have been included in prior years' reports are numbers we can provide certain verification to. We are happy in that they flow from the financial system of the entity itself. They are not in and of themselves misleading.

I'm not sure I answered your question because I'm not sure where you're getting to. Do you know what they are going to report for the coming year?

MS BLAKEMAN: No. I'm just wondering: since that was the recommendation you'd made and there is a possibility of performance measures or a recommendation for it, is there then a way to verify the performance measures at least?

MR. VALENTINE: Well, in the whole area of performance measurement there is some substantial work going on in developing methodology to provide an assurance opinion on performance measurement. Those performance measures that come from the financial system are relatively easy to deal with for an auditor because we are very comfortable with the concepts of financial systems. Those performance measures that come from some other source such as an opinion survey are much more difficult to deal with in terms of trying to provide a level of assurance to the reader of the results of such a survey, not the least of which is: was the

statistical sample taken properly? Was it based on the appropriate level of confidence, et cetera? Those are things my profession is attempting to deal with and design the kind of assurance that readers of that information should be entitled to receive with respect to the public dissemination of that kind of information.

MS BLAKEMAN: Supplemental?

THE CHAIRMAN: Actually you've had one.

AN HON. MEMBER: I thought it was a clarification.

THE CHAIRMAN: We can return to that.

Mr. Stevens, followed by Dr. Nicol, followed by Mr. Johnson, followed by Dr. Pannu, followed then by Mrs. O'Neill. Mr. Stevens, please.

**9:00**

MR. STEVENS: Thank you, Mr. Chairman. I have a question with respect to Alberta Health. Recommendation 20 on page 128 contains a recommendation that Alberta Health "foster the implementation of physician funding systems that focus on [improving] the health of the population." You indicate that an effective payment system should help achieve the goal of enhancing the health of the population and would likely include several compensation systems. You've given an example of one compensation system in your report. Are there any others that you can outline for us today, and have you supplied those to the Department of Health?

MR. VALENTINE: Well, my colleague on my left spends most of his time with the Health department – in fact we had a meeting with senior managers, some 40 of them, just yesterday morning – so I will let Nick tell you the story about how to finance Health.

MR. SHANDRO: There are basically three varieties of payment systems in our view. One is, of course, the fee-for-service system. Another one is a salary system where you pay a physician a set amount, and the other one has to do with contracting a bundle of services to a physician or physicians for a contracted fixed amount. Those are the three basic structures. Now, we don't think it's probably practical to have a pure one-method system; in fact, we think probably some mixture of the three will work best. It depends on Alberta Health setting out some principles in terms of what it is they want to promote, because if you feel some services are not being delivered in sufficient volume, certainly you would employ fee for service on a basis of motivating an increase in that volume of service.

In other cases, if you feel that the services have to be capped at a certain amount, then probably the contracted method might work best. In areas where the issues are very complex and you really want to have a very thorough job, probably the salary system might work best. These are the options that we believe should be carefully considered by Health. There are probably a number of issues that need to be resolved here and some principles set and then move into design of a system to achieve the objectives they want out of these payment systems.

MR. STEVENS: Thank you.

I have one supplemental. You've indicated that an alternative payment method can be developed with the Alberta Medical Association based on an agreement with the department in 1995. Do you have an opinion as to what the structure of an alternative method of payment might resemble?

MR. VALENTINE: Well, I think Nick has just provided with you with three elements that would form the foundation on which that agreement is structured. I believe that within the medical profession there is some sympathy for the combination arguments. It also has the advantage of assisting with the rural service problem when you move away from the fee-for-service payment methodology. It also deals with the academic issue within the medical profession by using and employing a salary structure. So while no doubt there will be a great deal of effort expended in coming to an appropriate resolution, we think these are the foundations on which they should proceed.

MR. SHANDRO: I should also say that the current fee-for-service system was based strictly on the physician's time, knowledge, skill, overhead, those components. It did not include any components related to where you ought to practise. In other words, you could through the fee-for-service system, if you so wished, put some premiums in the various areas of practice that you want to promote; for example, rural areas. Now, I'm not taking a position on whether that ought to be there or not, but it's certainly a possibility in terms of developing motivators towards how the practice is distributed both within the procedures and in other areas as well such as locality. We're recommending to the department and through our discussion that they consider more than just the physicians' side of things but the taxpayers' and Alberta Health's side of things in terms of designing such a system.

THE CHAIRMAN: Dr. Nicol, please.

DR. NICOL: Yes. On page 16 of your report, the top paragraph, you talk about the relationship between the cost of outputs and the performance indicators. You're suggesting, then, that we have to develop a relationship between these costs and those performance indicators. A number of the departments in terms of their performance indicators have selected items which are more reflective of the performance of the economy as opposed to the performance of government. I'd just like your comments on how costing of government expenditures in terms of their incentive or their contribution to that performance indicator can be brought out when some of the indicators are so heavily influenced by factors that are totally not part of the government initiative, like the general growth of the economy or a downturn in the economy. How do we go about getting those costing factors really reflective of the contribution?

MR. VALENTINE: Well, I think the first comment I would make is that you experiment a lot. Performance measurement is really in its infancy in many respects. There are various centres in North America and elsewhere that are devoting a great deal of effort to achieving the development of appropriate performance measures. By the same token, we must not confuse outputs with outcomes. While we might have some influence on the outcomes – that is, some of the societal measures – we have to recognize that there are other factors that will influence those outcomes. By taking the outputs, those are far more directly involved with the decision-making that goes on in this Legislative Assembly. Therefore, we believe strongly that they should be subjected to appropriate performance measurement.

Now, in my office we spend a lot of time working with our clients to achieve the development of appropriate performance measurements. I have said publicly, and I continue to say it, that we will criticize those who fail to measure. During the experimental period, we will not criticize those who develop measures and find that they weren't the right ones. This is no different than the evolution of good accounting principles. In the fullness of time,

those principles are fine-tuned and become creditable and generally used by statement preparers. I think the same thing will happen in performance measurement: we will find that of a basket of measurements we will have to discard a few because they aren't doing what we think they should be doing, and I use a collective "we" there. I hope I've put that in perspective for you.

DR. NICOL: To follow up, if I might. In terms of looking at the measures the government selects in terms of whatever department you're dealing with, do you do investigations of what other jurisdictions are using? Are they effective compared to what Alberta is using? You know, are you going to be developing that kind of a report as part of your recommendations as these performance measures become more established?

MR. VALENTINE: There were a bunch of questions there.

Are we cognizant of what's going on in the rest of the community of legislative reporting? Yes, we are. My staff are in substantial contact with a variety of other Legislature auditors in the world: in Australia, in New Zealand, in the United States. As I think I mentioned before, in Texas they do it right. They've got something like 100,000 measures. It's formidable, whatever it is. In other places they are dealing with a few and trying to concentrate on developing them to an appropriate basis.

#### 9:10

In *Measuring Up*, a document which was released in June last year together with the consolidated financial statements of the province to which is attached my audit opinion, there's also on page 3 the results of applying specified audit procedures to the core performance measures used by the province. The audit process is not sufficiently well developed to render an opinion on this material, but there are a number of specified procedures that one can do. This was the second year that we had applied these procedures to the core measures the province disclosed in this document. The purpose of our report is to provide some assurance to the reader that the performance measurement information is appropriate.

THE CHAIRMAN: Mr. Johnson.

MR. JOHNSON: Thank you, Mr. Chairman. My question relates to disaster assistance on page 165. You note that the provincial government is owed approximately \$11 million by the federal government for disaster assistance provided as early as 1987, and of course that relates back to the tornado here in Edmonton. This payment has been held up by the request from the federal government for evidence of some of these costs. Although you recommended in your 1994-95 report that this information should be provided to expedite the completion of this claim, it does not appear that the recommendation has been acted upon. Has the department given you sufficient evidence that they have attempted to finalize this claim, and if so, why have they not been able to finalize it?

MR. VALENTINE: With respect to the recommendation that we made last year in September, they hadn't done it at that point, and we will be anxious to see how they got along during the current year when we've concluded the work there. I don't think we can give you any current details, because it's just not in our schedule yet to follow that up. You might want to inquire of the minister responsible.

MR. JOHNSON: Thank you. A supplemental question then. As you have pointed out, other claims are being delayed because this claim has not been finalized. The province must deal with disasters annually – floods not excluded, as we see this year – and requires

funds from the federal government in this regard on a regular basis. By not completing this claim, isn't a very inappropriate precedent being set, creating a very long, lengthy claim process for all claims of this type?

MR. VALENTINE: You might be quite right, sir.

MR. JOHNSON: Thank you.

THE CHAIRMAN: Mr. Zwozdesky, followed by Mrs. O'Neill, Mr. Hierath, Ms Blakeman.

MR. ZWOZDESKY: Thank you, Mr. Chairman. I want to just come back to the discussion we were having on Alberta Treasury Branches if we could. It seems to be a fairly hot topic. There were some reports that came out, I believe, in February – I don't know that they were official reports per se, but they were certainly reported in the press – that showed expectations of at least an \$88 million loss for this year, which is against a projection, I believe, of about \$23 million. Nonetheless, on page 198 of the Auditor General's annual report '95-96, I was happy to see the Auditor General's recommendation that Alberta Treasury Branches adopt “a more business-like and profit-oriented approach” regarding the approving and monitoring of large commercial loans. I also note that the government has accepted that recommendation. My question is this: beyond the credit review, which we understand is being conducted by the Alberta Treasury Branches board management, what steps has the Alberta Treasury Branch now taken to act out the recommendation of the Auditor General and in fact to adopt this more businesslike approach in its approving, monitoring, and administration of large commercial loans?

MR. VALENTINE: Well, I think a number of steps have been taken. Firstly, there is a board of directors in place, with several committees that are concerned over this issue. One is the audit committee, and the other is the risk management and credit committee. Since the board became active midsummer last year, they have been working very hard on improving the business practices conducted by Treasury Branches. The former Deputy Auditor General was seconded to ATB for an initial six months. That secondment turned into a romance, and he is now the chief inspector full-time and no longer seconded from my office – my loss, their gain. I understand from conversations with key staff that they have embarked on a training program which will deal with a number of deficiencies in their management structure, and they have embarked on a hiring program to bring people with the appropriate skills into their organization.

MR. ZWOZDESKY: Thank you. I agree. This new board of directors has brought a breath of fresh air, and I think they've followed some very prudent business practices in tidying up a lot of things. I'm sure when their next report comes out here briefly, we'll see the results of a lot of that work.

I just follow up briefly on page 200 under the same topic. The Auditor General has commented that he has become aware of allegations of inappropriate business practices and that in some cases new investigations have been commenced. My question is to the Auditor General again. Can he update us on these investigations that his office has been undertaking to examine these allegations of possible inappropriate business practices?

MR. VALENTINE: I can tell you that some of the investigations that were proceeding at the time my report was issued have been concluded, and where the results of those investigations warrant

further action, information has been passed to those who are responsible for that kind of action. In addition, a number of other investigations have continued to be in the work-in-progress stage, and because of the nature of such investigations and the complex work involved under them, I can only tell you that they will be concluded when they're concluded.

MR. ZWOZDESKY: Will you be releasing the results?

MR. VALENTINE: I suspect that the kind of result you will see might parallel the results that occurred in the courts of this province recently in a situation that was heard before Madam Justice Paperny in the Court of Queen's Bench in Calgary.

THE CHAIRMAN: Mrs. O'Neill.

MRS. O'NEILL: Thank you, Mr. Chairman. First of all, I'd like to say this is the first time I've read an Auditor General's report, and I'm impressed. It isn't my daily reading, but it has enlightened me greatly. I'm referring specifically in my question to pages 50 to 54, having to do most specifically with Grant MacEwan Community College and your recommendation for them to improve their accountability framework. I can appreciate your recommendation to suggest they give more responsibility to their academic divisions for costs and for revenues to improve the cost effectiveness of their programs. They do seem to have a triple form of accounting, if you will, or a three-pronged area of accounting, which doesn't help. From my experience at the university, it doesn't help in how to understand whether a program is cost effective or the inputs or the outputs reconcile with each other. My question is: that would be very difficult for them to implement, and have you been able to assist them in relation to how they would do that?

**9:20**

MR. VALENTINE: I'm going to ask Nick to respond to your question.

MR. SHANDRO: Certainly we've been meeting with the management of Grant MacEwan Community College on discussing ways on how it can be implemented. I think it has to start with the budgeting process and how you go about developing the budgeting process, and also developing linkages between the support services that are being provided and the academic divisions. I think one of the key elements here is to develop appropriate communication strategies. In the past there hasn't been sufficient communication in terms of what is expected of the support division in terms of service. That sometimes has led to academic divisions setting up their own support services and therefore overlapping services and the like. I think there's a great deal that can be achieved by, first of all, starting out with this budgeting process, particularly improving the communication, and this is the area of discussion we've had with them.

MR. VALENTINE: I should say that we're pleased that you enjoyed the report. We can make any number of copies available at \$16.95 each, and they all contain my autograph.

MRS. O'NEILL: Thank you for your information, Mr. Shandro, specifically to that. But just a supplementary question, and that is: are there other . . .

THE CHAIRMAN: Right after the free public broadcasting and the advertising. He's advertising his report.

MRS. O'NEILL: We allow for one-minute spots.

THE CHAIRMAN: CKUA is not listening in at this time, so you're not likely to get much air time on it, sir. But Mrs. O'Neill will do her best to propagate the sale, I'm sure.

MRS. O'NEILL: I will.

Are there other postsecondary institutions that haven't reconciled it or have that kind of communication, and if there are, can you use that model or have you recommended that to others who need it? I guess I'm wondering if there has been any drawing upon experience of others who are effective with that kind of consolidation of reporting.

MR. SHANDRO: Yes. Certainly our experience with SAIT – we talked about it at the last meeting, and it's referred to, I think, earlier in the piece itself – gave us a great deal of knowledge about performance measurement and the like. We're very keen right now to develop up front the targets related to performance expectations. Now, the area of performance measures, I think, can be divided up into performance measures that are useful for outside and performance measures that are useful for within or management purposes. Information on cost of acquisition of supplies and inputs and the like is necessary in terms of benchmarks to see if you have efficient purchasing practices, but it's probably not of significant importance to report this material outside the organization. What you'd rather do is report the costs of your outputs and what you're achieving with these resources and these activities that you have. How are you combining these resources and activities in order to have a quality product on the outside? Therefore, a great deal of work is being done, I think, with various institutions to try to work the various classes of management information, performance measurement, in each area.

In the fullness of time, I think we should have financial statements that include good information on performance measures such as we have in SAIT. There are five there. It's reporting on such things as FDA costs and median income of students who have graduated the previous year. I think even there we probably can make further progress as we go along, but certainly the whole postsecondary education sector is looking at performance measures at these times. A great deal of them are looking at internal structures for managing as well. So that's encouraging.

THE CHAIRMAN: Ms Blakeman.

MS BLAKEMAN: Go ahead.

THE CHAIRMAN: Mr. Zwozdesky.

MR. ZWOZDESKY: Thank you. My colleague has graciously allowed me to go ahead of her here just to finish off the discussion we've been having with regard to the Alberta Treasury Branches.

Mr. Chairman, we know that the state of affairs with Alberta Treasury Branches is quite acute and that something has to be done here in order to explain to ourselves and to taxpayers in a general sense a little bit more about what's sort of going on over there. One of the things we've really staked out as a large matter of principle here has to do with the need for greater and more effective accountability, a framework for it at least, Mr. Auditor General. I'm wondering if the Auditor General would comment on a recommendation that we have consistently made regarding the openness and transparency side of ATB. That would involve having the superintendent of Treasury Branches possibly come to the Public Accounts Committee on a regular basis, once or twice a year, to

discuss with us, answer questions for us regarding various aspects of the operation of ATB. So in a nutshell, do you think it's possible for you to place a recommendation for that superintendent to appear before the Public Accounts Committee to account for ATB operations?

MR. VALENTINE: I guess I would comment that that's a matter of policy and you might want to take it up with the minister responsible for the issue. That minister will be here on June 4.

MR. ZWOZDESKY: But on the surface, it's not a move you would oppose if the government were to bring it forward?

THE CHAIRMAN: Mr. Zwozdesky, the Auditor General has mentioned that he feels, and so do I, that that's an element of policy. It's accountability through a minister; the minister reports. The Auditor General has not made comment about that specific subject in his report, so it's hardly fair to ask him for an opinion on government policy.

Do you have another line you wish to carry?

MR. ZWOZDESKY: It wasn't intended to be a trick question. It was just . . .

MR. VALENTINE: My response is: I believe it's a matter of policy. I think it should be addressed to the minister.

MR. ZWOZDESKY: All right.

THE CHAIRMAN: Supplementary?

MR. ZWOZDESKY: None at this time, thanks.

THE CHAIRMAN: Good.

Mr. Hierath.

MR. HIERATH: Thank you, Mr. Chairman. Peter, you've been doing a lot of restructuring in the Auditor General's staff in the area of downsizing somewhat in personnel and upgrading computers and so on over the last three years. In contracting out to the private sector to do audits, has the Auditor General's office increased the contracting out of audits to universities and some of the other institutions of government over the last year or two or decreased the amount of contracting out audits?

MR. VALENTINE: I don't have any ready figures on that, but my guess would be: as a percentage of our total budget, there's far more contracted out than there was. On the other hand, there were some changes. There were some engagements that we did. Provincial hospitals were done by an agent, and those are now part of the regional health authority, so it forms a part of the work that either we don't do or we do in collaboration with the private sector.

We use agents to achieve economy and efficiency. We don't use agents just for the sake of contracting out. You would not want me to do that. We use agents where it's a matter of geographical location and it would not be cost efficient to send staff and accommodate them in hotels or motels or whatever to perform audit work in places like Grande Prairie, Fort McMurray, Medicine Hat, or wherever. So that is one reason we do it. Another reason we use agents is to acquire expertise that may not be resident either at all or in sufficient quantity in the office. We also use the agency system in order that we don't have to staff for the peak of our work demands. Unlike a private-sector firm which must meet its obligations at the peak time of the year, we are able to staff at a

lower level by using agents. Most of our work is about three months following the typical peak in the private sector.

**9:30**

MR. HIERATH: My other question. The upgrading that you've done in the field of technology, particularly computers: do you have benchmarks or some tangible thoughts on how that's been cost effective for you particularly in doing audits?

MR. VALENTINE: I would say that as a rough rule of thumb the number of hours to perform the same audits over the last four years is probably reduced by 20 percent. Support staff requirements in a professional office are substantially reduced through the use of technology. The whole audit process has been improved as a result of the use of technology. We now are in a position to be very effective in that area.

I must say that one of the things that I think is becoming evident across my profession is that we are going to live in an era when we will be making reasonably large annual investments in technology. Technology is moving extremely quickly. The next assignment I want to move towards in the office is the paperless file. The concept of storing tonnes of paper for the next millennium is not on any more, so we must move to paperless files. That will require an investment in technology.

THE CHAIRMAN: Dr. Nicol.

DR. NICOL: Thanks, Mr. Chairman. Mr. Valentine, on page 53 again, one of the statements you make in the paragraph immediately below your recommendation on divisional accountability with Grant MacEwan has some implications for how universities report data and how divisions or faculties within universities structure their tuition fees. Could you clarify for me whether or not you are saying in kind of the last sentence there that you see differential fees in different faculties or departments within a university having to comply with the government's 30 percent cap on tuition fees as a proportion of total operating costs? Is that what you're implying in that statement?

MR. VALENTINE: No, I don't think that's what we're implying. We're implying that if an institution wishes to have differentials in tuition fees, then we think they ought to be able to support that by a cost allocation process. If you say that medicine tuition should be 140 percent of what, you know, basic arts degree or science degree tuition should be, then you should be able to demonstrate that that's supported by the cost structure. At the same time, all of these institutions have to comply with the provincial guidelines on structuring tuition fees. Without that costing structure, they don't know.

DR. NICOL: As universities and faculties within universities change the contract with their instructors, some of them now are moving to a heavier teaching load than has historically been experienced. Does this have any implications in terms of the competitive position of the different universities and their ability to comply with the 30 percent cap that the government . . . Are you making those kinds of comparisons, I guess, in terms of your evaluation?

MR. VALENTINE: I'm not sure we're there yet, but that might be something that comes out of this form of performance measurement.

MR. SHANDRO: I think the issue here really is to have a cost accounting system that management, students, faculty, the public have some confidence in and they understand what is the cost of these programs and what are the programs that are outside such as

ancillary services which are supposed to be generating their own revenues and covering their costs. Without a proper accounting system we will continue to have debates with information that is inadequate for such debates. I think that's where we're coming at this with this recommendation. For the last period there has been quite a bit of confusion as to what is in fact included in the costs for tuition fee policies, and I think that method of accounting, the methodology, ought to be communicated and well understood amongst those who are going to be administering these programs. At the moment I don't think it is.

THE CHAIRMAN: Mr. Stevens.

MR. STEVENS: Yes. Thank you, Mr. Chairman. I have a question with respect to the second annual report on the performance of the government of Alberta. I'm just seeking a comment from you as to whether on the basis of your experience in dealing with auditors general in other jurisdictions, there would be information available generally in those other jurisdictions that would allow for core performance measures to be done on an interjurisdictional basis beyond what is contained in this report. In particular, I was thinking in terms of the core performance measures of educational attainment and literacy and numeracy.

MR. VALENTINE: Can you phrase that again? I've not understood your question.

MR. STEVENS: Sure. I'll ask it in a different way. For example, the literacy and numeracy core measure deals with the comparison of Alberta students to Canadian students in reading, writing, and math. I'm looking at page 12 of the report. I know that when I do general reading these days, I see a lot of comparisons in the public press between jurisdictions. I know that we talk in terms of it being important in Alberta that our students be educated so they can compete on a global basis. So in that context I ask the question as to whether or not, on the basis of your experience as an Auditor General and in dealing with other jurisdictions, the information is available generally to make comparisons beyond what you see here on, for example, page 12, of Alberta versus Canada.

**9:40**

MR. VALENTINE: There is some comparable information around. Some of the problem is understanding how it was developed and whether or not it's on the same playing field as the information that's developed and used in this document. We have a concern in the office that performance measures that get used are used consistently. You would want to hear from my office in the event that a performance measurement which was on the plus side of the ledger for a period of time suddenly shifted to the other side and was dropped from disclosure. Someone might want to know about that. So we think we have a responsibility with respect to keeping the playing field level.

We also have a responsibility for the relevancy of this material, and underneath that, of course, would go the consistency of its calculation. I don't think we're far enough advanced yet just to cherry pick information from other jurisdictions without some sort of due diligence to understand how they develop their information. But there are lots of examples of everything in the middle. If you go to the OECD statistics, you are relatively assured that country-by-country comparisons are valid because that's one of the roles of OECD. On the other hand, if you were to use a similar statistic gained from a non-OECD country, you don't have any idea whether that was developed in the same manner or some other manner.

Likewise, there are a number of our institutions that generate



information which we as individuals don't have any trouble accepting, and some of it is much higher quality information than others. I'm going to give you two examples. The one that is of a very high quality without much external audit is the TSE 300 index. Each day there are hundreds and thousands of people who trade securities on the Toronto Stock Exchange. Every one of them gets a purchase or a sale ticket, and every one does a little audit when they look at it to make sure they either paid what they should be paying for the shares or got what they thought they should be getting for the sale of the shares. Also, those transactions are entered into other books of account, and people probably overaudit the development of the numbers from the TSE.

On the other hand, we have Statistics Canada that produces the GDP numbers. Those numbers are taken from many estimates and a flow of information where there could be a bias one way or another with the input of that information, and we don't have an effective audit on GDP numbers. To demonstrate that, I'm sure you've heard from time to time that they readjust the numbers two or three months later. They say, "Oh, we made a little mistake here and our information wasn't quite right, so we're going to change it." Now, if you were basing somebody's compensation on the TSE, the individual who was subjected to that would probably say: "Well, I know that's a pretty good number. That's audited by a lot of folks, so I'm prepared to accept that." If you were to ask me to base my compensation on the GDP numbers, I might want to have a little plus or minus 10 percent for variance, because I know that number is not as good as it might be.

So I just give you that as background leading to where we're trying to go with performance measurement, which of course is the effective tool of governance and accountability and the kind of thing we're faced with and having to come to grips with in order to provide some sort of assurance over this kind of information. Now, it's not my job, except in a commentary way, to say what measures should be used. I think that's management's assertion again; it's no different than the rest of the financial statements. If they make an assertion that is inappropriate, the Auditor's going to comment on it. If they make an assertion that is inconsistent year over year, the Auditor's going to make a comment on it.

Thank you.

MR. STEVENS: Thank you.

THE CHAIRMAN: Dr. Nicol, followed by Mr. Lougheed, and then we'll probably wrap up today.

DR. NICOL: On page 60 of your report in connection with Agriculture, Food and Rural Development, at the top of the page you're talking about safety net programs and the criteria for safety net programs. In the second paragraph you make reference to the farm income disaster program. The farm income disaster program is new: it's now one year into operation. You kind of use it here in your recommendations as a benchmark for comparison in terms of its application. Do you see it within your mandate to look at that program itself, the expenditures that occur through it, as to whether or not it is, quote, truly like a disaster program as opposed to an income guarantee program? Or do you not look at the focus of the program and its stated mandate; you just look at the allocation of dollars?

MR. VALENTINE: Well, it's not my role to question the policy that has developed in this Assembly. It is my role to ensure that there is a system in place and operative to manage the business of this government. So for us to look at this program and say, yes, the

management tools are there, the system's there, they're getting the information they need to make the assessment of whether or not it's working, was the policy achieved, do they have to change the policy, whatever recommendation a deputy minister may want to make to his minister, he having the responsibility for managing the matter, then we're finished with our role.

DR. NICOL: So you don't see it as part of your mandate, then, to comment on whether or not a program as it's designed, as it's executed, really performs the way the stated verbal description of the program is presented?

MR. VALENTINE: Well, verbal description might give me some trouble. I have trouble finding the system around which one can audit performance with a verbal description. You know, the decision to fund farm income disasters in a particular way is a matter of policy for this Assembly to deal with. Whether or not that program is appropriately managed and whether the tools for management are there is one of the things I have a great interest in.

MR. LOUGHEED: Mr. Chairman, referencing page 39 of the annual report, just a quick question to follow up what Mrs. O'Neill was talking about there. SAIT is commended for their proactive approach. I'm just wondering: is that structural or personal? Was it the people that were there, or did they have some mechanism in place?

MR. VALENTINE: Well, the leadership in that institution firmly believes that performance measurement is the way of the future. They on their own set out to determine which performance measures were important to them. Which ones did they want to be evaluated by, not only by the Department of Advanced Education and Career Development but also by their student body and their other stakeholders? They have concluded that these five are the ones they want to be measured by. They came and asked us: could we provide a level of assurance as to the development of this information and its display in their financial statements? We said yes.

It's probably the most progressive piece of performance measurement auditing that exists in this province today. I know it is the most progressive piece. It really is very advanced. It is also being used as an example in a number of other jurisdictions. I recently spoke to a group of public-sector people in the conference board on how this was employed.

Now, have they got the right measures? I think time will tell the answer to that. People will either use them or discard them or say I want more or I want fewer or whatever. But I have a very simple rule of thumb that I run by. I believe you can understand a person's business and business risks if you know the five things they need to know to run their business every day and the five things that keep them awake at night.

9:50

MR. LOUGHEED: Just a quick supplemental. Are you encouraging any other institutions along the same line? What's the progress there? How is that going along?

MR. VALENTINE: There's a very big program in developing KPIs, key performance indicators. That's being led by the Department of Advanced Education and Career Development. It has involved the institutions in a large way. I believe from public reports there's a measure of discomfort with the measures that have been developed, but that's part of the developmental process. We have done some work in the area of auditing some of that information. It may be surprising to you. It was certainly surprising to me to find out when

Nick gave me the education I needed in full-time equivalent calculations. Full-time equivalent calculations are not done the same way in every institution. I found that quite an amazing thing, because I thought full-time equivalent was a pretty easy number to come by. You know, there's the standard work week, and there's the number of people; you divide one into the other and get a happy answer. But that's not the case. It's much more complicated than that. One of the problems they have to come to grips with is: how do you calculate full-time equivalents? It's important, because once there's a comparison of one institution to the other, if you're not calculating the same way, then the comparability is gone, or you'll get the wrong result from applying some sort of policy to that comparison.

MR. LOUGHEED: I see.

THE CHAIRMAN: Thank you, committee. We're running just about on time by the looks of it. I don't know how the committee came to the conclusion that questions were over, but it was timely. You came to the right place. I guess the five questions that keep them up at night have been asked and answered.

Is there any further business? Notice of motions? Yes, Ms Blakeman.

MS BLAKEMAN: Yes, I have a notice of motion just to let everyone know that the next time we meet, which I gather is May 14 now, not the 7th, I will be moving a motion

that the Standing Committee on Public Accounts be given the authority to scrutinize the operations of Crown corporations, Crown agencies, and commercial enterprises and to assess any government decision to privatize these entities prior to privatization.

I have a copy of this for you.

THE CHAIRMAN: If you'd be so kind.

I must make note of the motion. We may have to check the authority. This committee does not give itself authority. The House gives this committee authority. We can define it, and I'll have a ruling or best advice next committee meeting.

MS BLAKEMAN: That's fine.

THE CHAIRMAN: Our next meeting is in fact May 14. The Hon. Halvar Jonson will be here, the Minister of Health. He's also responsible for the Premier's Council on the Status of Persons with Disabilities.

I'd like to thank the Auditor General and his staff for coming out and answering all the questions. They, of course, will be here again to answer any backups for questions. They'll be in the area over here.

I believe you do have something to say, Mr. Valentine.

MR. VALENTINE: Thank you, Mr. Chairman. I'd like to advise the committee that on May 14 and May 21 you won't have to put up with me, but my colleagues will be here. Health is Nick Shandro's portfolio, and Education is Mike Morgan's portfolio. They, together with some of the principals involved with the audits of those two departments, will be present. So I will look forward to seeing you next on May 28.

THE CHAIRMAN: Any further announcements? There being none, a motion for adjournment? Mr. Zwozdesky. Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Carried. Thank you kindly for your attendance.

[The committee adjourned at 9:53 a.m.]