

8:32 a.m.

[Mr. White in the chair]

THE CHAIRMAN: Good morning, ladies and gentlemen of the committee. We'll start another round, start another year a touch early.

We have our favourite guest today, the Auditor General of the province. I'd like to once again have him introduce his most able staff, both those that are here and – this will probably be the only opportunity he has to introduce them to you on the record – a number of other staff in both galleries.

MR. VALENTINE: Thank you, Mr. Chairman. On my right is Nick Shandro, Assistant Auditor General responsible for Health and advanced education. On Nick's right is Lawrence Taylor, audit principal, whose responsibilities include Family and Social Services, Education, and agriculture. On my immediate left, your right, is Merwan Saher, Assistant Auditor General responsible for the office's professional practice and quality assurance. On Merwan's left is Gerry Lain, audit principal responsible for the ministry of the Treasury. Next to Gerry is Ken Hoffman, Assistant Auditor General. Ken has overall responsibility for performance measurement and the ministries of Executive Council and public works. Jim Hug, who's the other Assistant Auditor General in the office, is away visiting his family in the Far East.

Mr. Chairman, I view the work of this committee as a critical element of Alberta's accountability framework. The annual report of the Auditor General, arguably my office's most significant output, is a key input to guiding your committee's review activity. Therefore, I wanted to have a goodly number of my staff witness how our report is introduced and used in this process. Accordingly, I'd like to acknowledge that there are some 27 of my colleagues here today with us in both galleries.

Mr. Chairman, the last time I introduced an annual report was in April of this year. As some of the members were new to the Public Accounts Committee at that time, I took some additional time, as you did, to describe the business of my office and the *raison d'être* for this committee. Briefly, the office is funded to identify those instances in which systems and business practices can be improved. Therefore the report before you is designed to meet the expectation that we assist government and public agencies in improving their performance. I believe that the report also serves to assist you as legislators in your work to hold the executive accountable for the management of public resources. One of the reasons I number certain recommendations is to draw them to your attention as being the ones that are the most significant. In effect, I am signaling what the committee might choose to focus on.

Let me now go directly to the latest report, the 1996-97 report, released on September 25 of this year. This report together with the public accounts and ministry annual reports are the primary accountability reports available to this committee. The 1996-97 report contains 28 numbered recommendations which warrant a formal government response. These 28 recommendations have been classified to indicate which parts of the accountability framework require attention. In summary, the government and its managers have much further to go in the areas of planning what needs to be done, doing the work, and reporting the details on conclusion of the work. Fourteen of the recommendations are designed to assist managers by having them focus on developing the processes they use to deliver outputs, including arranging contracted work. Twelve of the recommendations have to do with the day-to-day business practice, including managing contracted work, and six of the

recommendations relate directly to improving reporting on results.

I have commended the government for its pioneering work in developing ministerial financial statements and have recommended how they can be made complete. I would draw your attention to page 5 of the report, which provides an analysis of our work in relation to the accountability framework. I also want to draw your attention to pages 6 and 7 of the report, in which I relate the CKUA situation in terms of setting performance expectations and monitoring performance. Unfortunately, my CKUA report is a case study of the failure of accountability, resulting in the waste of public funds. The lesson for all involved in managing public resources is that an accountability framework is not just a theoretical abstraction.

Mr. Chairman, with your permission I would like to have the gentlemen who are with me today briefly highlight the key matters within their portfolios, starting with Ken Hoffman.

MR. HOFFMAN: Thank you. I'd like to brief the committee on the first four of our numbered recommendations. These are particularly important because they have application across government. Our main messages for the Executive Council are to ensure that contracts and agreements are managed effectively, take action to ensure that all systems critical to the continued operation of government will work past the year 2000, and obtain sound information on cost and benefits before implementing new systems.

Our first recommendation is addressed to the province's chief information officer and to the province's deputy ministers. It speaks to the need for a cost-benefit analysis for new information technology projects. In our view, as documented on page 20 of the report, inadequate analysis has been performed for a number of new systems. Defining costs and benefits helps manage risks. We believe that providing guidance to ministries for planning, monitoring, and subsequent assessment of costs and benefits can improve the management of the province's information technology resource and expenditures, and the chief information officer is positioned to co-ordinate the development and implementation of this guidance. However, each individual ministry must then consistently apply this guidance for benefits to be realized.

The second recommendation in the report, on page 24, is also addressed to the chief information officer and relates to the government's information technology being year 2000 compliant. I must stress that it's management's responsibility to take appropriate action to mitigate the risk of their business operations being adversely affected. As the auditor our role is to comment on management's processes. As at September of this year our work suggested that the operations of some ministries were still at risk of being negatively affected by the year 2000 change. For this reason I recommended to the chief information officer that he needed to continue to monitor and assist these ministries at greatest risk. The challenge is to ensure that senior management of those ministries understand fully the risks associated with the year 2000 change. In fact, just yesterday one of my colleagues attended the Chief Information Officers' Council meeting, and the year 2000 issue is very high on its agenda. It is in fact very important to deputy ministers.

Turning now to the third recommendation, which draws attention to contract management. During the last few years we have reviewed many different contracts in various government organizations. While in most instances we have found that organizations may possess the technical expertise in the specific services to be contracted, we have also identified a general lack of knowledge and resources in the discipline of contract management and contract negotiation. The frequency of contracting is increasing. We believe now is an appropriate time for ministries to improve contracting processes from a governmentwide perspective. On

pages 26 through 33 of the report we provide discussion of the key issues involved in the decision to contract contract negotiation and contract management.

The concept of contract management leads me right into the fourth recommendation, which results from our work on CKUA. I'll read the recommendation, because it is also fundamental and has universal application.

It is recommended that when grant funds and/or assets are provided to an organization or individual in return for an expected level of performance, an appropriate accountability framework be established to enable the recipient's performance to be measured and evaluated.

Mr. Chairman, it is our view that a good accountability framework can prevent waste of taxpayer dollars but only if it is followed day in and day out with rigour and enthusiasm. If some good is to come from the wasted CKUA costs, it will come from talking about what happened and then doing what is necessary to avoid and prevent loss in the future.

Now I'd like to turn it over to Nick Shandro, who will brief you on the Health portfolio.

MR. SHANDRO: Thank you, Ken. Good morning. The size of the Health section of the report reflects our belief that the office's systems work is both needed and can make a difference. We use our mandate to add value by bringing forward an independent assessment of the quality of the systems and information within this critical ministry.

I would draw committee members' attention to page 5 of the report, where one can get a snapshot of the nature of the seven main recommendations we have made in the Health sector. The seven cover governance, planning, monitoring, and reporting on results. Our observations and recommendations relate to the structure and systems for achieving accountability in the health care system. While progress has been made, much remains to be done to implement accountability as a process for delivering quality health services at an acceptable cost. We are convinced that information is the key in managing the cost-effectiveness of expenditures and achieving improvements in the delivery of health care.

8:42

I do not propose to take you through each recommendation. Rather, I would suggest that a good place to start reviewing health care is with the narrative summary of our work on pages 118 and 119. These are the main messages.

There is a need to further clarify the accountability of all organizations having a significant impact on costs and results and to provide performance information in support of the accountability process.

The Department of Health and health authorities should work together and begin reporting on the performance of governance.

In building a health information network, information resources will have to be co-ordinated and standards set so as to increase effectiveness of health care services, avoid unnecessary costs, enable the exchange of information between systems, and to ensure that systems produce needed information.

A new process is required for managing risks in physician funding and payment systems in order to provide greater assurance that public money is allocated and spent each year with due regard for efficiency and effectiveness.

Priorities for issuing clinical practice guidelines should be established and an evaluation done to assess the results achieved from the spending of public money to produce these guidelines.

While steps have been taken over the past few years to contain expenditures, the department has the opportunity to adopt new methods for achieving cost-effectiveness in the delivery of drug

programs. It would be useful to have measures of key results and associated costs included in financial statements of health authorities.

Thank you. Lawrence Taylor will now take you through Education.

MR. TAYLOR: Mr. Chairman, the mandate of the education system in Alberta is to ensure that all students have the opportunity to acquire the knowledge, skills, and attitudes needed to be self-reliant, responsible, caring and contributing members of society. In planning audit work that we believed would be useful to the ministry and members of this Assembly, we concentrated on two of Alberta Education's goals. The first goal is to focus education on what students need to learn and to ensure high standards are established, communicated, and achieved. The second goal is to provide parents and the community the opportunity to be involved in the governance and delivery of a restructured education system.

The charter school initiative is intended to promote innovation in learning and provide parents and students with choices in the delivery of education. Continuous innovation in public education is required to maintain a successful and competitive education system. We performed an audit examination of the systems used by Alberta Education to monitor the operations and measure the success of charter schools. Recommendation 12 resulted from our work. Our conclusion is that accountability should be strengthened. We are recommending that each charter school's business plan identify mandate-related performance measures. By that we mean measures that demonstrate, enhance, or improve learning. The identification of mandate-related measures would help with the formal evaluation of charter schools.

The charter schools regulation requires two formal evaluations to be completed prior to the renewal of a charter. However, Alberta Education and charter schools have not yet determined the expectations and contents of the evaluations. In our view, formal evaluations, as well as regular review of results, should occur over the entire term of the charter so that any concerns can be resolved on an ongoing basis.

Our concern is not academic. As members of the committee are aware, one of the accountability lessons to be learned from CKUA is the critical need for ongoing monitoring of actual performance against expected performance.

Merwan Saher has some comments about ministry and departmental financial statements.

MR. SAHER: Good morning, Mr. Chairman. I thought it would be helpful to the committee to say a few words about the state of financial reporting in Alberta. Our job is to do more than provide assurance; we seek to improve the reporting with which we are associated. This year Alberta has yet again taken the lead in Canada by introducing ministry financial statements. The purpose is simply to serve the public's information needs and to assist decision-makers such as yourselves in your public policy and budget deliberations. We believe that ministry financial statements are such a critical part of the accountability framework that their credibility is imperative. For this reason our audit process includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We ask questions such as: do the financial statements include all assets and liabilities? Do they recognize the effect of transactions and events in the period they occur? Do the statements record all costs of service delivery activities? If these conditions are not met, then it is unlikely that the financial statements will meet the standard of generally accepted accounting principles, known in my trade as GAAP.

On pages 16, 17, and 18 of the report we discuss the state of ministry and departmental financial statements. Essentially, we explain why the Auditor General issued reservations of opinion in the first Auditor's reports on these financial statements. The message in those Auditor's reports is that the financial statements are incomplete. It is important for me to stress that we are not reporting that assets are missing or that unwarranted expenses have been incurred, merely that the statements are not complete. In a moment Gerry Lain will tell you of the specific problems.

I'd like to end this introduction by saying that the province has better information than last year, when only the general revenue fund financial statements were available to explain departmental operations. We believe that the reporting issues that we have raised can be resolved. Some matters can and will be dealt with soon. Other issues – for example, the completeness of the ministerial reporting entity – will not be resolved without further discussion and debate. Although we have been critical, it must be noted that no other jurisdiction in Canada has ministerial financial statements.

Gerry will close by outlining the specific reasons for recommendation 25, which recommends that “departmental and ministry financial statements be prepared in accordance with generally accepted accounting [standards].”

MR. LAIN: Mr. Chairman, the recommendation is couched in the language of accountants, but as Merwan said, we're talking about completeness. Ministry and departmental financial statements should include all assets, liabilities, revenues, and expenses that relate to the ministry and department. Currently certain liabilities, such as pension liabilities, vacation entitlements, and long-term disability benefits, are not allocated to the departments whose service delivery activities give rise to the obligations. In addition, some valuation adjustments and certain administrative expenses, including some salaries, accommodation, and other overhead costs, are not allocated to departments. Further, the impact of inventories, prepaid expenses, and capital leases is not recorded, and the minimum value threshold to capitalize assets may need to be refined.

The key to good business operating decisions has to be full costing for each government unit, whether it be a fund, agency, department, or ministry. After all, at the ministry level, for example, the minister is truly responsible for all assets consumed and expenses incurred by that ministry.

Not all appropriate entities have been included in the reporting entity. For example, we believe that regional health authorities, universities and colleges, and school boards should be consolidated respectively in the ministries of Health, advanced education, and Education financial statements as well as in the consolidated financial statements of the province. The benefits of ministerial reporting will not be realized if ministry financial statements do not include organizations that are accountable to the minister and are, in our opinion, controlled by the ministry. Without complete aggregated information on ministerial results, public policy and budget decision-makers run the risk of making inappropriate resource allocations and incorrect assessments of stewardship.

Back to you, Peter.

8:52

MR. VALENTINE: Mr. Chairman, that concludes our overview of the 1996-97 annual report. My colleagues have covered less than half of our 28 numbered recommendations but sufficiently, I feel, to give you a flavour of our work. I trust that our introduction will assist the committee members in preparing themselves for the meetings with the management groups from the various ministries in the months to come. We are ready for your questions.

Thank you.

THE CHAIRMAN: Mr. Zwozdesky.

MR. ZWOZDESKY: Thank you, and good morning, gentlemen, Mr. Auditor General and your staff. It's always a pleasure to have you gentlemen here to clarify some of the machinations of the financial side of governance. I'm particularly intrigued here by comments made by some of your colleagues, Mr. Auditor General, with respect to seeking improvements constantly to the reporting, evaluating, and assessing of financial presentations, financial statements, reporting, and so on, and in particular with respect to the comment about assessing of significant estimates. Unless I'm taking this out of context, I'd like some clarification with respect to the recommendation made on page 212 of your report for 1996-97, wherein recommendation 27 spells out the recommendation to the Treasury Department regarding the

actual results to date for revenues, expenses and surplus on the accrual basis in the quarterly report's Consolidated Fiscal Summary.

Just recently, by way of example, we've seen the release of government information that suggests the possibility of the government being out by something like 1,223 percent in its estimates. So to tie this back in here, I wonder if the Auditor General has made recommendations regarding future consolidated budget and forecasts and whether or not he sees fit to include in that recommendation that they become part of the budgeted statements of the financial positions and changes in financial positions as well as longer term budget information in an abbreviated form that would supplement the three-year review that's presented in the annual budget. In other words, can the Auditor General just expand on what he sees as some of the elements of a longer term budgeting information framework?

MR. VALENTINE: To date I think we have placed an emphasis on the reporting of actual results. Unlike my colleagues in some of the other provinces, we have not made a specific study of the estimate process. We have made comments over a period of time with respect to the comparison of budget information to actual information on quarterly financial statements, and we have also made comment with respect to placing the quarterly financial statements on the accrual basis as opposed to the cash basis, which is essentially what they're on now, bearing in mind that the year-end financial statements are produced on the accrual basis.

I may need some help from my colleagues on this, but I believe there is a fair amount of disclosure now in the financial statements as to the significant assumptions used. Also, in the budget information there is a substantial amount of information disclosed as to the basis for the significant budget assumptions. Do any of my colleagues want to add to what I've just said?

MR. LAIN: I think that's right, Peter, that we're concentrating on the accrual basis of reporting for the quarterly results. The Auditor General has previously recommended that the budget be set up on a quarterly basis. There is disclosure in the financial statements and measurement uncertainties, and there is information in the budget about key price sensitivities.

MR. ZWOZDESKY: Thank you. There are other examples in other jurisdictions where reporting is done on a monthly basis, which allows for even greater flexibility, transparency, and comprehension. It's always in the public's best interest – I'm sure you'd agree – to understand the finances of the province as quickly as possible.

My quick follow-up question, Mr. Chairman, is with respect to the idea of an independent assessment of revenue projections to assure Albertans that there is reliability in the province's revenue projection

side of its budget. For example, the state of Minnesota has actual performance measures that require not more than a 5 percent variance with respect to revenue projections, whereas here in the province we seem to be out by as much as 1,000 percent. I'm wondering what the Auditor General's response to that might be in light of recommendation 27 and whether he sees it as fitting part of that recommendation and would be willing to take it forward. It's fine and dandy that we're reasonably bang-on with the expenses side. Mr. Chairman, I'm simply asking that perhaps this recommendation should include the revenue forecasting side, with some performance measure to go along with it.

MR. VALENTINE: Well, I think we need to be clear about what recommendation 27 is saying. It asks for the accrual basis in quarterly financial reporting. There are some difficult accounting questions, estimate questions, to deal with, one of which is the accrual of income tax revenues. It's a little easier to do personal income tax revenue than it is to do corporate income tax revenues because of the difficulty in the corporate tax field to get a handle on what the income tax loss carry-forward situation is in the province as a whole, although it will be easier when you have a healthy province, such as we've had in the past little while, in that a lot of those tax losses have been eaten up and there will be less of a hangover, if you like, at the moment. I don't have personal knowledge of the Minnesota example that you give, but I find that an intriguing idea. I made note of it, and we will consider whether or not it would be appropriate for us to carry on some work in that area and report accordingly.

MR. ZWOZDESKY: What about the independent evaluation questions?

MR. VALENTINE: Well, there's a fundamental principle that management is responsible for the assertions that are contained within the financial statements. I think the same principle would apply to budget information, and the Auditor is responsible for providing the assurance on that information. We have done some budget assurance-type information when we reviewed the budget process of the Capital health authority, so it's not something new to us. I don't think I want to comment on any independent aspect of that.

THE CHAIRMAN: Thank you, Mr. Zwozdesky.

Mr. Stevens, followed by Ms Blakeman, followed by Mr. Yankowsky, and then Dr. Pannu.

Before we do that, we've had a note, a request from one of the members from the government side. I gather that there are some meetings that have been scheduled for government members for 9:30. Now, we can do one of two things, as suggested: that the opposition members receive a round of two questions apiece and the government members one is one solution, or the quorum for this assembly is seven for another half hour. If you so wish, we could just continue on, as the members that must leave can always pick up from *Hansard* what transpired. I'm at your disposal. What is the wish of the committee? Do I have a motion? In lieu of any other motion, perhaps we could leave that for a moment if there's no motion before us. Mr. Stevens, do you want to continue on, or do you have a motion? We should really have a motion if we're going to speak to a motion.

DR. PANNU: I have a request for information, Mr. Chairman. It appears that some of the members of the committee won't be here after the next 30 minutes. There's an important report. I wonder if we'll get another chance to revisit this report?

9:02

THE CHAIRMAN: We will not have another opportunity until the House sits again, on January 27, so the earliest would be February 4, sir.

DR. PANNU: We will then be able to revisit it?

THE CHAIRMAN: If that's the will of the committee then. Perhaps we can think about it. We have another half an hour before some departures.

MR. SHARIFF: Mr. Chairman, I sent that note in, and I would make a motion that

the members of the opposition be given an opportunity to ask two questions each, then government members be given an opportunity to ask one question each until 9:30 a.m., when we should adjourn until the next meeting.

THE CHAIRMAN: Speaking to the motion, Ms Blakeman.

MS BLAKEMAN: No. Sorry, I'm just trying to clarify something. I'm trying to figure out if we will be seeing Mr. Valentine and his colleagues in the session on February 4?

THE CHAIRMAN: Yes.

MR. VALENTINE: It's the day after my brother's birthday. I'll be here for sure.

MS BLAKEMAN: Okay.

THE CHAIRMAN: Any further discussion on the matter? Mr. Yankowsky.

MR. YANKOWSKY: Just a question. How many members have to leave? Some of us are not leaving.

THE CHAIRMAN: I don't know. You'll have to ask. I know Mr. Stevens wanted to be early on the list.

We have a motion on the floor. Is it understood by the committee? It is. All those in favour of the motion as put, please raise your hands. Wait a minute. Hold it here. We're going to have to get the hands up here. One, two, three, four, five, six, seven, eight, nine. It is carried. We will now be adjourning at the early hour of 9:30.

Mr. Stevens, please.

MR. STEVENS: Thank you, Mr. Chairman. Good morning, Auditor General and gentlemen. My one question relates to CKUA and, in particular, comes from page 34 of your annual report. In recommendation 4 you suggest that when government provides funds or assets to an organization

in return for an expected level of performance, an appropriate accountability framework be established to enable the recipient's performance to be measured and evaluated.

Since an adequate accountability framework was not provided in the sale agreement for CKUA, I wonder if there are other foundations of this sort who were provided with funds under similar circumstances which we should be revisiting to ensure that they do not reach the point CKUA came to this past spring.

MR. VALENTINE: I don't have any specific list to give you. If you look at page 74 of the report, you will see that we went on and talked

about the devolution of services at museums, historic sites, and the two Jubilee auditoria. We suggested at that time that the department needed to obtain and critically review the Volunteer Societies' plans and budgets and periodic financial and other accountability reports, compare that to the actual results, and take necessary action to ensure that those entities are complying with their agreements.

Across the whole sector of the public sector in Alberta, there has been a substantial devolution of authority and responsibility to community-based organizations of one kind or another, and we have a strong interest in ensuring that the right mechanism for accountability is put in place and then is continued to be monitored to ensure that it works.

We're in early days of this restructuring of government's way of doing business, and it is not surprising to find that we're learning in the process. Management is learning, to some extent my colleagues in my office are learning, and those who are taking on the responsibilities in the community organizations are learning. It provides us with a substantial amount of work to do and a significant challenge for my office to ensure that we are providing that service to the Legislative Assembly that results in the efficient use of public resources. I can assure you that we have finished our ministerial plans for all 17 ministries for the coming audit cycle, and I can assure you that this subject is contained in every one of them, for a review to make sure that we understand where the risks are.

MR. STEVENS: Thank you very much.

THE CHAIRMAN: Ms Blakeman, please.

MS BLAKEMAN: Thank you. Good morning. Welcome, gentlemen and colleagues, once again. My questions are also on CKUA. I'm baffled as to how this whole thing happened in that even I could read the sales contract and understand where the points were that required permission from the department or from someone higher up or beyond the actual organization itself. So my questions are specifically around that, and then I had a point of clarification for later.

In your April report on the CKUA Foundation you identified the critical event in the failure of accountability as the April '95 decision to amend the terms and conditions of the asset purchase and sale agreement, which permitted an accelerated payment of the remaining balance of \$2.025 million in transitional funding, and this happened prior to the receipt by the Access board of a status and viability report from the CKUA Foundation. So my question is: in the course of your investigation into this matter, what rationale or explanation did you receive from the then Deputy Minister of Municipal Affairs and the three other members of the public service that were sitting on the Access board at the time regarding the amendment of this asset purchase and sale agreement that did allow for the accelerated payment without a requirement for timely performance reporting?

MR. VALENTINE: Our role in this assignment was to determine what happened. We have done that, and as a result of our inquiries and investigation and audit activities, we have placed what we understand in that report of April that you made reference to. That's a management letter that was delivered to the department as a result of us doing the scope of work set out in that letter. Those letters from my office are not normally public. Those letters result, in the end, in some comment in the Auditor General's report, which is a public document. The ministry chose to release that report, and we don't normally comment any further on it. Having said that, it was our responsibility to find out what had failed, and we've reported to you on that. If the responsible officials that you name made

comment with respect to some explanation, it was not germane to our reporting, and we haven't recorded that. I think it's a question that you want to ask of the minister responsible.

MS BLAKEMAN: Thank you. I will do that.

Now, I also had a point of clarification that concerns me a bit in your specific recommendation 4.

It is recommended that when grant funds and/or assets are provided to an organization or individual in return for an expected level of performance, an appropriate accountability framework be established to enable the recipient's performance to be measured and evaluated.

I'm a little concerned because it's not specific there, as it is in the other recommendation that you made. I'm sorry; the number doesn't spring to mind. It's the one just referenced about privatizing to the historical sites and other organizations. My concern is that recommendation 4 doesn't specify that this comes into play only when we're talking about privatization of what was previously a government service. In other words, can it be clarified so that it would not be misinterpreted that this recommendation applies to any nonprofit organization receiving funds through the government through any kind of granting process?

9:12

MR. VALENTINE: Could I be clearer about your question?

MS BLAKEMAN: I'm sorry.

MR. VALENTINE: Sorry. It seems to me that recommendation 4 applies to any situation where grant funds or assets are given, devolved, or given over to another authority to run. There needs to be a criteria for the accountability. If you are giving a grant of \$100,000 to a particular organization to carry out a function, there must be an accountability back. Now, that accountability will vary depending upon the type of service and/or product that's delivered by that organization. I don't think we could present you with a checklist of all the circumstances or all the mechanics of accountability that might be possible to think of.

I can give you another example if somebody will help me with the page number. We made some comments with respect to the Alberta Tourism Partnership, and it's the same sort of thing. The accountability formula, if you like, or the criteria need to be set out in the agreement between the donor and the 'donee' or the grantor and the grantee.

THE CHAIRMAN: We do have a number of people proposed to get in before 9:30: Mr. Yankowsky, Dr. Pannu, and Mr. Ducharme.

MR. YANKOWSKY: Thank you, Mr. Chairman, and good morning, everyone. On pages 201 to 204 inclusive in the Auditor General's report you comment that not all ministries have good financial management practices on an ongoing basis and that it is necessary to develop these practices to ensure that records are sound, correct, and on time. Now, this to me makes common sense and should be, as you say, an objective of each ministry. It also seems to me that it is important for management, especially in financial branches of private or public organizations, to develop a culture which supports this proactive philosophy. As you indicate that this is not occurring in some ministries, is it then perhaps a question of some managers requiring further education or a more comprehensive understanding of what the philosophy of government accountability is all about so that you do get sound, accurate reports and on time?

MR. VALENTINE: I want to make an observation which I hope will help lead you to a conclusion. I would say that the conclusion is in

the present, but I'll go back and start in earlier days.

The concept of fiscal accountability in the British parliamentary system starts on the floor right here in front of us and ends here. You have a system of estimates which get approval by the House as a whole, and the end accountability on a line-by-line basis of those estimates occurs here, within this very committee.

Historically, the financial statements of entities in the public sector, such as governments, were revenue and expenditure driven and did not provide for the full costing or full accrual of the transactions that are reportable by a particular entity or subentity within the government grouping. That methodology of reporting and old practices is rapidly changing, and Alberta, as we've said, is a leader in the forefront of producing full accrual, complete financial statements in the traditional sense and at a level where accountability is appropriate. So we have the introduction of departmental and ministerial financial statements on a consolidated basis.

Historically, the people that ran the financial side of a particular department, agency, or corporation were really very well qualified budget officers but were not in-depth experienced or educated financial officers. As long as everything had the budget focus and the silos of expenditure availability, or envelopes of money or whatever you want to call it, that system worked fine. But the budget officer needs to have some retraining to move into the environment of more involved financial management at each departmental level. Don't forget that much of the financial management is being devolved by Treasury out to the various departments.

So we are in a period of transition to full accrual departmental and ministerial financial statements. This year we did a substantial amount of audit work assisting the departments in, if you like to call it, the dry run. This coming year, March 31, 1998, we're at it for real.

Only yesterday we were at a ministry, Mr. Shandro and I, and we heard from the chief financial officer of that ministry of his resources that are available with the time line of the preparation of the consolidated financial statements of that ministry, and it requires a great deal more skill within that department than there was there before. But I would say we came away from the meeting with a good feeling about how they're going to approach the problem for March 31, 1998.

I hope I've answered your question, sir.

THE CHAIRMAN: Dr. Pannu, please.

DR. PANNU: Thank you, Mr. Chairman. Good morning, friends. Auditor General, I draw your attention to recommendation 3 on page 26. In your report you make the point that contracting out is not always a cost-effective replacement for in-house provision of services. You cite numerous examples of taxpayers' money being wasted on poorly planned privatizations and call on the government to establish better processes for contracting out services.

My question is in two parts. Given that Alberta government has contracted out a very large number of government services – I don't know if the costs are known, maybe in billions of dollars over the last few years – are you saying that these privatizations have been taking place in the absence of appropriate mechanisms to ensure that taxpayers are receiving good value for money? The more specific part of the question has to do with how we calculate the costs. Shouldn't costs in the form of increased user fees also be included in a cost-benefit analysis of contracting out? For example, when consumers use a private registry to obtain a birth certificate, they pay a fee both to the government for the service and an additional fee to the registry agent. Shouldn't both fees be included in calculating the cost of contracting out?

MR. VALENTINE: The recommendation that you see here, which was accepted by the government, flows from work that we did in the Ministry of Family and Social Services and in the Ministry of Health, where we looked at some contracting out. You will remember that the issue of contracting out the laundry service at the Calgary regional health authority was the subject of some work that my office did and the subsequent release, again by the client, of the management letter that arose from that work. There is no doubt that there's a risk that contracting out will not be a cost-effective replacement for the provision of services that government in the past has done, and the process that is used to evaluate the planning for contracting out needs to take into account those factors.

9:22

What we're saying is that management needs to have a well-defined process to enter into those plans, to make the right decisions from them, from the planning, and then perform the appropriate execution of the contracting out, a continuous monitoring of that contracting out and an evaluation of it, and a decision at the end of the contract whether or not it's appropriate to renew or whether there's a recall for tenders or whatever the circumstances are. Our interest is in the process. It's up to management and then the ministry to provide you with management's decision and why they made it. We want to make sure that the right process occurs and the appropriate information is in the hands of managers when they're making the decision.

I don't have any numbers here on the private registry issue. I can tell you that we are in the process of doing some work in the registry area, and it would be premature for me to make any comment about it now.

DR. PANNU: Thank you.

THE CHAIRMAN: Anything further?

DR. PANNU: No. On this one I think I'm fine.

THE CHAIRMAN: Just before we go to Mr. Ducharme and Dr. Nicol, I understood you said something in your response to Dr. Pannu vis-à-vis a government response, that they have accepted the recommendation?

MR. VALENTINE: There was an initial response to our recommendations made by the government on September 25, I believe.

THE CHAIRMAN: That was to the '95-96 report?

MR. VALENTINE: This report.

THE CHAIRMAN: It was to this report?

MR. VALENTINE: Yes.

THE CHAIRMAN: Well, then, correct me if I'm wrong, but administratively and in practice when the government provides the response to the recommendations of the Auditor General's report for the current year, the '96-97 year, is it not customary to deliver those responses at the same time the government delivers them to the Auditor General as it does to the committee?

MR. SAHER: Mr. Chairman, if I could try to help with the process. Over the last few years the government has tended to issue a preliminary response to the Auditor General's recommendations in

the form of a news release that occurs quite soon after the release of the annual report. That happened this year, and the government chose to respond to the first few recommendations and also the recommendations made in the area of Treasury. That, I think, the government views as a preliminary response. There will, to the best of my knowledge, be a formal response from the government, which will in fact be addressed to you as the chairman of the Public Accounts Committee. To the best of my knowledge, that response has not yet been made.

THE CHAIRMAN: On the same matter, just in response to your question about the response of the government. It brings into question the relevance of the committee if we're left out of the loop.

Do you wish to add something?

DR. PANNU: I think you have raised a very important question, but I have a supplementary. I'm sorry; you asked me if I have a chance and I said no, and you asked a question. I wanted to ask the Auditor General if he can give me some dollar figures on the value of the total services that have been contracted out on a regular basis now, from year to year.

MR. VALENTINE: We wouldn't keep that kind of accounting. You need to ask the government that question. My office is here to do an audit, and with respect, you know, we shouldn't be redoing the bookkeeping. Management should have that bookkeeping for you, and I'm sure they'll answer your question.

THE CHAIRMAN: Mr. Shariff.

MR. SHARIFF: Yeah. Mr. Chairman, I just wanted to add to that query that you had raised. When the Auditor General releases his report, it is for the government to make an assessment of that report and provide a response, and I don't believe that there is any process in place for that response to come only through the Public Accounts Committee. As you know, we only meet when the House is sitting, and if you were to wait for that time period, at times we would be waiting for a very long time. So I think that when the Treasurer or the government releases a response, it's made public through a press release and is accessible to all Albertans at the time. I believe that is also accessible to every member who sits on this committee, so it's public information.

THE CHAIRMAN: My query was that in standard form the Audit Committee of the Legislative Assembly, any audit committee, would be privy to the information at the same time as the Auditor. The Auditor has explained that there's this prerelease, which is a little out of form in parliamentary procedure, in my view. I don't know whether it happens anywhere else, but I don't question the government's right to do that. What I do question is if the information in the formal report was filed only with the Auditor General and not with the members of the committee, whether the committee sits or not. It's simply that you and I and all the members know that the only reason this committee doesn't sit any other time than when the House sits is that the funds are simply not provided by another committee of the government. So that's a matter of function, not form. I think the question has been asked and answered quite well.

We're short of time now. We've got Mr. Ducharme and Mr. Nicol, please.

MR. DUCHARME: Good morning, gentlemen. My question deals with the Department of Transportation and Utilities. On page 189 you recommend that the department needs to "improve its system to

control and report commitments." You note that in both 1995-96 and '96-97 there were significant omissions in outstanding commitments which were identified and reported by the department. You note that these were found by your audit and fixed each time. Considering that the changes your audit made to reported commitments were \$122 million and \$55.8 million in each year respectively, I am concerned that it was only through an audit that these large omissions were found. Can you comment on why this was not recognized to be a problem when the report was compiled within the department?

MR. VALENTINE: I'm going to ask my colleague Mr. Shandro to respond to you.

MR. SHANDRO: It's our observation that the system of tracking commitments is not well integrated into their reporting system. It's an observation that we made on the Department of Transportation and Utilities, but the same problem exists in other departments. This is something that is going to be rectified in the new IMAGIS system, that is currently being implemented. It's our view that commitments form part of cash flow requirement monitoring and should be appropriately tracked through a system. The level of accuracy should be much higher than what has historically existed.

MR. DUCHARME: Thank you.

THE CHAIRMAN: Dr. Nicol.

DR. NICOL: Thank you. My question relates to Alberta Agriculture, Food and Rural Development. On page 63 you make some key observations, I think, more than recommendations about the use of the farm income disaster program. You give the example of the individual who converted from dairy to beef. In the process of your analysis, you are making application observations. What I would like is your reaction to whether or not the disaster program, the way it's structured using the margin as it's calculated, is truly supportive of farmers in a disaster situation, or is it more supportive of farmers in an organizational form?

If I might give you an example. I farm and I would have to have much more than a 30 percent reduction in my margin income, as they calculate it, before I would be out of pocket and really in any threat of losing my farm. So this is more of an income-support program than it is a disaster program, because it doesn't cover the cash expenses part of a farm's operation, and those are the out-of-pocket absolute costs to a farmer that put them in jeopardy of losing their farm, so to speak.

You've made observations about whether or not it's really an operational support program or a true accounting calculation. I would like to know if you're willing to make an observation as to whether or not you truly see it as a disaster program or a farm income-support program.

9:32

MR. VALENTINE: Well, these particular pages of discussion have generated a certain amount of interest in the agricultural community in the province, perhaps more than I might have suspected it would. I would like to take your question under advisement, and we will be back to you in writing through the chair as the normal course and tell you where we might go with this.

DR. NICOL: Can I follow up and ask you to add on a part to that response?

MR. VALENTINE: You can ask me.

DR. NICOL: You know, with the problems that are being experienced in northeastern Alberta right now, with the three-year base for the margin, farmers in northern Alberta, because of the two bad years, are finding that this program doesn't really meet their needs very well. If it's a true disaster program, where it puts a farmer in jeopardy of loss of farm, it should be flexible enough to cover, in essence, back-to-back disasters or back-to-back reductions of income. This program doesn't seem to do that.

If we're going to make the program effective, the performance measures must be able to reflect both the absolute level of the program and the breadth of it. Does it work in all situations of disaster? Many farmers have enough to cover their production expenses in a savings account for one year, but they don't have it for two. By the time they get a really bad year and then have another one, their margin has come down so far that they don't get any support from this program in the second disaster year. So I'd like that observation as well, if you would, in that response.

THE CHAIRMAN: I think the Auditor General said he would certainly consider your words.

DR. NICOL: I'm quite satisfied to take it as a written response. Thank you very much.

THE CHAIRMAN: You have to recognize the Auditor's position. As he said earlier: we're accountants; we don't deal with policy. So it'll have to be. But if it truly is a disaster, the program then would describe it as such.

DR. NICOL: Mr. Chairman, I only made that in the context that they did make policy observations relative to the structure of the program and how it was being put together, and I was asking them to carry that just a little further.

THE CHAIRMAN: Observations on perhaps the function of the policy, not policy itself, I would think.

MR. VALENTINE: That's correct, Mr. Chairman.

THE CHAIRMAN: We are five minutes late on the motion. Mr. Johnson has the opportunity to either ask his question or move that the meeting be adjourned.

MR. JOHNSON: I would move that the meeting be adjourned then.

THE CHAIRMAN: So moved. Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: It's carried. Thank you very kindly.

[The committee adjourned at 9:36 a.m.]