



Legislative Assembly of Alberta

The 28th Legislature  
Third Session

Standing Committee  
on  
Public Accounts

Monday, March 23, 2015  
6:16 p.m.

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The 28th Legislature  
Third Session**

**Standing Committee on Public Accounts**

Saskiw, Shayne, Lac La Biche-St. Paul-Two Hills (W), Chair  
Young, Steve, Edmonton-Riverview (PC), Deputy Chair

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Anderson, Rob, Airdrie (PC)  
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Hehr, Kent, Calgary-Buffalo (AL)  
Horne, Fred, Edmonton-Rutherford (PC)  
Jansen, Sandra, Calgary-North West (PC)  
Jeneroux, Matt, Edmonton-South West (PC)  
Luan, Jason, Calgary-Hawkwood (PC)  
Pastoor, Bridget Brennan, Lethbridge-East (PC)  
Rowe, Bruce, Olds-Didsbury-Three Hills (PC)\*  
Sarich, Janice, Edmonton-Decore (PC)

\* substitution for Fred Horne

**Also in Attendance**

Starke, Dr. Richard, Vermilion-Lloydminster (PC)

**Office of the Auditor General Participants**

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Brad Ireland	Assistant Auditor General
Eric Leonty	Assistant Auditor General

**Support Staff**

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Janet Schwegel	Managing Editor of <i>Alberta Hansard</i>

6:16 p.m.

Monday, March 23, 2015

[Mr. Saskiw in the chair]

**The Chair:** Well, good evening, everyone. I'd like to call this meeting of the Standing Committee on Public Accounts to order. I'm glad you were all able to attend this meeting tonight. I'm Shayne Saskiw, your committee chair and the MLA for Lac La Biche-St. Paul-Two Hills.

We'll start by going around the table to introduce ourselves, beginning on my right. Please indicate if you are sitting in on the committee as a substitute for another member.

**Mr. Allen:** Good evening. Mike Allen, MLA for Fort McMurray-Wood Buffalo.

**Mr. Hehr:** Kent Hehr, MLA, Calgary-Buffalo.

**Mr. Bilous:** Good evening. Deron Bilous, MLA, Edmonton-Beverly-Clareview.

**Mr. Luan:** Evening. Jason Luan, MLA, Calgary-Hawkwood.

**Mr. Rowe:** Bruce Rowe, Olds-Didsbury-Three Hills, and I'm sitting in for MLA Fred Horne of Edmonton-Rutherford.

**Mr. Donovan:** Ian Donovan, MLA, Little Bow riding.

**Mr. Ireland:** I'm Brad Ireland. I'm an Assistant Auditor General.

**Mr. Leonty:** Eric Leonty, Assistant Auditor General.

**Mr. Saher:** Merwan Saher, Auditor General.

**Mrs. Sarich:** Good evening. Janice Sarich, MLA for Edmonton-Decore.

**Ms Jansen:** Sandra Jansen, MLA for Calgary-North West.

**Dr. Starke:** Well, good evening. Richard Starke, MLA for Vermilion-Lloydminster. I actually thought I was sitting in for Fred Horne. I know he's a larger-than-life individual. But, you know, I'm here now, so I'll just hang around.

**Mr. Anglin:** Joe Anglin, MLA for Rimbey-Rocky Mountain House-Sundre, sitting in for Fred Horne.

**Dr. Massolin:** Good evening. Philip Massolin, manager of research services.

**Mr. Tyrell:** I'm Chris Tyrell, committee clerk.

**Mr. Young:** Steve Young, MLA for Edmonton-Riverview and vice-chair.

**Ms Pastoor:** Bridget Pastoor, Lethbridge-East.

**The Chair:** All right. Do we have anyone on the teleconference line? Going once, twice.

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I'd now like a member to move that the agenda for the March 23, 2015, Standing Committee on Public Accounts meeting be

approved as distributed. Can I have a mover? Mr. Bilous. All in favour? Opposed? Carried.

We have the minutes from our meeting last week for approval. I'd like someone to move that the minutes for the March 17, 2015, Standing Committee on Public Accounts meeting be approved as distributed.

**Mr. Hehr:** On the record.

**The Chair:** Mr. Hehr so moves. All those in favour? Opposed? Carried.

Tonight's meeting is a little different from our regular meetings. The Auditor General released his March 2015 report not too long ago. Tonight is an opportunity for the committee to get a briefing on the latest report. It's also an opportunity to ask the Auditor General and his staff any questions that members may have about the report.

I'll now turn over the floor to the Auditor General and his staff to get things started, and I'm sure the Auditor General will indicate when he's ready to take questions from the committee.

**Mr. Saher:** Thank you very much, Mr. Chairman. If you'll indulge me, I'll just spend a few minutes talking about the business plan of the office of the Auditor General. We interact with the Assembly through the Standing Committee on Legislative Offices. That's the committee that has oversight of the office, and it's the committee that reviews our business plan, listens to our budget request, and deals with the finances of the office. But as we spend an awful lot of time with this committee, the Public Accounts Committee, I thought it might be useful just to give you a very high-level briefing on that business plan that we presented last December.

Just by way of background I'd just like all of the committee members to appreciate that under the Auditor General Act the office of the Auditor General is the auditor of all ministries, including all departments, funds, and provincial agencies, including postsecondary institutions, so each year we audit upwards of 150 financial statements. I just want to give you that scope. We're the statutory auditor of a large number of organizations, which gives us a very large mandate to do financial statements auditing. We also, within the Auditor General Act, have the discretion to do what the act calls systems audits, and elsewhere in the world those are often referred to as value-for-money audits.

Our business plan is built around what we consider the three risks to the office. From a risk perspective the risks to the office are that the work we do is not relevant, that the work we do is not reliable, or that the work we do is not done at a reasonable cost. People can view that from a positive point of view, that that's what we achieve, that we're relevant, do reliable auditing, and do it at a reasonable cost. I prefer to see it from that risk lens because that allows us to put in place the systems that we need in the office to manage those risks.

The business plan strategy is to perform more systems audits than we are doing at the moment but within the budget allocation that we have. So if we look at the work distribution, at present about 23 per cent of our costs goes to – that's the last actual number we have – doing the discretionary systems auditing, and 77 per cent goes to doing the mandatory financial statement audits, that we're required to do under legislation. Our goal is that within three years we would change that ratio, to be able to do and to produce 30 per cent of our resources allocated to systems audits and 70 per cent to the financial statement auditing.

The constraints in executing that strategy are primarily skills, the skill base that we need to do more systems auditing, because, as I mentioned, the risk is that any work we do is not done reliably, so

skill is very important. Also, there's a constraint with respect to the ability of the public service to deal with recommendations from our office, so even if we were given large amounts of money to do lots more systems auditing, it's unreasonable from our perspective to put all of those additional recommendations into the public service and have them reasonably able to cope with them.

We also have made the point through all the years and continue to make the point that our work is not done on a systems audit until we've done the follow-up work. We will do an initial audit, we will make recommendations, then we will wait a period of time to hear from the organization that they're ready for a follow-up audit, and the general time frame for that is within three years.

One of our strategies in our business plan at the moment is to reduce the number of outstanding recommendations. In the last couple of years this Public Accounts Committee has worked very closely with or taken a great interest in talking to the organizations that appear before you, asking them for action plans, how they are dealing with recommendations, if they are having any problems in dealing with the recommendations that the office has made, and we certainly appreciate that.

6:25

We have approximately 150 full-time employees in the office, and we also use agents, public accounting firms, to assist us with that very large amount of financial statement auditing that we do. The government's year-end is mainly the 31st of March. If we were to staff up to do all of those systems audits, we would require a very large workforce that we would not be able to keep fully employed through the year, so we use the services of public accounting firms to help us with our financial statement auditing.

At the moment our annual budget is now \$26,754,000, and that's after the 2 per cent reduction to our current budget of \$27,300,000.

Those were the brief introductory comments that I wanted to give this committee to give you some context around the work that we do and interact with you on.

So with those comments, Mr. Chairman, I'll move into a high-level summary of the March 2015 report. In the report we've covered student attendance, flood mitigation, pipeline monitoring, dam safety, international offices, and postsecondary education. It's clear to us from these diverse audits that the quality of the systems the government uses to manage its work is proportional to the quality of the oversight it provides. In other words, good oversight will invariably produce better systems to achieve desired results. By "oversight" I mean checking that systems and processes designed to achieve results are working well. Oversight, in our opinion, is the glue that holds results management together. This isn't a new thought; we've discussed results management in depth in our July 2014 report.

Student attendance in the Northland school division remains unacceptably low. We've recommended that the Department of Education exercise oversight of the division's plans to improve student attendance. In our view, oversight by the department is the key to not failing another generation of the division's children.

The Department of Environment and Sustainable Resource Development is not able to demonstrate that its systems are adequately regulating dam safety. Our audit findings point to inadequate oversight of the dam safety group within the department.

In contrast, our audit findings for pipeline monitoring illustrate the influence of good oversight. The Alberta Energy Regulator, with a board and management that think as regulators, has systems that demonstrate that it is performing its essential function, ensuring that pipeline operators act responsibly, with public safety and the environment as their priority. The AER can improve, and we make some recommendations to that end.

Our reports on postsecondary institutions over the last few years are evidence of the improvements that occur when oversight is vigorous and focused on demanding improvement. By way of caution we repeat our observation that good financial control systems will be sustained only if vigorous oversight continues.

I'll close these opening comments by trying to explain as simply as I can the difference between the two regulatory programs that we examined, and those two are dam safety and pipeline monitoring. Now, the Minister of Energy, based on well-designed regulatory systems that are operating as intended, can assure Albertans that regulated pipelines are operated safely and reliably. On the other hand, the Minister of Environment and Sustainable Resource Development cannot yet tell Albertans, based on evidence from that department's regulatory systems, that dams in Alberta are safe. This doesn't mean that he has or we have evidence that any dams are actually unsafe, and this distinction isn't semantics. The purpose of these regulatory systems is to enable the regulator to be able to state with evidence that the risk of things going wrong has been reduced to an acceptable level.

Those are my opening comments. I could stop if there is a high-level question about the report, or I could move straight into briefing you on student attendance at the Northland school division.

**The Chair:** Let's maybe go straight into that briefing if that's all right.

**Mr. Saher:** Okay. Our audit work on the Northland school division is at page 17 of the March report. Our audit objective was to assess if there were adequate systems to improve student attendance in the Northland school division. Attending school regularly is essential to educational achievement. To succeed in school, students must attend. If anyone is wondering why we would do an audit of student attendance, it was simply from that simple perspective, that if children are to be successful in life, they need to attend school.

Improving the educational outcomes for Alberta's First Nations, Métis, and Inuit young people has been one of the department's main goals for over 10 years. However, success has been elusive. Within the division the department has studied this problem repeatedly for the past 40 years. The most recent was the inquiry team report in 2010. The report summarizes 10 recurring recommendations that have been made each decade without significant improvements, and we list all of that detail in appendix A of our report. You might be interested to know that in the 2014 business plan of the Department of Education, they have a goal, number 2, and that goal reads: "Success for every student," including eliminating "the achievement gap between . . . (FNMI) students and all other students." So, clearly, the department has been trying and has as a goal to improve attendance in the school division.

On page 23 of our report we set out our findings, and those key findings at the highest level are that at least one-third of the division students are chronically absent, so that's 900 students out of 2,700 students in the division. One-third are chronically absent. What we found was that the division's strategies have not improved student attendance. The division has not identified root causes of nonattendance. Schools do not adequately document the reason for school absences and follow-up actions taken. The division has not assessed best practices from other jurisdictions or its own schools to improve attendance. The oversight from the department has failed, and the department's resources are not co-ordinated with the division's efforts to improve attendance.

So we made two recommendations, and these recommendations go hand in hand. The first is to the school division. We recommended

that the school division develop an operational plan with short- and long-term targets to improve student attendance. We've also recommended that the Department of Education exercise oversight of the division by ensuring that the division develops and executes an operational plan to improve student attendance and that the department – sorry, I'm going to backtrack – has a responsibility to exercise oversight, first, that an action plan is in fact developed and, also, to ensure that the action plan identifies the resources that will be needed and how results will be measured, reported, and analyzed.

You can see with this preoccupation of the office, if you believe it's a preoccupation, that we're happy to be preoccupied with the notion of oversight, that we believe that the department has a role to play. It's not the department's job to take its resources and staff and move them up to the division and have them execute operational plans to improve attendance. That's the job of the division. But we feel very strongly that the department has an obligation to ensure that the division has put a plan in place and is acting on that plan and that that plan includes measures that will indicate whether or not the action plan is working.

Those are my comments, high level, on the student attendance of the Northland school division. I'd be happy to take any questions on that.

**Ms Jansen:** Just a question about the comment here about the "systems to monitor attendance within the division are not well designed or operating as intended . . . and there are no plans in place to monitor their attendance or make the necessary improvements." But you have come to a place where you say one-third are chronically absent. How confident are you that that is an accurate number?

**Mr. Saher:** We're confident from the data. In fact, my colleagues in the audit office, when we started this audit, thought that we would delve into the attendance records using computer-assisted audit techniques. We felt that we would be able to analyze that data in ways that perhaps the division has not analyzed it to completely understand which schools in the division perhaps had a greater degree of absenteeism than others, whether there were any indicators of ways in which some areas were being more successful than others.

6:35

What we found was that we couldn't use the data – the data was inadequate; it was incomplete – to produce solid analysis. We did come to the conclusion that the data was good enough to arrive at this number, a number that we have tested with division staff and departmental staff, and none have objected in the sense that they were able to demonstrate that we're wrong. So we are as confident as anyone could be. We're reasonably confident that one-third of the students are chronically absent.

**The Chair:** We'll go to Mrs. Sarich.

**Mrs. Sarich:** Thank you very much. I remember this as if it was yesterday because Dave Hancock was the Minister of Education, and I served as the parliamentary assistant on the K to 12 for the minister. What I would like to ask about is that you had said, for example, on page 27 that "the lack of improvement of student attendance systems at the division highlights a failure of oversight throughout the division and by the department," and my colleague has also touched on that point. Did you get any indication by either the division or the department that there was an effort? If there was an effort for this oversight, what would that look like, or what did you discover? I'm wondering also, because this was a very difficult situation and still remains today, about other competing factors, that

we maybe need to have a level of awareness on that. For example, was there any co-ordination of health services or any other resources locally or suggested by the department that may help in terms of tackling what you had recommended and that at the same time connects to the oversight and direction?

**Mr. Saher:** With respect to effort we by no means want to suggest that people in the division – the superintendent of the division, teachers, caregivers, parents – are not making an effort. Of course, effort is being made. Our point is simply that over the years all efforts have not actually produced demonstrable change. That's why I was saying that if you want change, you have to have a co-ordinated action plan: short, medium, long term. You have to set some targets, and you have to work towards achieving those targets. If you set targets, then I think you're in the best place to say: if we want to achieve that, what resources would we need?

For example, I went there myself, and one of the most profound things that I remember is the head of one of the schools saying to me that with the resources she had, she had a choice of bringing in teaching staff or applying that resource to what one might call a community liaison, people who are skilled enough to go and interact with a child and family, or a child in the home setting, to see whether or not there is a problem that could be dealt with. She told me that she had to make a decision to at some point redirect that additional effort back into the classroom. The funds she had were to fund teaching, not to fund other activities.

So I think what we're trying to say is that we think the oversight role that the department should play is more than just standing and looking in. I think we're saying that the department will have to get much more involved than we believe it has ever been in terms of trying to work out what resources would be needed to make a measured change in attendance. I think that, from a practical point of view, you're not going to go from 900 chronically absent to a few chronically absent in a short period of time, but if that problem is not broken down in one year from now, we want to try to reduce that by some number chosen by those who have a job to ensure attendance.

**The Chair:** Great.

We'll go to Ms Pastoor.

**Ms Pastoor:** Thank you. Just one quick question. How much does transportation play a part in these kids not getting to school?

**Mr. Saher:** It certainly is a factor that's being cited to us. I'm afraid that I personally don't have enough information to give you that in a measurable term, but, yes, transportation is cited as a problem.

**Ms Pastoor:** Thank you.

**The Chair:** Great. At this point I think we can move on, but if people do have follow-up questions and we have time at the end, please mark them down, and you'll have the opportunity to ask the Auditor General after.

**Mr. Saher:** Thank you. I'm now going to ask Eric Leonty, on my left, to highlight our work with the Alberta Energy Regulator and systems to regulate pipeline safety and reliability. That audit starts on page 39.

**Mr. Leonty:** Our audit of the Alberta Energy Regulator systems to regulate pipelines focused on a number of core activities ranging from risk management and performance measurement to the monitoring, inspecting, enforcement, and investigation of pipeline incidents. Our audit conclusion is that the AER has adequate

systems to ensure that operators comply with the regulatory obligations. In other words, Albertans can be assured that the regulator is performing its function of overseeing pipeline safety and reliability.

While the conclusion is positive, more can be done, and we did identify a number of areas in which the AER could further improve. Pipelines are a critical component of oil and gas infrastructure in the province. The extensive network of pipelines, the age of the pipelines, the public scrutiny of energy operations, and the high expectations of the AER require that continuous improvements to regulatory processes be made.

We found that the AER could better demonstrate the link of pipeline risks identified at an organizational level to activities and resources at the operational level. While this is presently occurring informally, it could be further improved. As risks change and new risks emerge, the AER needs to be able to clearly demonstrate how it is responding at all levels of the organization.

Presently the AER has developed an overarching target to reduce incidents 4 per cent by 2016. While this target is focused and easy to comprehend, all incidents aren't created equal; thus, the present primary target doesn't appropriately encompass the severity and risk of incidents. Also, we found that the measures and targets could be expanded into operational areas and also at the employee level to further align all levels of the organization to help the AER achieve its goals.

Through our specific examination of the AER's investigation into five critical incidents that occurred over the past few years, we found that the AER did quickly and effectively handle the response to all the incidents we reviewed. What we also found, though, is that the AER could have expanded its analysis to further look at some of the contributing factors to these incidents for sharing with industry and to facilitate lessons learned going forward.

Our examination of monitoring and inspection processes verified that the AER is carrying out its core activities in accordance with regulatory requirements. However, to enhance its proactive approach to pipeline monitoring, we found that the AER could be developing a better risk-based approach to examining the integrity management systems of pipeline operators. An effective integrity management system is vital to operators for reducing the likelihood and severity of incidents; thus, it'll be very important for the AER to consider how they can improve their monitoring in this area.

Finally, we found that the AER needs to complete an assessment of its pipeline information needs today and into the future. The AER collects a wealth of data, and an assessment of needs will help the AER confirm whether it's collecting relevant data cost-effectively.

Overall we believe that our recommendations in each of these areas will help the AER make improvements not only in the regulation of pipelines; we feel that these recommendations can also help in other areas of their operation. The AER has a goal to be a leading regulator; thus, continuous improvement is going to be absolutely necessary.

Thank you. I'd be happy to answer any questions you may have.

**The Chair:** We'll start with Mrs. Sarich.

6:45

**Mrs. Sarich:** Thank you very much. I just would like to kind of visit one of the points on page 45, and this is on when the Alberta Energy Regulator took over the regulatory function of the Energy Resources Conservation Board and the energy development regulatory function from the Ministry of Environment and Sustainable Resource Development. The linkage I'm looking at is the comment you made that risk management systems are being

designed but that they're not yet fully implemented to the fullest extent.

Is it fair and reasonable to say or suggest that to have a fully comprehensive risk management plan fully operational takes time? The regulator started in June. You know, I appreciate that this is 2015, but maybe as an organization they're really in their infancy, and it takes time to establish a fully comprehensive plan to the expectation or to the level that you are commenting on. I appreciate the comments and the observations and findings that you've made, but in all honesty what would be reasonable?

**Mr. Leonty:** Yes, I think it's fair to say that the risk management systems would be expected to evolve over time. The AER did inherit some existing systems from the ERCB and had been working to expand those and make those suited for what they were doing.

By way of an example, the strategic plan for the AER includes pipelines as a risk, so what we would expect to see is that a risk management system would include the specifics around, you know, the likelihood and impact of pipeline activities, the mitigating actions, and how that translates into activities at an operational level. That's what the AER is still working towards, that linkage to how it's impacting some of the operational activities, deciding on how resources would be best applied. The AER regulates a number of facets of the energy industry, so you need that risk management system to help improve how some of those activities are being allocated and done.

**Mrs. Sarich:** I'll close with this. Is it your expectation that they would have the majority of things, you know, like the criteria, in place within a 12-month period? You've made the point that it evolves over time. What's the expectation at the front end now that we're just over 12 months out?

**Mr. Leonty:** We knew, when beginning this audit, that there were some systems that were going to be changing and worked on even during the course of the audit. Based on our audit at the time, certainly I think the AER finds it useful that as they're developing the system, potential improvements that we could identify would be helpful to them moving forward. That's what relates back to the overall conclusion, that the system they presently have is serving them, but continuous improvement is important going forward.

**Mrs. Sarich:** Great. Thank you.

**Ms Jansen:** I want to refer to page 46. In one of the recommendations, recommendation 5, you recommend "that the Alberta Energy Regulator complete a skills gap analysis and formalize a training program for its core pipeline staff." It's pretty clear you found deficits there. Can you give me a sense of what the deficits might look like?

**Mr. Leonty:** The focus of that recommendation is that as we were looking at what type of training existed and what expertise the staff has, the necessary expertise is in place. Sometimes it's relegated to a few individuals, depending on the technical area. I mean, the AER historically has experienced some challenges with turnover, you know, potentially with staff leaving to industry. They're also looking forward as far as succession planning for some of their areas. At this point we didn't see that there was a formalized training program in place, and there are emerging areas like integrity management systems that will potentially warrant additional skills from their staff, so we feel that as far as future-proofing the organization, this recommendation will help them move in that direction.

**Ms Jansen:** So you have a bit of a one-two punch there, where you have perhaps a training program that's not quite where it needs to be plus a higher turnover of staff than you'd like to see, and the combination of those two things is creating a deficit?

**Mr. Leonty:** Well, I mean, as far as this recommendation, it is focused on dealing with the risk that if you have staff departures, you're ensuring that the staff you do have have the necessary technical expertise to carry out the activities that you want them to.

**Ms Jansen:** Then just one other piece. I think my colleagues touched on it, that risk management systems are being designed but are not yet implemented. Two of your bullet points include an opportunity to register by seeking input from staff and hiring staff with risk management skills and experience. I'm just wondering, when you look at employees, whether we're looking at sort of an institutional knowledge deficit. Maybe that's one way to put it.

**Mr. Leonty:** In those specific bullets our findings recognize that the AER sees that risk management and having a well-functioning risk management system are very important. That was part of their efforts to bring in the necessary help and expertise in-house to help them do that.

**Ms Jansen:** Okay. Thank you.

**The Chair:** We'll go to Ms Pastoor and then the deputy chair, and then we'll move on to the next topic.

**Ms Pastoor:** Yes. Thank you. I will be brief because, basically, it just follows along on my two previous colleagues' comments. One of the things: on page 45 it says that "the success of the regulator's oversight through these programs depends on the AER having sufficient, well-trained," et cetera, et cetera. The word "sufficient" is the one that jumps out at me. Is this organization like many others, where they simply don't have enough front-line staff and that they really should be hiring more? Then, unfortunately, we get into funding. The word "sufficient" really jumps out at me. I know from other areas in our province that it's front-line staff that we're missing, and oversight is part of the front-line staff that has been cut over a number of years.

**Mr. Leonty:** That's something the regulator needs to determine based on their risk assessment, their activities that they have planned. Based on our audit work looking at the inspection activities, investigations, and enforcement, we didn't see that as being an issue to carry out those activities. They were able to actually perform the work necessary to ensure that regulatory compliance was complied with. But, certainly, going forward, looking at risk assessments that are completed, what they plan to do if things change, they'll need to determine: what are the appropriate resources, and where should they be applied?

**Ms Pastoor:** Thank you.

**Mr. Young:** You mentioned that there's a wealth of data, and the information I have is that the data is not all exactly collated in terms of a real-time kind of way. In terms of the field inspection data we have the nondestructive testing in terms of X-rays. You have everything from in-line inspections using pigs, and then you even have dog inspections and airline inspections. Is this all managed in a big-data kind of way in real time, where it is used to determine what the risks associated are, or is this a whole collection of separate spreadsheets and unconnected data sets?

**Mr. Leonty:** Well, they do have specific systems directed at storing data for the number of operators that they're regulating in the province, and the recommendation, actually, gets to the heart of some of the things you're bringing up as far as whether there may be changes in how some of the industry carries out its work. The AER is always looking ahead to determine what data they'll need. Collecting data isn't necessarily cheap, so in determining all the data they're collecting now, do they need to collect everything that they are presently and do an assessment, to that end, to determine what they need today and what they need in the future so that it provides them the data to be proactive in assessing risks with operators going forward as well?

**Mr. Young:** Have they gone down the road of standardizing the data sets: what needs to be collected, what a minimum level of inspection is? For example, is there a standardized field inspection? From an oversight point of view – and that's what we're talking about in terms of risk – when you have multiple different operators, each sort of doing it a little differently, how is that oversight able to accurately evaluate the risks associated with the different operators?

**Mr. Leonty:** There is baseline information that's prescribed right in the regulation. That is our first key finding. We did find that the regulator is collecting and reviewing information that's required by the regulation.

As far as inspections, I mean, there are a number of different types of inspections, but there is, you know, standardized guidance as far as some of the inspections that they're carrying out that would have them go through a number of similar tasks and activities to look at operators.

6:55

**Mr. Young:** I guess what I see as sort of where we need to be is where this is a system that happens, that it's not resting in one person who understands risk management – that person comes and goes – but that there's a system approach to the risk management. The one factor I often see missing in terms of risk is the timeliness of that data. Is that considered in your findings?

**Mr. Leonty:** We didn't find any specific issues in the data that was prescribed by the regulations as far as it being untimely.

As far as some of the emerging data needs, that will be something that the regulator would have to consider as far as how quickly they'll need that data for it to actually be impactful in what they're doing.

**Mr. Young:** Okay. Thank you.

**The Chair:** We're just going to have one more question, from Mr. Bilous, and then if we have time at the end, Mrs. Sarich will have more questions for Mr. Leonty.

**Mr. Bilous:** Yeah. Thank you, Mr. Chair, for giving me a moment here. On page 57 we're just talking about pipeline data assessment that hasn't yet been completed, and it's just a bit of a flag for me. Again, in order for us to get an accurate picture of how well we're doing or not doing or how to improve our systems, we need to have a certain baseline of information. For me, you know, it is a flag that the AER does not assess whether the data it collects from, for example, pipeline operators is adequate for even managing risks of the pipeline. Now, I believe it's you folks that suggested a full assessment of pipeline data would help them to make better decisions, more informed decisions. I'm wondering: is this a matter of more resources for the AER to complete this? Is it something that wasn't on the radar? Is it a matter of either potentially strengthening

legislation or enforcing current, existing legislation, or is this about stricter guidelines that the AER should be implementing on its own?

**Mr. Leonty:** The best way I could answer that is in going back to the fact that the AER is collecting the information that's required under the legislation and regulation. We see that's taking place. The next step, what we were looking for from a systems perspective, is: is there a group or group of individuals that's actually looking to see what they're collecting right now, what they may need in the future, and actually specifically dedicating some effort into assessing what their data needs will be?

As far as how AER would carry out that work, that would be something they have to decide to best serve their needs going forward.

**Mr. Bilous:** Okay. Now a last, really quick question. Still on page 57, we're talking about construction schedules of composite pipelines. I'm just wondering: is that not being tracked at the moment, that information on when these composite pipelines are being constructed? That information doesn't exist currently?

**Mr. Leonty:** It would exist in the licensing information. We include it here in the report as an example of different types of data that could be used to identify when an inspection might best take place and to help to further refine those processes. As there's a change like that in the industry, you know, that's an important time for the regulator to consider how they could best use that data to help design their inspection and monitoring processes.

**Mr. Bilous:** Okay. Thank you.

**The Chair:** Go ahead.

**Mr. Saher:** Thank you, Mr. Chairman. Brad Ireland will now brief the committee on Environment and Sustainable Resource Development and also a connection to Municipal Affairs on flood mitigation systems.

**Mr. Ireland:** Thank you. Our overall conclusion, on page 71 of our March report, was that "the department has taken significant actions since the June 2013 floods to develop and implement a flood mitigation plan." This momentum needs to continue as the projects need to be completed to achieve the intended results of the plan, which are to reduce the risk to Albertans from future floods.

Our audit identified four areas for improvement. First, as part of the audit we examined the department's flood hazard mapping program. We found that the department does not have complete and up-to-date flood hazard maps to identify flood hazard areas throughout the province. We also found that the department produces technically sound flood hazard maps. However, the department's mapping guidelines have not been updated to deal with all types of flood hazards.

Second, we examined the department's risk assessment systems that support flood mitigation policies and spending. Risk assessment is a function of the probability of a flood occurring and the consequences if a flood does occur. What we found was that the department does not have the capacity to do flood risk assessments, and by capacity we mean the methodology, technical skills, and data.

Third, we reviewed the department's systems to manage future development in floodways. We made recommendations to both ESRD and the Department of Municipal Affairs because both have complementary roles to mitigate flood risk by managing future development in floodways. We found that historically Alberta has not had a consistent approach to managing development in flood

hazard areas. Some municipalities restricted development in the floodway, and others did not. We noted that Municipal Affairs has not finalized the supporting regulations for controlling, regulating, or prohibiting any use or development of land in a floodway or developed processes to implement and enforce that.

Finally, we looked at the department's systems to assess the effects of flood mitigation efforts. We found the department does not have adequate processes to assess what will be the cumulative effect of flood mitigation programs and initiatives within communities when it approves new projects. Provincially funded projects need to be co-ordinated within the government and also with efforts by local governments to ensure that communities are not over- or underprotected.

Thank you, Mr. Chair. That concludes my summary.

**The Chair:** Does anyone have any questions in that regard? Mrs. Sarich.

**Mrs. Sarich:** Sure. Thank you, Mr. Chair. Just one last question that came to mind in regard to the governance role of oversight. I wonder if you had an opinion about the level of organization, the organization system's competency to deploy a comprehensive, continuous improvement system for the AER.

**Mr. Leonty:** Sorry. Could you repeat the question?

**Mrs. Sarich:** Sure. From a governance and oversight perspective, from that lens, I'm wondering if you had an opinion about the ability of the AER and their organization systems, whether they have a level of competency to deploy a comprehensive, continuous improvement system?

**Mr. Leonty:** As part of our examination of the risk management systems we did have conversations with the board to understand what kind of information they were receiving from senior management and what kind of information they were submitting back to help provide oversight. We found that that process was well functioning.

**The Chair:** At this point let's just focus on the most recent report here if that's all right. I know that Mr. Leonty's answers must be very invigorating, but we'll continue on.

Ms Jansen, do you have a question on the flood issue and the mapping?

**Ms Jansen:** Yeah, just one quick question. Thank you. Under audit objective and scope, on page 89, you talk about the objective being to determine whether the department has adequate systems to regulate dam safety, and adequate meaning "the department must be able to assert that it has identified any unsafe dams and has processes to monitor the dam owners' management of the dams until the deficiencies are corrected." I'm just wondering: where do you think we are in terms of what that picture looks like right now? How far are we from the finish line?

**Mr. Leonty:** One of the things we did identify was that there were a number of deficiencies that were noted through our examination of the dam safety reviews that the department was receiving. We didn't see evidence of a system that was appropriately tracking those deficiencies. I mean, even by the conclusion of the audit there wasn't a system in place that was necessarily helping the department track those deficiencies to be able to follow up on whether they were being, you know, corrected in the time frame that was outlined in the dam safety reviews and to allow the department to follow up into the future.



**Ms Jansen:** So what you're saying, as a quick follow-up, is that we can't confidently say right now that we can identify all the unsafe dams in this province?

**Mr. Leonty:** Our conclusion is that there isn't sufficient evidence that's being maintained by the department at this point to draw that conclusion as to whether the dams in Alberta are safe or whether there are particular unsafe dams that require additional attention.

**Ms Jansen:** Thank you.

7:05

**The Chair:** All right. Are there any questions for Mr. Ireland?

I guess, just briefly, on page 76 of your report, I mean, the key finding is that "the department does not have complete and up-to-date flood hazard maps to identify flood hazard areas throughout the province." I mean, that's, frankly, a pretty damning conclusion, and I don't think many Albertans would feel confident, given this conclusion, that the department or the government could actually do their jobs. You've mentioned some resources that would be required to meet that finding. Can you just summarize why you think this is the case and what kind of resources it would take to alleviate that finding?

**Mr. Ireland:** I think we've said in the report here – I think it's on page 77 – that this program has had inconsistent funding over the years. From what I understand, the level of effort going into completing one of these maps is sort of a one- to two-year process. It's not like we can go out and map these unmapped areas quickly or that we can redo some of the maps that are aged very fast. I think that, you know, \$8.7 million has been put aside to bring the state of the maps up to date and to complete some of the priority areas, so I think that probably the focus is making sure that we're spending this money on the priority areas that, you know, are at greatest risk.

**The Chair:** Thanks.

Go ahead.

**Mr. Saher:** If I could just supplement. One of the things that I found very interesting – and Brad just referred to it – is on page 77. We're saying that the flood hazard mapping is not up to date, but we also make the point that bringing it up to date is, in a sense, conditional on there being up-to-date flood hazard mapping guidelines. There are three bullets on page 77, and I'll just read it because I think it's important.

Department employees know they need to update the guidelines, but cannot proceed effectively until the policy uncertainties are resolved, including:

- how to manage the consequences of changes to flood hazard areas in communities that are already mapped
- whether special allowances should be made for areas protected by dikes and berms.

Thirdly and, I suppose, most importantly:

- whether the current level of acceptable risk is appropriate.

So this is the language that people talk about, 1 in 100 years floods. I won't get into the technicalities of what that actually means, but the standards that are being used have yet to be confirmed. Neighbouring provinces, for example, have different standards, more rigorous standards.

**The Chair:** Thank you for that.

**Mr. Bilous:** Actually, thank you, Mr. Auditor General, because I wanted to follow up on the chair's question, again, on 77. These policy uncertainties, until they're resolved – and, I mean, I

appreciate that you spelled them out. Now, these constraints as far as how they're mapped, the mapping guidelines: is that because of municipal bylaws, or is it because of municipal legislation via the MGA, or, you know, is this just a bureaucratic series of red tape as far as moving this forward and what's preventing these flood maps from being updated?

**Mr. Saher:** I won't use any of your language. From my understanding, this is not directly to do with local government decision-making. I think this is decision-making by the government of Alberta through the department.

Brad, am I right?

**Mr. Ireland:** Yeah, you're right. The program has been run by the department in the past, and these would be decisions that the department would need to make.

**Mr. Bilous:** Okay. And I didn't mean to offend you with any of my language. I guess that I'm just trying to get to the root of this. Is this, then, something that would need to be changed via legislation? You know, as far as the mapping guidelines, I mean, how can we move forward on the process of getting these areas mapped and then getting the new information, whatever new information that is, changed?

**Mr. Saher:** I think, to be honest, that's a question that you would have to put to departmental officials. I mean, as best as I understand it, these are policy decisions that are to be made by the department, and that's why it's the third bullet in our recommendation. I think what we're really trying to say is: be careful about people thinking that there's just a backlog of mapping to be done so that all that's needed, you know, is to spend the \$8.7 million and you'll get yourself there, or whatever the sum is. There are actually reasons why this mapping is not proceeding as quickly as people might think it should proceed. Those that do the mapping are saying that we're not sure that we have the guidelines that we should be using to do the mapping.

**The Chair:** We'll go to Mr. Luan.

**Mr. Luan:** Thank you, Mr. Chair. This is a very good discussion because it brings me a memory of one of the discussions I had in my constituency. In the 2010 flood the city of Calgary happened to use the most updated flood mapping, and the author of that happened to be my constituent. I also know the city of Calgary used that only a few months before the real flood occurred. The actual estimate of the flood level in the map is within two metres, I believe they said. So my question to you is: when you identified this inconsistency, had you also realized that some municipalities like the city of Calgary have been doing better than others? Or is the real issue here a provincial standard that needs to be more emphasized versus sporadic performances here and there?

**Mr. Saher:** Brad, do you want to try that?

**Mr. Ireland:** Yeah. I think your observation is right. I think some municipalities are using different levels. So what this observation is getting at is that, yes, the province-wide standard needs to be followed, and then, obviously, there would be a cost, I think, of people using a higher level of standards if they want to do that. I think it's getting the provincial standard nailed down, and then the mitigation efforts that the province is approving for various different projects would then be aligned with that standard.

**Mr. Luan:** Thank you.

**The Chair:** We have a few minutes left. I'm just wondering if the Auditor General wants to summarize anything else in the report.

**Mr. Saher:** No. I think we had a question on the dam safety, and I think that was a good question. I think it was useful getting into that.

All I would really like to say is that I think this work illustrates the really important role of a Public Accounts Committee. I mean, it's our job to decide on an audit, scope it, and we will be looking at systems designed to achieve a particular result. We do our work. We put down our findings. We make recommendations. So I think that the process is really important, that the Public Accounts Committee has a chance to interact with the departmental officials who are charged with running the programs, achieving the results that they've set out to achieve, is able to ask questions.

One important one is: do you agree? Do you actually agree with the Auditor General's recommendations? Do you agree such that you're actually taking vigorous and detailed steps to deal with the recommendations? By when do you think you'll have your work done such that the Auditor General's staff can go back in to verify that you have in fact changed the situation?

I think that there's a lot of very, very important – I mean, this is a March report. Some people would say that it's small, but I believe it has at least four very, very important areas. I think it's going to

be crucial for the next Public Accounts Committee to call departmental officials before you and ask questions. So, for example, you will get a much better response to the question of mapping guidelines. Who has the responsibility to set standards there? For example, if a municipality chooses to protect itself to a higher level than the provincial standard, is that rational? Does it make sense? These are the questions that those who run programs should answer. We're certainly bringing to your attention that there is something that needs to be done.

I don't think I can say anything more useful for the committee's benefit tonight.

**The Chair:** Thank you so much for all of your work and your staff's work and for further providing ... [interjections] Yeah. There we go. It doesn't bang as well in here as in the Leg.

And, of course, giving us some insight into the operations of your office in totality and then at the end here giving us ideas on the types of questions to ask departmental officials: we really appreciate that.

With that, the next meeting is tomorrow morning with Alberta Treasury Board and Finance and Alberta Infrastructure.

I would like someone to move that the meeting be adjourned. Mr. Luan so moved. All those in favour? Opposed? Carried.

Thank you so much, everyone.

[The committee adjourned at 7:15 p.m.]



