

Standing Committee on Legislative Offices

Friday, April 15, 1983

Chairman: Dr. Elliott

1:40 p.m.

MR. CHAIRMAN: Gentlemen -- and that is not ignoring our secretary -- we are now 10 minutes past the starting time. I'm standing because I've been sitting so much this week, I find if I don't do something different I'm going to go brrrrrr. Anyway, welcome to our meeting, and we'll get it under way.

I would like to point out in the first place that we do record, but that is just for mechanical reasons and for our own benefit in helping with the record. If there is anything to be said that a person does not want to have recorded, we can certainly have the machine shut down. It causes no problem at all. So don't feel that you're in any way inhibited or impeded by having the tape running. We can cut it off and continue the discussions very conveniently.

We are here with only one item on the agenda as I understand it. I say that with a purpose because when I chair meetings, I don't pretend for one minute that I happen to have all of the answers as to how we should proceed or that I have all the information at hand. If people feel they wish to make suggestions or recommendations as we go along, I'm certainly happy to listen to them. But as I understand it, we are here today for one reason: to listen to the Auditor General. He will be presenting his budget to us for the year 1983-84. After we have gone through the budget -- I am seeking guidance now -- we would like to have an opportunity to pursue the one final topic. That will be done by committee with somebody that you are about to appoint to meet with us. I'm talking, sir, about yourself, just so there's no mystery about this.

MR. ROGERS: Mr. Chairman, I'd like to nominate Mr. Henkelman who has served in this role in previous meetings.

MR. CHAIRMAN: Thank you very much. Does that fit with our committee? Does that make sense?

AN HON. MEMBER: What are we talking about?

MR. CHAIRMAN: After we have gone through the budget estimates as presented, we're also going to spend a minute to talk about the Auditor General's salary. It will come as an addendum to this particular meeting as we've outlined it here.

DR. CARTER: After the Auditor General has taken us through and we've had opportunity to ask questions, I'd also like to raise one other matter before we have this other discussion.

MR. CHAIRMAN: Very good. For the sake of the recording, I'm going to ask that we give our name each time we wish to speak. If you somehow cause a delay, you will find that the light will go on. The gentleman handling the switch is up there so your name and everything will get in. There's a question. Is the recording device coterminous with the PA system?

MR. BLAIN: Yes.

MR. CHAIRMAN: So unless the switch is thrown, what we're saying isn't on.

MR. BLAIN: No.

MR. CHAIRMAN: The recording is keyed into the little green light.

MR. BLAIN: That's right.

MR. CHAIRMAN: Okay, so we all know that.

AN HON. MEMBER: There seems to be some disagreement up there.

MR. CHAIRMAN: It looks like we're going to be recorded whether we can hear ourselves or not. Is that what you're saying?

SOUND OPERATOR: Just ask to have the recording cut off. The PA system will still be on.

MR. CHAIRMAN: Oh. Well, that's spending enough time on ground rules and a few of the other housekeeping chores.

Mr. Rogers, I think we will just ask you to step right into your activity. We're here to listen.

MR. ROGERS: Thank you, Mr. Chairman. I would like to talk to this document in the binder, and I believe everyone has a copy. If we are looking at totals, the estimates for '83-84 are increased to \$9,061,265 from last year's estimate of \$8,630,480, and that is an increase of \$430,785 or 4.99 per cent. You'll notice that we project considerably less than the '82-83 estimates. We project that our expenditure will be considerably less than that projected for that year, and we project a total of \$8,078,848. The reason for that is that a number of expenditures that we had planned for '82-83 will actually occur in '83-84. We can deal with those later on.

If we look at how the total figures are made up, the table immediately below that first sentence shows that it is split between manpower, supplies and services, grants, and fixed assets. The manpower has increased 6.95 per cent -- that's assets; the supplies and services have decreased 2.42 per cent; with grants having an increase of .05 per cent; and fixed assets increasing .41 per cent. That's a total of 4.99. But I would point out that it isn't the increase of each item that we're talking about on a percentage basis. It is the increase or decrease as a percentage of the total of the '82-83 estimates.

The next section deals with manpower and indicates the components of the manpower total that vary. The full-time permanent salaries, for instance, is 7.36 per cent. The overtime in wages is the same. The employers' contributions decreased .18 per cent, and the allowance and supplementary benefits decreased .23 per cent.

Perhaps at this point I could pause and ask if there are any questions on those figures.

DR. CARTER: I was wondering, Mr. Rogers, had you received any kind of guidelines from the Provincial Treasurer with respect to percentage of increases? I think it's very laudible that you are in at 4.99. Was there any direction given, or did you just decide that that was an appropriate figure in light of the present economic circumstances?.

MR. ROGERS: Actually, because of the relationship with the government, I didn't receive any direction. But I am very much aware of what is taking place. I felt there was an obligation -- there was no committee to turn to at

the time because of the election -- to cut things down as much as they could be cut and still maintain the standard of auditing that is necessary.

MR. ANDERSON: Mr. Auditor General, through the Chair, could you indicate whether or not next year's increase will be proportionately greater than this year's, resulting from the fact that you had some expenditures during the last fiscal year which you were saying would apply to this year and therefore reduce the needed increase for this year. Does that mean that we are looking at more in the coming year?

MR. ROGERS: I don't really see another increase the following year. Is that what you're asking?

MR. ANDERSON: Yes, to make up for . . .

MR. ROGERS: I would have to ask Mr. Wingate. Mr. Wingate, once these enhancements to the computer system are complete, there won't be further large amounts for the following year, will there?

MR. WINGATE: No, it's intended that the upgrade this year should last us for two or three years. So it's not envisioned that there will be, following this year, a large increase next year.

MR. ANDERSON: Can I ask as a supplementary whether there are increased operating costs reflected in this budget for that computer system? Will they follow through for the next two or three years? Or are those costs the operating costs, not affected in terms of those changes?

MR. WINGATE: No, the operating costs should remain fairly static. This is the advantage that accrues from getting better equipment, that you can do more with the same level of staffing.

MR. ROGERS: If I could add a comment to that, Mr. Chairman. The reason for use of the computer in auditing -- and I guess we could say that, to some extent, we're pioneering, at least as far ahead as most -- is to increase productivity, to make the rather expensive professional time that we have on the payroll more productive through the use of better tools. That is really the main thrust of our development program.

DR. CARTER: Would this first set of columns -- when we're talking about projected estimate, estimate increase/decrease, when do the actual figures come in for the last fiscal year with respect to your department? Do we look at one or two months from now, so that we might be able to compare them?

MR. ROGERS: The final close off of the payment system is usually around August. But I think we get final figures about two months after the end of the fiscal year.

DR. CARTER: A follow-up on that one, then, would be that when you have your final ones, would you be good enough to send them to the chairman of the committee, please?

MR. ROGERS: Yes, I'll do that.

MR. CHAIRMAN: Are there any other questions, then, to this point?

MR. ROGERS: Mr. Chairman, if I could just comment on one of the situations that developed as the year 1982-83 progressed. I have to go back into '81. In '81 we were having great difficulty hiring. I think that you may be familiar with this; it was quite widely reported. In the spring of '81, I felt that it was absolutely necessary to go overseas to recruit, because we had 30 vacancies at the time. We could not fill them from within Canada, and had had a series of competitions in eastern Canada and were having very little success because we were in rather heavy competition, of course, with the private sector.

So in September of '81, I hired a number of people from the U.K. Because when I got to London, it was to find that an agreement had been signed which, I felt, and I think many people did, that there would be a further spurt of economic growth. So this number of people were hired to fill vacancies. In many cases those people did not arrive until, in some cases, six months into the fiscal year '82-83 -- they had to sell houses and things like that, which was quite difficult in the U.K. at the time, go through immigration, and so on -- at a time when I could have hired in Canada. I felt that this was most regrettable, but unfortunately we had obligations and had made commitments.

Consequently, our projected figure for '82-83 in the early part of the year had a number of vacant positions, more than we would have liked because it affects our timing and the amount of work we can do. As those people arrived, our vacancies decreased. We now have four vacancies. You can see the difference: 26 additional people. So we go into '83-84 with every anticipation that those people will remain with us.

The other thing is, of course, that the people we have on staff are remaining with us far longer than was the case. Their productivity is increasing. I hope to reflect this in auditing in depth in areas that I would like to have audited earlier but was unable to. Also, I hope for more timely production of the report. I don't know what I can do in one year. But as you'll notice from the item in my report, I feel that this is a worth-while objective for the Legislative Assembly to be able to receive both my report and Public Accounts at an earlier date.

So I believe that the situation we now find ourselves in will enable us to do a better job.

MR. CHAIRMAN: How are we doing for questions?

MR. MILLER: Mr. Chairman, I want to talk on philosophy. I wonder if this is the time, or would you rather it wait?

MR. CHAIRMAN: You were presenting your story, and you stopped and asked if there were questions. Would you rather continue further on into your presentation before we get into answering the question?

MR. ROGERS: Mr. Chairman, this is an informal meeting. I think that if the matter is to be discussed, it might as well . . . This is not a formal presentation; I'm just speaking.

MR. CHAIRMAN: Very well. If nobody has any objection, Bud, carry on.

MR. MILLER: Thank you, Mr. Chairman. To the Auditor General, Mr. Rogers. Basically, I guess my concern is that with the amount of auditing that is being done and is projected to be done, there's no question that each and every one of us is concerned that we get the best bang for our buck, that there is no stealing going on, and that everything is honest and above board. However, I have a feeling, and correct me if I'm wrong, that as a result of the necessity of being able to account for each and every shovel, axe,

toothpick, and everything else that is bought or used by the department, there is a need to do an audit on it. As such, although your costs are increasing very moderately, the cost to each department of government is going up substantially because of the amount of controls that are put on.

I have even heard an indication to the effect that some of the grants which are going out to some of our charitable organizations are perhaps going to be audited. This causes me some concern because, having been involved with various organizations that have done a tremendous job, in rural Alberta particularly, of providing facilities and charitable works, we're going to be out there asking them to explain each nickel they've gotten from the government and what they did with it, even though they themselves have spent a considerable amount of their own money, a considerable amount of their own time, and perhaps on occasion haven't recorded it as an accountant would like it to be recorded, but in effect they've given more than their fair share to the community. If we're thinking of going along the lines where we're going to expand the Auditor General's role throughout government and throughout all the volunteer organizations, from a philosophical point of view I have a very grave concern.

MR. ROGERS: Mr. Chairman, I've heard this before about auditing charitable organizations. That is not from our office, I can assure you. I believe the departments perhaps do take our names in vain on occasion and suggest that they might expect a visit from us. But we are dealing with many billions of dollars, and we try to keep a sense of perspective in going where material amounts are involved. This very often would not include the kinds of organizations, sir, that you are talking about right now.

The only times that we have audited outside the government sphere, any what you might call private-sector organization that had some volunteer work involved in it, I think was at the request of a department, and there were some suspected problems there. We carried out an audit there. We do not normally follow public moneys to the final destination, if you will. But we do ask for the right to do that for those situations where material amounts are involved.

For instance, let us say grants are given to the city, and the city is accounting for those grants. We would like to have the ability to go in and carry out an inspection audit to see that we agreed with the accounting principles used by the city -- that kind of thing. It is not our job, and it is certainly not our inclination, to harass anyone, and certainly not to make matters more difficult.

Earlier you spoke about keeping track of the shovels and so on and so forth. I point to a paragraph in the report, page 17, which says -- and I had been talking about fixed asset control, the very matter we were discussing.

It is acknowledged that situations may arise where the cost of administering an effective fixed asset control system will outweigh the benefits to be derived. In these circumstances it may be appropriate for the Office of the Controller to grant formal dispensations exempting an organization or a class of assets from application of the guidelines contained in the manual of financial administration.

AN HON. MEMBER: What were you reading from?

MR. ROGERS: I was reading from the annual Auditor General's report, page 17. I only did that to show that we are very much aware that controls can be overdone. We look for overcontrol, where things have got out of hand. We look for those just as much as we look for lack of control. The controls we're looking for generally either relate to very large expenditures, what we call material expenditures, or they relate to revenue that is material in

nature. We try to concentrate only in those areas. We obviously look at other systems too, but again the system should not be out of keeping with what is being controlled.

Does that -- you said it was philosophical, so I took the liberty of telling you how we regard it.

MR. MILLER: Thank you, I appreciate that very much. I would like to relate one of the experiences I had when I was the Associate Minister of Public Lands and Wildlife. We felt, and it was a department recommendation from within the department, that we had to have an auditor or a bookkeeper or an accountant in each of our regional offices to satisfy the needs of the Auditor General in regard to the assets under the regional officer's control. With five regional offices, it seemed to me that we were putting five people on just to keep track -- and I mentioned the shovels and axes because that's the way it was related to me -- of these things because it was a requirement to satisfy the wants of the Auditor General.

MR. ROGERS: I would comment on that, sir, that the requirement is not the requirement of the Auditor General. The requirement is in the Treasury administration manual. Treasury is government, and the Treasury administration manual spells out in detail how fixed assets shall be controlled and accounted for. Our job is to bring out any instance where there is lack of compliance with that manual. That is what I'm saying here. If an asset does not warrant the cost of exercising controls over that asset, then whoever is involved should go to Treasury and get dispensation from the administrative manual of Treasury, and then there is no lack of compliance that we would report on. So it may be a communication problem as much as anything.

MR. MILLER: Mr. Rogers, from your explanation, it is a lack of communication, and it wasn't the way it was related to me. I pass that on to you as it came to me for your comments. Certainly you've enlightened me to the aspect that we're going to the wrong person. When I went to you, I should have been going to the Treasurer. I thank you for that.

MR. ROGERS: Don, have you any comments; or Ken, have you any comments on that?

MR. SMITH: I think we've been trying to emphasize to the departments that they should be establishing an internal departmental policy as to what level of control they would like to maintain over their fixed assets. If that varies much from the manual of financial administration, they should seek approval from the controller's office for that difference. Actually there are a few departments that have taken that step, so there is some progress being made in this area. But it's a very long way from what we would like to see, and I'm sure it's a long way from what the controller's office would like to see. But you're correct. We try not to come on too strong with the individual departments about adhering strictly to the manual, because we realize it's not always appropriate.

MR. ROGERS: Mr. Salmon, perhaps you may have some comments with regard to universities and other provincial agencies.

MR. SALMON: With respect to the agencies, each one of them is independent of the Treasury manual and therefore are setting their own control standards. We have been reporting where they have not complied with their own guidelines. This is what we've been looking for rather than trying to instigate things that are beyond and unreasonable within the organizations themselves. So

we're trying to stay within those guidelines that they are setting themselves. If they haven't set the guidelines, of course we're asking them to do so. So that's the way we've been operating.

MR. ROGERS: It is for management to determine what it is they want to control, and then control it so that when we audit we know what it is that management wishes to control, because our reports are meant for senior management, for the government, as well as the Legislative Assembly.

MR. CHAIRMAN: How are we making out? Is it okay for questions up to this point? Would you carry on with your report then, Mr. Rogers.

MR. ROGERS: Yes, Mr. Chairman. I'll simply elaborate on the comments on the four small paragraphs at the bottom of the first page and give a little more detail on the figures we've already dealt with. You'll notice the last sentence; there's no increase in the number of permanent full-time positions. We do not anticipate that. We have been at the same level in established positions now for about three years. As I mentioned earlier, what we're trying to do is to cope with an increased workload through increasing productivity, especially through the use of the computer.

We have a number of computer systems members may be interested in, Mr. Chairman. For instance, we simulate the main payment system of the province on our computer in a very attenuated form, and then compare results. If there were a breakdown in internal controls in the main payment system, which could happen through human error or so on and so forth, we would detect that that had occurred and be able to inform management that they had to take corrective action.

We were talking about the philosophy of the office. It is not to detect horror stories, as has been the case with some auditors general -- to look for the horror stories -- but rather to determine weaknesses in systems at as early a point as possible, to minimize loss to the taxpayer, I suppose one might say, but take corrective action as soon as possible after it's possible to detect it. That way, I feel the office fills a positive role as well as that of reporting problems.

If we could proceed to page 2, Mr. Chairman, it deals with supplies and services and gives the increases and decreases in the various items that make up the total. You'll see the percentage increase or decrease of the total '82-83 estimates. That of course makes up that decrease on the first page of the second line of the first table, the decrease of 2.42 per cent. That is how that 2.42 per cent is made up, by the percentage variations that you see on the second column. The considerable decrease of \$135,000 in moving costs is because we had provided, of course, in the previous estimates for moving the staff from the U.K. That will not be repeated, obviously. We do not anticipate having any new staff other than perhaps the odd replacement of individuals who might leave during the year.

Some of the decreases -- for instance, computer and management control systems audits is down \$140,000. That does not necessarily mean we're going to do less work. It is simply that we have incorporated a lot of that work in with our normal auditing, or will do during the coming year. Are there any questions on the figures on that page, Mr. Chairman?

MR. CHAIRMAN: We're doing very well, thank you.

MR. ROGERS: The first three paragraphs of page 3 deal with some of the items that were on that previous page. If we look at grants, I would mention that we are a sustaining member of the Canadian Comprehensive Auditing Foundation and, for the last four years, have provided grants for the operation of that

foundation. It's the foundation, I might add, that produced this report, which we will be discussing in the Public Accounts Committee next week, and a number of other reports. Also, they provide courses for professional development in comprehensive auditing.

We do not follow the comprehensive auditing as it is practised in Ottawa in any exact way, but there is a lot in common between what is carried out in Ottawa through the federal Auditor General's office and our office. We have taken slightly different approaches, and of course those approaches are based on the difference in our mandates; that is, the provisions of the Auditor General Act passed by this House. But that means we've provided \$51,500 for that; that's a decrease of \$4,915 over the '82-83 estimates, the reason being that I took a different approach to the computation. I somewhat took liberties with the by-laws of the foundation, I'm afraid, but it did serve to decrease the amount of our contribution.

I provided an amount in there, and this was a suggestion of the predecessor committee, specifically of the chairman, I believe, that we should provide a certain amount for grants to Alberta universities for accounting and auditing research and education. Very recently, as recent as this week in fact, the Accounting Education Foundation of Alberta has been formed. I would mention in passing that Mr. Salmon is on the board of governors of that foundation. The purpose of the foundation is to obtain moneys from the private sector, and of course we would want to contribute to that too. These will go to the universities to enhance and enrich the accounting and auditing programs. Also, there will be accountability for how the money is spent, because the bulk of the money of course will be coming from public accounting firms in the private sector and from industry. We would be participating in that, as indeed we are a practising office recognized by the Institute of Chartered Accountants.

I think the committee is probably aware that last year we had a practice review, in the same way that all other practising offices in the province have them, and we came through with flying colors. So the standard of work that we do does stand partial comparison with the work of the major firms in the private sector.

If there are no questions, Mr. Chairman, I will move on to the purchase of fixed assets.

The fixed asset purchases are expected to total \$63,900 in '83-84. In actual fact, in '82-83 we spent more than we had estimated. Have you got any comments on that, Mr. Henkelman?

MR. HENKELMAN: Yes. We wanted to increase our computer audit capability, and we purchased several new terminals during the year that had not been projected for. That accounts for most of the increase.

MR. ROGERS: Thank you.

Mr. Chairman, I would at this time like to issue an invitation to the committee, and you of course, perhaps to spend a little time with us, maybe have lunch, during or after the end of this spring session. I would like to have the committee take a good strong look at what we're doing and perhaps get an appreciation of what's involved.

MR. CHAIRMAN: Thank you very much. You beat me to the draw on the lunch bit, because I was going to ask if you served coffee. But you offered lunch, so I'll just remain silent on that topic.

DR. CARTER: Just the one question. I agree with the matter of going to computers and all the rest of it. I'm just curious, though, when you went above your own projected budget in order to buy it, who gave the authority for

you to do that? Because I am certain the Auditor General is going to pick it up in his report at the end of the year.

MR. ROGERS: Quite, Mr. Chairman. There is provision for transferring funds. We did this under proper authority, as would any department of government. Is that not right, Mr. Henkelman?

MR. HENKELMAN: Yes, it was.

MR. ROGERS: Yes, the funds were transferred.

MR. CHAIRMAN: I believe one of the items that we will be discussing before we're through is the appointment of an auditor to audit the Auditor General.

MR. ROGERS: The next page, Mr. Chairman, page 4 of the document, shows the organization. The office is administered by a management committee, which is present here today -- myself as chairman of course, and four members. Each member is responsible for a division of the office. You will see that the four boxes on the third line of the diagram show the staffing of those divisions of the office. It shows the relationship of our office to the Standing Committee on Legislative Offices and the Audit Committee, both of which of course are provided for by the Auditor General Act. We also interface, as you know, with the Public Accounts Committee, and that is not provided for but is a long-standing practice.

The next page, page 5, shows the breakdown of the office as between management, professional and specialists, students, secretarial, accounting, and personnel. It shows the figures at January 10, 1983, as opposed to those at October 1, 1981.

MR. MILLER: What is a student?

MR. ROGERS: I suppose if I took the broad answer, it would be anyone who joins our staff who is not already a professional, either a chartered accountant or a systems analyst; that is, with an EDP background. We have the need for students and technicians. These are, in effect, in an assisting role in the conduct of audits. We have CA students, because we train chartered accountants and have done -- as a matter of fact, I'm a product of the office myself. I was articled to Mr. Huckvale from '48 to 1952 and became a chartered accountant in 1952 in the office. We still continue training students.

In addition to that, when people join us they are in a very specialized area. Consequently, we encourage them to become RIAs or CGAs, even going to NAIT or university as students on their own time. It's only by that acquisition of knowledge that they are able to progress in the office. We have a series of steps which they can qualify themselves for simply by the amount of knowledge they acquire and the credentials they obtain.

I think that highlights, Mr. Chairman, what has happened over the period. At October 1, 1981, the vacancies were 29 and at January 10, 1983, they were 13. But what this doesn't show is we already had people coming who had been delayed for various reasons, because we also recruited students for the coming year, who are coming from university about now as a matter of fact.

MR. MILLER: [Inaudible] for the organization?

MR. ROGERS: It's down to four now. But the difference of nine came from January 10. We knew they were coming. I would say that I wouldn't want to

fill those four positions. I'm not seeking to fill those four positions. I think it's healthy to have a little less than the total that you could obtain. As a matter of fact, due to the change in situation, we are in the position now that people are applying to us on a regular basis, which is unheard of in the 35 years that I've been in the office. I've not known a situation like this, where we are getting at least one applicant a week from chartered accountants.

MR. CHAIRMAN: Very good. Can you continue?

MR. ROGERS: The next page, page 6, deals with allowances and supplementary benefits. These are amounts over which we do not have great control, as you can imagine. They are usually fixed by third parties. Page 7 gives a breakdown of the supplies and services. These are breakdowns of figures we've already looked at but give the details to a much greater extent.

DR. CARTER: A question on that page, Mr. Chairman. It's with conferences and professional development. I realize that in the life of the previous committee we did hear about the whole aspect of professional development, which should be encouraged of course. But I wonder if you might comment briefly on that rather substantial jump from \$39,419 of '82-83 to the \$119,000 plus of '82-83. That's fine for us now to show we've reduced it in terms of '83-84, but I wonder if you might make some comments about that significant jump.

MR. ROGERS: Of course the '82-83 was based, as you can see from the figure, on what we anticipated would happen. As the year proceeded, we delayed certain anticipated involvements of professional development and conferences into the '83-84 year. In effect, because the moneys lapse at March 31, 1983, you have to reprovide. So to the extent that we are low in '82-83, you really have to take two years together to get the true cost. Some of the anticipated expenditures had to be reprovided for because we did not expend them in '82-83. The other thing is that on some of these professional development courses and conferences, people have to be at a certain stage of development to go. There have been delays in that area. This is not unknown to have this kind of situation.

MR. CHAIRMAN: I would like to make a comment from the Chair for a minute on our time frame. It would appear that our time as a committee is going to be rather tight at a quarter to three. It would appear that we will have to adjourn and continue. We'll obviously not finish everything there is to be said within 15 minutes. Knowing that, if we use the next 15 minutes to our advantage, as you see fit, with the presentation reports, then we'll take the last minute to make sure we can find a suitable time to continue. You will not be available Monday, will you?

MR. ROGERS: Monday or Tuesday, no. That is correct.

MR. CHAIRMAN: That's fine. We'll find another time. Will you be available next Friday at this time?

MR. ROGERS: Yes, sir.

MR. CHAIRMAN: We are scheduled to meet next Friday at this time, and maybe we can work in two things then; we'll see. That's enough about that. Carry on with the report.

MR. ROGERS: Mr. Chairman, page 8 is a continuation. The one big difference we've got there is the computer operations. The same kind of thing happened there; it was pushed forward. Partially that was done deliberately and partially there are other constraints, such as manufacturers developing devices and so on and so forth.

On page 9 are the agency audit agreements that we have with private-sector firms, and they act as my agent. We have found this works very well. We adopted this in 1976. It has grown over the years, but it seems to be working very well indeed. Especially in the outlying areas -- they are not all outlying, but as you will see many of them are -- it is advantageous to have the institution, the college, or whichever, being able to deal with a local firm of chartered accountants who, as far as the audit is concerned, acts in the capacity of agent to us, but during the rest of the year can provide accounting services to the college or whatever. This seems to be appreciated by our auditees, the people we audit, because of the fact they are, in effect, dealing with someone in the local community.

We are very happy with the type of work that has been performed under this plan. Our senior staff are involved in the planning of the audit, sitting down with a partner of the local firm, and we're also involved in the various phases of the audit, where required. We get a copy of the working papers; we review the working papers. The agent attends the exit conference with us. Then the agent issues a management letter to me outlining any shortcomings in internal control that he has observed in the course of the audit. Then I forward that to the auditee, stating that our office agrees completely with the observations of the agent. In that way we involve the agent in the whole process, and it seems to work well.

MR. MILLER: Mr. Chairman, why do we pay this rather than the specific organizations, some of which are private organizations?

MR. ROGERS: I'm sorry.

MR. MILLER: Why does the government pay this? Why don't they each pay the cost of the audit themselves?

MR. SALMON: Mr. Chairman, the situation is that the Auditor General is the auditor of all of the organizations that are classified by definition as provincial agencies. All the lists of organizations here are all provincial agencies. There are many other provincial agencies as well. These organizations are audited by our office as such. If we choose to use an agent to do the work for us, they are then working for us, and we pay them their audit fee.

If the organization is one which we would normally bill an audit fee, then we turn around and bill the organization directly from our office, so it's an offset. This occurs in a number of instances. There are organizations, of course, which we do not charge audit fees for, and we may have an agent working for us to do that audit. In those cases, it would not be much different than if our staff did it, because we would have that time utilized in doing that audit as well and it would cost us salary and so forth, whereas in this case it's an agent who is doing the actual work for us.

MR. CHAIRMAN: Number 19 on the list, Grande Prairie Regional College -- I had some experience there. There's an agent in Grande Prairie. They do the audit. You look over their shoulder.

MR. SALMON: We work with them.

MR. CHAIRMAN: You pay that agent \$15,500 to do that audit.

MR. SALMON: And the colleges are not charged an audit fee by us, because the funding is basically from the General Revenue Fund. Therefore there is no real reason, because our funds go back into the GRF too, so it just turns around in circles.

MR. MILLER: A supplementary, Mr. Chairman. There seems to be an inequity here, in that you're prepared to pay for the auditing of some of these colleges, yet you're not paying for others. Where does Lakeland College, for example, fit into this own scheme of affairs?

MR. SALMON: There are 10 colleges in the province. We have six out to agents, and we're doing four ourselves.

MR. MILLER: In other words, you are doing Lakeland College.

MR. SALMON: That's right. At this point, we have not been able to make any other arrangements, and have continued to do that audit.

MR. MILLER: The people you'd be looking at to do this out in some of these other areas would be private accounting firms, would that be correct?

MR. SALMON: That's right. If you have an opportunity to look at the Auditor General's report, we have listed all of the firms that we are using as of the last audit report issue.

MR. MILLER: So, to clarify my thinking, you pay your own staff to do Lakeland College. As an offset to that, in these other colleges, you hire someone for a fee for service to do it. And the same with these irrigation districts.

MR. SALMON: That's right. We're doing some of the smaller irrigation districts ourselves, but we have all of the larger irrigation districts out to agents.

MR. ROGERS: There's nothing fixed about this, if I could just interrupt. We could assume the audit, let us say, of Mount Royal College at any given year, and then thereafter conduct that audit ourselves. Any other college could then -- if there were a suitable firm in the vicinity, we could employ that firm as agent. There is nothing fixed. Each case is played as the conditions seem to dictate.

MR. MILLER: One more supplementary if I may, Mr. Chairman, with regard to irrigation districts. They're not government.

MR. SALMON: Yes, sir, but the Irrigation Act names the Auditor General as the auditor of all irrigation districts. That's why we have to work through agents if we are going to get them done, if we are not doing them ourselves.

MR. ROGERS: Mr. Chairman, if I could just comment on that. The organizations that we audit come under a definition, if you will, under the Auditor General Act. All are specified by separate legislation, as is the case under the irrigation districts, or have requested an audit and permission has been given by this committee. You'll notice that one or two of the auditors at the back deal with that very subject.

These are cases where it makes eminent sense -- we do not audit in the private sector at all. But if there is a trust fund, some entity or

subentity, if you will -- a good case in point is Chembiomed which is, in effect, a wholly owned subsidiary of the university. If there is a subsidiary of or a related organization to one of the organizations we audit, it very often makes good sense for us to also be the auditor. Another thing is that we were asked to be the auditor of the Olympic committee, CODA. Again, it makes sense because the public interest seems to be involved.

MR. ANDERSON: Mr. Chairman, to the Auditor General. Could you indicate whether or not it's your office who chooses these agents, or is it in fact the institutions or agencies to which they're giving service during the year?

MR. ROGERS: Because they are my agent, we choose them -- and very carefully, I might add.

MR. ANDERSON: I was going to ask about that. Could you indicate on what basis you choose?

MR. ROGERS: Competence, how they are generally regarded in the profession. Would you comment on that?

MR. SALMON: The other thing we look at is the size of the office, because they must have sufficient staff to be able to do the particular audit that we're asking them to do. You know that audits vary in size in accordance with the number of hours required to do a particular job. If a firm is too small, they'll have a hard time handling some of our larger audits that we have out.

We have tried to get a variety of firms -- particularly as we have done in the irrigation districts, and as we have looked at the big cities we have had a variety of firms involved in doing audits. We're also looking at the possibility and have made some rotational changes after firms have been involved with them for a number of years.

MR. ANDERSON: A further supplementary, Mr. Chairman. How do you evaluate, first of all, the effectiveness of a firm that you've used for a given institution? I think particularly of Mount Royal College, since you mentioned it, and the difficulties that they have encountered over the past couple of years that didn't seem to come out in the audits originally.

MR. SALMON: In the particular cases of the colleges, we have used large, national firms to do the actual audits for us. We have worked with them to develop the scope of the audits. In our review of their work, as we have looked at their working papers and as we work with them through those jobs, we have felt good about the audits and the results of those audits.

With respect to Mount Royal, one has to keep in mind that the particular concerns that arose recently weren't directly the kinds of things that would turn up on the normal audit. It was a budgeting situation particularly, and some other matters that came up.

It may be of interest to note that we have now changed. We're now the auditors of Mount Royal subsequent to this, because we were in the process of developing a rotation in Calgary and had felt the need to make a change. Not because of the auditors of Mount Royal but because of the utilization of our own staff in Calgary, we needed to make some changes and have now done some rotational work in some of the audits down there. So our timing on some of these audits is a little different. A college audit has a year end of June. We're fairly loaded with our staff at March. We have done some juggling to give some relief to some of our work in Calgary because of the March year-end.

MR. ANDERSON: Just for clarification, Mr. Chairman. Then your assessment of the effectiveness of somebody you have doing an audit for you in a college or other agency is based on your working with them to some extent through the audit?

MR. SALMON: That's true, although we receive submissions from all the firms before we have ever selected a firm. In my office, I have submissions from a number of firms that we have not yet even used, because we have received those submissions in requesting them to give an indication of whether or not their office is staffed with -- the kind of people they've got, the kind of experience they've had.

Some of the work we've looked at -- for instance, when we went to Alberta Terminals Ltd., we were looking for auditors who were involved in the grain industry. We wanted to be sure that we had someone with some experience in that area before we would choose them to do that particular job of doing the audit of those three elevators, because they are fairly extensive in the kind of work that they do with respect to grain handling.

MR. CHAIRMAN: We're about to lose our membership. Gentlemen, we just barely ended up with a quorum today. We picked this moment at the executive level, you might say, and we took a chance on being able to get enough people to come with us. As you see, we just barely made it. So we will recess -- we will not adjourn -- until further notice; and we'll work something out. It will obviously be at a time convenient to you people and to us. We are scheduled to meet Monday for a different agenda, but Mr. Rogers will not be available Monday. So we'll work something out.

DR. CARTER: Do I understand, Mr. Chairman, that Mr. Rogers might be available next Friday afternoon?

MR. CHAIRMAN: Yes.

DR. CARTER: I would like to suggest, then, that we convene our meeting next Friday afternoon at one o'clock, immediately after the House adjourns. Then we can extend the afternoon to some degree. There are at least three of us next Friday afternoon who are going to have to catch a plane to Calgary because of another commitment. But if we start at one o'clock, then we can go for a time.

MR. CHAIRMAN: We'll have to realign our membership, then, for Friday afternoon, a week today.

We have two topics for next Friday. It's also understood that we are approving our minutes today from the last meeting. You said that was not necessary right now.

MR. BLAIN: No, in the interests of time we can read more than one set of minutes at the same meeting.

MR. CHAIRMAN: Fine, we can let that slide until Monday. Anything that must be said before I declare this a recess?

Thank you very much.

The meeting concluded at 2:45 p.m.