

8:30 a.m.

Wednesday, October 6, 1993

[Chairman: Mrs. Abdurahman]

MADAM CHAIRMAN: I'd like to call this meeting to order. Thank you all for being so prompt this morning. I'm not pointing fingers at anyone.

DR. L. TAYLOR: You're very welcome, Madam Chairman.

MADAM CHAIRMAN: Thank you.

Could I have approval of the agenda, please? It's moved by Mike Percy. Any discussion? If not, all in favour? I take it everyone's in favour of the approval of the agenda.

Approval of the minutes of the committee meetings as circulated September 22, 1993. Are there any errors or omissions? If not, could I have a motion to accept them as circulated? Moved by Debby Carlson. If there's no discussion, I'll call the question. All in favour? Agreed? Any nays? Carried unanimously.

Minutes of September 29, 1993, as circulated.

Gary.

MR. FRIEDEL: I have an objection to the way my motion was worded, and I'd like to have it amended.

MADAM CHAIRMAN: Well, probably we could just correct it if it's an error.

MR. FRIEDEL: Yes. I mean correct it in the minutes.

MADAM CHAIRMAN: Could you tell us, please, where the corrections are?

MR. FRIEDEL: If you look through *Hansard*, you'll notice that there was some discussion on it and some clarification. The motion would read or imply that we would be dealing with officials of the Treasury Department on their own, and there was clarification that the minister would be present and officials of his department would accompany him.

MADAM CHAIRMAN: You're on page 11 of the minutes of September 29, '93? "Moved by Mr. Friedel that officials . . .": is that the motion?

MR. FRIEDEL: Yes.

MADAM CHAIRMAN: Which words do you wish changed?

MR. FRIEDEL: Well, it doesn't read anything like the way I said it. The entire wording of the motion is different. I would suggest that it read something more to the effect that the committee invited officials of either the Auditor General's department or the Provincial Treasurer's department along with the minister to meet as required for briefing purposes at the regular scheduled meetings of the committee.

MADAM CHAIRMAN: Thank you. Corinne and I tried to use the *Hansard*. Obviously we didn't do a very effective job in reflecting that.

MR. FRIEDEL: I particularly want it noted, though, that in the discussion it was made clear that the minister would be at the meetings with the officials.

MADAM CHAIRMAN: I think that was clearly understood by everyone. Okay, we'll ensure that that correction is made.

Any other corrections? If not, could I have a motion to accept them as corrected? Moved by Sine Chadi. Any discussion? If not, all in favour? Agreed? Any nays? No. Carried unanimously.

Outstanding Business, report on Scheduling of Provincial Treasurer and Cabinet Ministers/Designate. Do we have some information that we could circulate at this time? No.

Do you want to speak to this, Gary?

MR. FRIEDEL: Well, as we discussed over the last couple of days, Madam Chairman, it would seem to make sense, first of all, that we deal with the 1992-93 Public Accounts books since they are available. I realize that this means we will entirely omit dealing with 1991-92, but it doesn't seem relevant that we would deal with a year-old set of books. Would it be in order that I move, first of all, that we do commence with the review of the 1993 Public Accounts books?

MADAM CHAIRMAN: It would certainly be in order.

Jocelyn, and then Danny.

MRS. BURGNER: Just to that point. I don't know if we require what I would call legal counsel as to maybe ruling on it, but how do we dispense with the previous year, which was normally our mandate, without not having been responsible to our duties? It doesn't personally bother me. I think it's the wiser decision, but I want to make sure it doesn't come back to haunt us that we illegally sidestepped one of our responsibilities.

MADAM CHAIRMAN: The past practice has always been that we use the most current public accounts. That's the information I've been given, and going back over the minutes and speaking to the Auditor General, I've been reassured that that's the case.

MRS. BURGNER: Perhaps, then, I might suggest that as we move to use the most current ones, we reflect that kind of statement: that as past practice has indicated, we would use the most current, and given that these are not only the most current but the most recent we've ever had, it's the will of the group to deal with this new set of numbers.

MADAM CHAIRMAN: Would you agree to incorporate that within your motion?

MR. FRIEDEL: Yes, I do.

Danny, would you like to speak to the motion?

MR. DALLA-LONGA: I second it.

MADAM CHAIRMAN: We don't need seconders in committee. Thank you.

Any further discussion? If there's no further discussion, all in favour? Any nays? No. It's carried unanimously.

MR. FRIEDEL: I would then like to move a second motion in light of our previous discussion on the matter. We had Corinne contact the various ministers to see who might be available in order. The first five that she has contacted indicated availability.

MADAM CHAIRMAN: No, they've not actually all been contacted at this time, Gary, and their availability still hasn't been determined.

MR. FRIEDEL: Okay. If that's the case, then I'm going to withdraw the motion. I was of the impression that they had been contacted and confirmed availability.

MADAM CHAIRMAN: Corinne would like to have a motion on the books showing that these are the departments that have to be approached, and then she will go ahead and do that. Seemingly that has been the past practice, that the chairman doesn't just go out and say these are the departments and instruct the administrative assistant to contact those departments. So what we're looking for is a motion that these are the departments that will be approached to appear before Public Accounts.

MR. FRIEDEL: Okay, I will move the motion in a different way then, Madam Chairman:

that the following five departments be contacted and be requested to meet with the committee as available, being in no particular order: the Provincial Treasurer, the minister of economic development, the Minister of Health, the Minister of Education, and the minister of agriculture.

I realize these are short names for some of the ministries. I would also like the motion to continue:

that subsequent to these, other ministers be called and we deal with all the departments before we recall any of the ministers who previously had been on.

MADAM CHAIRMAN: Do you wish to speak further to your motion? If not, does anyone wish to speak?

Mike Percy.

DR. PERCY: I just have a question of clarification. What is our ability, for example, to get officials here from Vencap?

MADAM CHAIRMAN: I would say unless there was unanimous agreement or majority agreement, there is no ability under the present mandate. I'd be correct in assuming that?

Any further questions?

Frank.

MR. BRUSEKER: Just a point of clarification. I'm wondering if Gary Friedel could explain what he means by "previously." Are you referring back to the previous Legislature or just starting a new list or new roster with this Legislature?

MADAM CHAIRMAN: It's a new roster we're starting.

Any other questions or debate to the motion? If not, I'll call the question. All in favour of the motion? Ayes? Any nays? It's carried unanimously. Thank you.

If there's any further outstanding business, I'd certainly entertain it at this time. If not, I would like now to once again welcome our Auditor General, Mr. Salmon, and also Andrew Wingate, the senior assistant to the Auditor General. At this time I would ask you if you'd like to continue to speak to your report, Mr. Salmon, or any other comments or information.

MR. SALMON: Madam Chairman, I had thought of making some additional comments but felt that in view of what you're planning to do today with having the Treasurer here, it might be more useful – if there were any questions anyone would like to ask today on the annual report of the Auditor General for '91-92, we'd be prepared to answer those, or at least if it's detail we need to dig up, we would be prepared to do that and could provide that when we're here next week. Certainly we wouldn't want to take the time to give a speech today about the report. I'd prefer that it just

be opened up. If there are any questions, then we've got until the Treasurer arrives.

8:40

MADAM CHAIRMAN: We have until 9:15, which is well over half an hour. We can have any questions for the Auditor General that are in keeping with his report.

Mike Percy.

DR. PERCY: Just a general question. The government is now moving to a much greater focus on consolidated accounts, which I think is a very positive move in light of a variety of recommendations that stem from your report. There's also the possibility, though, that when we're talking of the deficit – there's both the deficit and the GRF, which gives you a very good idea of borrowing requirements. Then there will be the consolidated deficit, which is very sensitive to changes in asset values. As we revalue assets at market prices, what is the process that's going to be in place to ensure that's done in an orderly fashion so there are not significant changes in the consolidated deficit that reflect more accounting changes with respect to incorporating current market prices? I guess what I'm saying is that there's a lot of slippage there. It's just a concern about the process.

MR. SALMON: Well, Madam Chairman, the process we go through, of course, is that on each entity which is audited by my office, we are giving an opinion on that particular set of statements. In other words, if you take the general revenue fund or take the other 80 or so funds that come into the consolidation, each one of those in itself, we have determined the valuation of those assets and liabilities and made sure the provisions have been adequate and so forth. On consolidation there is no change in relationship to those. The only difference, of course, is that on consolidation any interrelationships internal to those organizations and to the government are eliminated, so you get the true picture of what the position of the province is on consolidation.

Now, I know there are still some entities that are not included in consolidation vis-à-vis the provincially-owned hospitals and educational institutions. But in themselves, the consolidated financial statements are the true picture of the value of all those that are included in public accounts, so there is no change as far as the values are concerned or provisions are concerned. It's only the elimination of the interrelationships. Because each one is done on its own, then you've got to eliminate the interrelationships before you can come up with the consolidation.

MADAM CHAIRMAN: Supplementary?

DR. PERCY: Yes.

With regard to that issue, then, of including in the asset base the value of hospitals, postsecondary education, et cetera, what precludes those from now entering the asset side of the ledger?

MR. SALMON: The only thing that precluded them was section 2(5) of the Financial Administration Act, which is presently being amended so they can be included. They had been exempted before, and it was a case that the Treasurer did not want to include them on the basis that they had a feeling they were autonomous from the government. My feeling and that of the Public Sector Accounting and Auditing Board of the CICA: "entity" is defined as being anything that's owned or controlled by. For many years we have encouraged the inclusion of them in the consolidation even though that wouldn't have any bearing on what the relationship was between the province and the institution itself. I know

now that they have chosen to consider to do something in relationship to that. That's another year's process, which needs to be picked up pretty good. Half of this particular year is already gone, so we've got to get moving on it.

DR. PERCY: Final supplemental?

MADAM CHAIRMAN: Yes, final.

DR. PERCY: So, in a sense, in the next set of public accounts we could look forward to a significant change in the net asset position of the province simply as a result of casting the net a little farther.

MR. SALMON: Well, that's certainly a question that could be asked of the Treasurer. One of the concerns we know they're having is that if you consolidate educational institutions and the provincially-owned hospitals, on their particular balance sheets you've got assets, and you've got capital assets as well. The province has not yet made a decision as to how to approach the capital asset problem within the province itself or within consolidation as it is presently presented. Of course, that's been one of our recommendations which they have agreed to consider, and that would have to be resolved. Whether that gets fully resolved in '93-94, that's a question of time. I do believe it's going to take some time to fully resolve the recording of assets on the consolidated financial statements, and that would come only when you get the individual assets recorded on the individual statements as well.

DR. PERCY: Thank you.

MR. CHAIRMAN: Thank you.
Ty Lund.

MR. LUND: Thank you, Madam Chairman. On page 116 of the 1991-92 Auditor General's report you find recommendation 31. It has to do with the prescription drug administration fees. Of course, drug costs are one of those that continually go up. I found rather interesting your recommendation 31, being

it is recommended that the Department of Health determine whether the fees paid to Alberta Blue Cross for the administration of the prescription drug program are reasonable.

Then when we read down further about the drug costs, we see a comment about the possibility of saving some "\$38 million annually" if we paid the lowest cost charged. You know, after the fact I guess it's easy enough to go back and see what the lowest charge was throughout the year – and I'm sure that's how you arrived at the \$38 million – but do you have any suggestions as to how a program could possibly be implemented that would be current enough to realize those kinds of savings throughout the year?

MR. SALMON: Well, I believe the reason for our recommendation, Madam Chairman – and I think it's a good question that's been raised – is the very fact that there appeared to be and, again, there may be specific reasons. It was a case of identifying – the concern we had was that the rates were different in relationship to Blue Cross and Family and Social Services and the other areas versus what was happening on this one. We were really saying, "Now, look, if you really did charge the lower rate, there would be this kind of saving." Now, there has to be a negotiated and a worked out process as to whether or not it is reasonable to do this. We certainly weren't trying to say what they were doing was incorrect. We were saying, you know, that if you really had

negotiated a lower rate, you would have saved. In relationship to what the others were being charged, there would be a substantial saving.

MR. CHAIRMAN: Supplementary, Ty?

MR. LUND: Thank you. So really, then, you found a greater discrepancy between what the departments are paying than what is being charged within this program by individual pharmacies. Is that a fair statement?

MR. SALMON: Yes.

MR. LUND: Second supplementary. Which department seems to be the most efficient, so that we could possibly copy that?

MR. WINGATE: I think what we're talking about here is that the prices paid to the pharmacies varied enormously across the province. What we're suggesting here is that because of this variance, it might be helpful if some guidelines were issued by the department providing guidance on what is regarded as an acceptable charge. I think that's the sort of thing we were indicating. The problem here is the tremendous range of prices charged by individual pharmacies for the same drug. We did two things. We said, "If you adopted the lowest price for a particular drug, you'd apparently save about \$38 million, but if you used just the average cost, then you'd save about \$2 million," both of which are reasonably significant figures. I think we wanted to see more guidance and advice given to what is an acceptable charge.

As we said in the recommendation, it is recommended that the Department of Health determine that the benefits under its prescription drug program are provided in a cost-effective manner. That was really the essence of the suggestion.

MR. LUND: Thank you.

MR. CHAIRMAN: Thank you.
Debby Carlson.

MS CARLSON: Mr. Salmon, on the basis of your recommendations, would you be prepared to increase your mandate to include efficiency audits?

8:50

MR. SALMON: I could comment on that in this way. The Auditor General Act came into being in 1978, and I was involved at the time – it's not something I'm just telling you, because I was there when they were negotiating what should be in the Auditor General Act – and there was considerable discussion in Canada as to what the role of the Auditor General should be. British Columbia had received an Act that had a specific mandate as to the kind of value-for-money auditing they could do. The Auditor General of Canada was given a value-for-money audit. In Alberta, although they recognized the need for the value-for-money, it was felt that a lot could be accomplished by confining the mandate of the Auditor General to that of systems auditing; in other words, commenting on whether or not there were adequate controls within the accounting and management systems that were in place, including commenting on efficiency and effectiveness and so forth.

The office of the Auditor General of Alberta has continued, and in my time as well, to do systems auditing in that light and commenting even to that point. Now, it's interesting that the Auditor General of Canada can comment on whether or not

something has value, but when they do that, they run into the controversy of whether or not their comment is as good as the comment of management in relationship to that value for the spending of those dollars. We're quite comfortable with the mandate we have, because we can go to the point where we can define where those weaknesses are, and then it can be management's responsibility to correct the weaknesses. For us to actually assume the role of efficiency audits takes the responsibility away from management themselves to ensure they are establishing effectiveness within their organization. The recommendation that I made - number 5, is it? - with respect to effectiveness is really in light of many discussions that have taken place in Alberta, where management would determine the basis of what they want to achieve in a current year with the dollars they're given. Then there would be some basis of measurement of the spending of those dollars at the end of the year and an accountability made to those who should be accountable, back to the Legislature or to the organization itself as well, of where they have spent those dollars and whether those guidelines and the effectiveness measurements have been met.

There's been a trend in Canada that management should be doing a lot of this measurement themselves and that the Auditor should come along and be sure that the basis on which they are actually measuring that effectiveness is reasonable. I am convinced that that is the right way to go. I do believe tremendous development is necessary to ensure that the process is in place. I do believe there's a tremendous amount of work that needs to be done not just in Alberta but in other provinces as well as in Canada itself. Rather than expend a tremendous amount of dollars on the audit side, we could do a tremendous amount with a lot less cost if management would actually establish that basis, measure it, and the Auditor comes along and comments on whether or not it seems reasonable.

Andrew may want to add to that.

MR. WINGATE: Yes. On page 7 of the Auditor General's report, the third paragraph down, Mr. Salmon said that

if sensible decisions are to be made on program expenditures, it is essential that the financial statements be supplemented with information on effectiveness.

In other words, what's being suggested there is that management should make assertions about their effectiveness in their financial statements. Now, the moment they do that, we as auditors can audit the veracity of what they're saying, particularly if they're in the financial statements. So to that extent we're quite willing to audit effectiveness but only based on management's assertions concerning their effectiveness. That's the route the office has decided to adopt. It's for management to make assertions on effectiveness, and it's for auditors to ascertain whether those assertions are reasonable. So that's the route we propose to take.

MADAM CHAIRMAN: Thank you, Mr. Wingate.
Supplementary.

MS CARLSON: If you see that there is a weakness in the manner in which management is carrying out its performance, would you at that point be prepared to recommend that an outside efficiency audit be done?

MR. SALMON: Well, I'm not sure what an outside efficiency audit will do. I am convinced that the process that has worked for many years with relationship to doing the systems auditing that we do - identifying the weaknesses that they have and then having management correct those weaknesses - has worked fairly well.

I think in the last number of years it's worked even better than it did in the earlier years of my career as Auditor General, because management has taken a keen interest in ensuring that those weaknesses are corrected for the benefit of the committee. Basically, they don't like to see anything in the Auditor General's report. I think if the Auditor General's report didn't have anything in it, then you probably would say that things run pretty efficiently. Every year we seem to have had enough matters to report upon and feel that they've been significant enough to include them for the Legislature in our annual report that goes public. So I really wouldn't be prepared to suggest that efficiency audits be done from the outside until I could understand whether or not there was really something worthwhile that would be accomplished by it. I'm not quite sure what that would be.

MR. WINGATE: If we discovered inefficiencies in an organization, we'd make recommendations as to how they could resolve those inefficiencies, and those would be systems recommendations, because invariably those inefficiencies are the product of having an inefficient system. They're not managing their affairs appropriately. So Mr. Salmon would make a series of recommendations concerning how they can improve their administration and their systems to overcome those inefficiencies. Having overcome them, they'd then start making assertions on effectiveness and efficiencies, which we in turn would audit.

MADAM CHAIRMAN: Barry McFarland.

MR. McFARLAND: Thank you. On page 70 of your Auditor General's report which is dated this year you mentioned a couple of uncertainties in the operation and the policies of the GRIP program. I wanted to know if you've noticed any improvement or changes since that time, in the past eight months.

MR. SALMON: We have been through the process. I will be doing more detail with respect to these aspects in the current year. This is the '91-92. We finished '92-93 and recognize that there are still some very serious problems in relationship to the operations of this program. We'll probably be making some additional comments, although it hasn't fully been decided how much we'll go into it. That matter is being considered in light of the current Auditor General's report. So we're not totally happy with the progress that's been made in this last year.

MR. McFARLAND: A supplementary. On the same page you expressed the concern over who has the primary responsibility for protecting the province's interests during this GRIP program. I wanted to know if you feel it's been resolved or which board or agency should have the focus for administering or being responsible for the interests of the Alberta government.

MR. SALMON: I recognize where the question is coming from and certainly would like to comment fully but feel that it's important that I sort of conclude that in the follow-up processes coming up in the next short while. We're finalizing matters with them and wouldn't want to say anything till things are fully finalized and clear as to how much we're going to approach this thing in the annual report, because there are a lot of concerns there yet.

MR. McFARLAND: A final supplementary. I appreciate your comment concerning the outside audits, because in my estimation you are the outside audit or the efficiency machine or whatever. I applaud the things that you do. In most businesses I believe they

would consider any accountant or auditor that they engage an outside audit. Have you estimated what losses there may be as a result of the uncertainties you outlined on page 70?

9:00

MR. SALMON: I don't think we specifically have the numbers because of the nature of the findings and the confusion that relates between the federal government and in the agreements themselves, the interpretation of the agreements. It is certainly something that the department as well as the hail and crop are concerned with. It's not a case where we're not getting co-operation with them. It's a case where it's of such a magnitude in sorting this thing out that it's a big process. So the specific amounts, if there's anything we can report, we will include in the annual report, but certainly it's not easy to quantify.

MR. McFARLAND: Thank you, sir.

MADAM CHAIR: Thank you.
Sine Chadi.

MR. CHADI: Thank you, Madam Chairman. My question to the Auditor General is: how deep does your audit actually go in terms of the long-term investments, this sort of thing? Do you actually get involved with crunching the numbers as to what the write-down is going to be? Do you audit that?

MR. SALMON: Absolutely. As indicated in conversations here this morning, there may be some misunderstanding as to what the role of the Auditor General is. The Auditor General is independent of government. I am not connected in any way politically. My appointment is by the Legislative Assembly itself. In that independence, I have to be assured that I can give a proper opinion on any set of financial statements. The number crunching comes right down to the provisions, and we will definitely sit there and come up with a figure, working with management to the point where we're fully satisfied.

MR. CHADI: Okay. Nothing in specific, but I'll just use an example, and that is native venture capital. In 1992 we showed long-term investment of \$4 million, and in 1993 we're showing a blank. Did we write that off then, and who determined whether or not it should be written off? Just an example, because there are many in here.

MR. SALMON: Can you tell me where you're looking?

MR. CHADI: Yeah. Consolidated financial statement number 1.

MR. SALMON: Are you looking at the guarantee list?

MR. CHADI: I'm looking at the long-term investment list.

MR. SALMON: Long-term investment, native. You're asking a very specific question today.

MR. CHADI: Well, no, I'm not, as a matter of fact. Just give me an idea. It would refer to anything. General sense.

MR. SALMON: Oh, I see. In the general sense, if it was a concern in relationship to any of the loans or those investments that have been made by the government, we would work with the Treasury Department to ensure that the valuation is correct in what will be written off and be provided for in the year in which it's

been determined that the losses have been incurred, even though maybe they haven't paid it off in the case of guarantees. So, yes. The specifics of that one I just can't tell you right today.

MR. CHADI: No, I'm not interested in specifics. Thank you.

MADAM CHAIRMAN: Further supplementary?

MR. CHADI: No, thank you.

MADAM CHAIRMAN: Jocelyn.

MRS. BURGNER: Thank you, Madam Chairman. I'd like to just go back to some comments when we talked earlier about assets and the situation with respect to, say, our universities or provincial hospitals not being recorded or included in our consolidated statements. You'll have to bear with me as I go through my thinking on this. It would be my sense from what you have said that as we would invest in either land or property or facilities or some of these institutions, whether it's education or health, the cash that we use to purchase those assets would be transferred into, say, the advanced education budget and then expended, but we never have recorded that asset that we've acquired with the cash. Is that roughly what you're saying?

MR. SALMON: No, not quite. The situation is that as capital assets have been built or purchased, whatever, in an educational institution or a provincially owned hospital, those assets have been recorded on their particular financial statements. If you look at the university hospital or the Foothills hospital, as an example, or the universities of Calgary or Alberta or any of them, you'll find on their actual balance sheets the capital assets, their buildings and so forth.

Now, we recognize that for many years in the province of Alberta any capital asset they have owned, such as the green building where all of you hang out and other buildings, even this building itself, say, is not recorded on the balance sheet of the province. It's been a matter of policy. Many governments don't record their capital assets. In other words, they really don't know. They do budget for the maintenance of such buildings as this and so forth, but these are not established on the balance sheet and depreciated in the normal course that would exist in the private sector. Now, a lot of the universities and the colleges and hospitals are actually starting to depreciate. There's considerable discussion at the CICA level, the Canadian Institute of Chartered Accountants, who are trying to establish what should be done in nonprofit and so forth. There's an awful lot of discussion going on in relationship to this kind of thing.

We have recommended that some consideration be made and particularly – we had always talked about this. For many years we talked about the recording of the pension liability. The pension liability has been known for many years, but it has never been recorded on the balance sheet until this past year. So we feel that's a very positive step taken by the Treasurer after many years of reporting by this office. At the same time, in consolidating financial statements as we're doing and have been doing for many years, if you consider pulling these other entities in, which I think should be done, you've then got capital assets sitting there, yet on the other side of the government that's presently consolidated they're not there.

So that's why I want recommendation 4 or whatever it is, where we ask them to set down and consider establishing a plan for recording of the capital assets, physical assets of the province. Now, that then becomes a big debate, because the assets of the

province are many and varied. Then you get people that want to capitalize things that maybe aren't assets, and you get into capitalizing the trees and the forests and all the rest of these things. So we were really saying that you really need to set down a plan. There are probably particular types of assets that could be done fairly easily. Those would be the ones that you would normally build and depreciate and so forth, and they could have a better handle on the cost of the operation of those if it was before the Legislature. So that's really where we're coming from, if that helps at all.

MRS. BURGNER: Well, my comment is from a taxpayer or from somebody trying to assess where our money has gone. I'll try and make it as specific as I can. My question to you is that if we as a government expend funds – and I'll use advanced education as an example – and we give them X number of dollars in their budget and then they in turn transfer that over to the university and the university builds a building, my thinking is that I have lost X million dollars out of funds into advanced education. They in turn have spent \$10 million, but there is no way of recording in our consolidated statements that I have value of \$10 million.

MR. SALMON: Sure. As soon as you pull in the university that built the \$10 million building and include the assets on a consolidated financial statement, you have.

MRS. BURGNER: But as it stands now? This is clarification . . .

MR. SALMON: You have to go back to the individual statements that were tabled in the House to see the assets of the particular university.

MRS. BURGNER: Then my second question – I guess my third supplement following on that . . .

MADAM CHAIRMAN: Make it a second one, because you're not allowed a third.

MRS. BURGNER: Thank you.

I use the example of ALCB, although it's obviously included in the consolidated statements. If I sell something at a loss, a piece of property that we're unloading – we're getting rid of this piece of property so it's now recorded as a loss – but I haven't had it in my consolidated statements and I've already paid for it without having the asset recorded, am I losing that money twice?

MR. SALMON: No.

MRS. BURGNER: Okay. I'll believe you, only barely.

MADAM CHAIRMAN: Yvonne Fritz.

MRS. FRITZ: Thank you. I had a question on page 128 about the Alberta Children's provincial general hospital. It's just about the moneys that are being transferred from the board to the foundation. I wondered if that amount of moneys leaves a shortfall to the board, or is it simply to balance the books? What kind of moneys are you referring to?

9:10

MR. SALMON: You're on page 128. Yeah, this is more a matter of compliance.

MRS. FRITZ: Is it a housekeeping item?

MR. SALMON: Well, they don't have the legal right to do what they're doing. We've been asking them to get the ministerial orders and the legal documentation to provide for what they're doing legally. It's really a compliance issue.

MRS. FRITZ: So it's not leaving a shortfall to the board?

MR. SALMON: No. It's in the wrong place from the point of view of legal problems, that's all, and they can straighten that out without moving the money. All they have to do is correct the legislation or the ministerial order.

MRS. FRITZ: Right.

Then the second question about the same. The supplies and services that are being transferred and not costed are under the research centre. What are the services?

MR. WINGATE: I'd be delighted to comment if I knew the answer.

MRS. FRITZ: I guess all I'm wondering is if it's operating, because you refer in that as well to research staff, et cetera, and I wondered if it was operating. Are you talking about operating dollars under services? That's okay. I just wondered.

MR. SALMON: Right off the top of my head I'll have to look at it.

MADAM CHAIRMAN: Possibly you could bring an answer back.

MR. SALMON: I will. We'll tell you next week.

MRS. FRITZ: Thank you.

MR. SALMON: That's fine.

MR. DALLA-LONGA: You've got in this book here some 30 recommendations. In the course of doing the audit of all the various agencies and boards in the whole government, you must have come up with a lot of recommendations and management letters for each group. As I recall how audits were done and how things could be done differently – and I would expect that these recommendations here are probably your major recommendations. Do you issue a management letter or that sort of thing to the government with these recommendations if in fact you do do them?

MR. SALMON: A management letter is issued – and I don't think I have to define management letter – following each audit that we complete with each provincial agency or entity on which we perform an audit. Most of those audits would have financial statements in them, and we would issue a letter following the attest audit. We would also issue a management letter following any systems audits that we do. So there would be separate management letters making recommendations when we're doing systems work in identifying specific areas in which we're looking at detailed areas of control and efficiencies.

Those letters are primarily sent to, say, the president of the organization if it's a hospital or to the deputy minister if it's a department or if they're responsible for that entity, whichever, with CCs appropriately designated as to who gets the copies. Then replies received subsequent to the issue of those management

letters, reviewing the replies and any follow-up matter that we may do before the annual report of the Auditor General is issued, are taken into account before we determine what goes in this report.

The significant reports we have numbered and shaded so they're easily identified. Other recommendations that are primarily within the organization are also in here but are not shaded. We still feel it's worth while explaining the work we've done and the concerns we had in specific areas. So there are a number of recommendations in this report where we indicate that it was recommended to the hospital to do such and such, and we haven't shaded that recommendation because we haven't considered it significant to number and make it highlighted in the way that the others are.

Then there are other recommendations that have probably been resolved fully and are of less significance that don't get in this annual report. So that's basically my decision as the Auditor General, based on my legislation, as to what I can determine should be included in here.

MADAM CHAIRMAN: Would you hold your supplementaries for our next meeting with the Auditor General so that we can allow the Provincial Treasurer to come in and get set up, Danny?

MR. DALLA-LONGA: Only if I get to start all over again.

MADAM CHAIRMAN: Well, is there agreement with the members that Mr. Dalla-Longa would start the questions off next meeting?

AN HON. MEMBER: Sure.

MADAM CHAIRMAN: If there's nobody saying nay, with two supplementaries?

MS CALAHASEN: As long as the Provincial Treasurer doesn't arrive.

MADAM CHAIRMAN: He's here. That's why I'd like now to have a quick recess to let the Provincial Treasurer come in and get set up. So there's agreement, then, that Mr. Dalla-Longa would start off the questions next meeting?

MR. AMERY: How about the other questions you have on the list?

MADAM CHAIRMAN: If there's agreement with the Provincial Treasurer, next on the list would be Gary and Debby and Moe. We would allow them to ask the questions first of the Provincial Treasurer. Is that agreed? If so, we will recess quickly.

Thank you very much, Mr. Wingate and Mr. Salmon. If you'd like to move either to the left or the right, we'll let the Provincial Treasurer . . .

MR. AMERY: What I meant was: could I be on the list for next week for the Auditor General?

MADAM CHAIRMAN: Well, if you indicate at the beginning of the meeting next week that you want to be second, I can certainly do that, but it wasn't the intent today to make up a list for next week. That's why I was asking agreement for Danny Dalla-Longa.

MRS. BURGNER: Madam Chairman, you have a speaking list now on questions for the Auditor General. The question was: is

that list canceled, or is it deferred to next week for the Auditor General?

MADAM CHAIRMAN: I misunderstood you. I thought you were wanting to continue the list on for the Provincial Treasurer. If that wasn't the request, we'll move it to the Auditor General. I misunderstood the question.

So on the list right now we've got Gary, Moe, Danny, and Debby.

MR. FRIEDEL: Madam Chairman, this is kind of a point of order I guess. The continuation of speaking lists to next week: we don't even know what the agenda is for next week. I would disagree that we continue speaking lists from one week to another; otherwise, we're just going to have mass confusion. I would suggest that if we run out of time, that's it for the meeting. We schedule our agenda one week at a time.

MADAM CHAIRMAN: Well, what I need is a general agreement that the list I have before me ceases and we start a clean list at every meeting.

HON. MEMBERS: Agreed.

MADAM CHAIRMAN: Agreed. Sorry for the confusion. Thank you.

I'd like to call us back to order and extend a very warm welcome to the Provincial Treasurer and also to acknowledge that he's accepted this invitation on very short notice. We certainly appreciate you accommodating our calendar. We have till 10:15, Mr. Dinning, so if you would like to introduce your staff, you have, as I say, just under an hour.

MR. DINNING: Thank you, Madam Chairman, and good morning, colleagues. It is an awesome sight to see those characters on the front bench over there, but it is a pleasure to be with you this morning to have my baptismal appearance before the Public Accounts Committee.

I would like to introduce to you three gentlemen who I have the good fortune to work with who have a key impact on the preparation of the annual public accounts. The first is Mr. Jim Peters on my immediate right, who serves as the Controller of the province, a well-respected gentleman in his trade. Beside him is Mr. Richard Lowen, who is the director of accounting, the bean counter extraordinaire in the provincial Treasury. On my left is Mr. Paul Taylor, who serves as executive assistant in my office.

9:20

These public accounts, Madam Chairman, are really the first of their kind following the release of the Auditor General's report last year for '91-92 and of course following the release of the Financial Review Commission report in April of 1993. Both the Auditor General and the commission have given the government some pretty sound advice, and we have gone a distance to accept and to use that advice so as to enhance the disclosure of the state of the province's finances and to be more accountable, which is in keeping with what Premier Klein said he wanted done from day 1 in office.

The accounts are more complete than they have ever been. We still have a distance to go. We're still considering the advice and how we would implement that advice from the Auditor General and the Financial Review Commission to include the likes of our universities, our colleges, our provincially-owned and operated

hospitals, and how they would be disclosed in the books of the province.

I think of the Auditor General's report where he has suggested on a number of occasions where we would include the various capital assets for the province. I think he would note that we've gone the distance in exposing all the downside. Even the Auditor General would perhaps encourage us to begin to show more of the upside of the province in that we've shown the pension liability but we've not shown all of the province's capital assets, and we've not yet shown the investment in the provincially-owned universities, colleges, and hospitals. That is the track that we are on right now in considering how best to do that without certainly compromising the, quote, autonomy, unquote, of those institutions.

Madam Chairman, these accounts were released on September 30, 1993, six months after the fiscal year-end, in my recollection the earliest they have ever been released. Our objective is to have at least volume 1 of the consolidated financial statements of the province of Alberta for the year ending March 31, 1994, released by June 30, 1994. I know that when I say that, the Controller turns a few shades of white, but it shall be done. I know that he and his colleagues are looking forward to that challenge, and I know the Auditor General is also looking forward to the challenge of doing the work that needs to be done in order to have a June 30 release.

Madam Chairman, without further ado or delay, I will ask Jim Peters to walk you through the three volumes that you have before you, because I think that technical briefing will be of assistance to you as you consider these accounts and as you consider whom you will invite to appear before your committee. Jim will do that. It's going to take him a few minutes to do so, and then I would happily answer questions as you see fit, whether during his presentation or perhaps at the end of it. If not, at least at the end of each volume.

MADAM CHAIRMAN: What's the wish of the members? Do you want to do it during the presentation or wait till the end of the presentation and have all the questions at that time? Have the presentation first? Okay. Thank you.

If you'd like to carry on, Mr. Peters.

MR. PETERS: Thank you. Well, I'd like to give you a bit of a guided tour through the public accounts. This year, as you know, we have the public accounts contained in three volumes, whereas in past years the entire public accounts were contained in one volume. There are several reasons for this, mostly practical reasons relating largely to the adoption of recommendations of both the Auditor General and the Financial Review Commission.

Firstly, the Auditor General recommended that the financial statements of Crown-controlled corporations and also the subsidiary corporations of provincial corporations be included in the public accounts. Therefore, we had a number of additional statements to include in the public accounts, and the old volume was getting to the point where you couldn't squeeze any more into it. So we had to reorganize the public accounts, and therefore we ended up with three volumes.

Also, in past years the focus of government financial accountability has been on the general revenue fund. In keeping with the recommendation of the Financial Review Commission to move the government budget and financial reporting to a consolidated basis, this has shifted the focus away from the general revenue fund to the consolidated results. Again, a three-volume format has allowed us to put the summary financial statements, the consolidated statements, into a separate volume to highlight them as the summary financial results of the government.

The other issue that the Treasurer mentioned was the need for more timely reporting. This three-volume format again allows us to prepare the consolidated results and release them while we're still beaver away on finalizing the massive amount of detail that's in the other volumes of the public accounts.

One other change that you may notice in this year's public accounts as compared with past years' is that we now provide a budget comparison column on the income statement of most provincial agencies. Again this was done in response to the Auditor's recommendation, and we feel that it provides better accountability for those corporations.

The contents of the three volumes themselves. Volume 1 is the consolidated statements of the province. Volume 2 includes the financial statements of the general revenue fund, the revolving funds, and the regulated funds of government. It also includes all the detailed, compliance kind of information relating to general revenue fund expenditures and revenues by department. It includes as well a number of reports that are required by the legislation, sometimes by the Financial Administration Act, sometimes by other legislation, and/or by the direction of the Provincial Treasurer. The third volume includes the financial statements of the provincial agencies, commercial enterprises, and Crown-controlled corporations.

Perhaps we could talk about them in order. The consolidated financial statements: as I said, these are the summary financial statements of the province of Alberta. They consolidate, or bring together, the financial statements of all the funds and provincial agencies for which separate statements are presented in the public accounts. They include the accounts of about 132 funds, agencies, and corporations. They do not include certain provincial agencies such as the universities, the hospitals, and the colleges. As you know, that issue is still currently under consideration in terms of whether and how those entities should be consolidated.

In looking at the statements, it's always useful, I think, to refer to the notes. Usually the first note included in any of the financial statements will help to clarify what's in that particular statement and what the basis of accounting and reporting is. So it better tells you what's there and how you might understand it more fully.

Our method of consolidation I think needs a little bit of comment here. All funds and agencies, except the commercial corporations, are consolidated on a line-by-line basis. In doing so, the interfund and interagency transactions are eliminated. For example, a loan from the heritage fund to the Agricultural Development Corporation will be shown on both of those separate financial statements. The heritage fund will show a loan receivable; the Agricultural Development Corporation will show a loan payable. But in the consolidated accounts those two transactions would be eliminated, and neither one would be shown on the consolidated accounts. Similarly, interest earned or interest expense accrued would be eliminated in preparing the consolidated statements.

9:30

The accounting policies of the agencies and funds are adjusted to a basis consistent with government accounting policies in the consolidation process. For example, physical assets, which are recorded on the books of, say, the Alberta Hail and Crop Insurance Corporation, would be removed from the balance sheet in the consolidation process because the government accounts do not include physical assets.

Some provincial agencies have a year-end other than March 31, the government year-end. So in order to bring those together into the consolidated statement at March 31, significant transactions

between the corporate year-end and the government year-end that affect the consolidated results would be recorded.

Crown-controlled corporations and commercial enterprises are recorded on an equity basis. For example, the Treasury Branches, which are a commercial enterprise: the revenue, the expenditures, the assets, and the liabilities of the Treasury Branches do not appear in the consolidated accounts. It's only the change in equity of the Treasury Branches that would be reported in the consolidated statements. So for the year ended March 31, 1993, the \$18 million income or improvement in equity position of the Treasury Branches would be included as a reduction to the deficit in the consolidated books. Again I would refer you to the notes. Note 1(b) in the consolidated statement explains the method of consolidation we follow.

Alberta's basis of accounting is probably best described as the modified accrual basis. In other words, with a few exceptions the transactions are recorded in the period that they occur. This differs from the cash basis, of course, where the transactions are recorded when the cash is received or when the cash is paid. Our most significant exception to the full accrual basis is that physical assets are not reported as assets of the government, and this issue of which physical assets to record, how to account for them, and how to report them is currently under review. Again, note 1(c) describes the accounting policies that we follow in the consolidated statements.

Just a further word on the accounting policies. The accounting policies that we follow are essentially those recommended by the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants. This board was established in 1981 to develop and recommend accounting and reporting standards for the public sector to thereby hopefully strengthen accountability and improve comparability between and among jurisdictions. The public sector board has issued nine accounting statements of which only seven statements apply to government. They also issued some auditing statements. These seven accounting statements which apply to provincial governments contain 95 recommendations. Almost all of these recommendations have been adopted by the province of Alberta. As indicated earlier, the most significant exception is the one relating to physical assets. The Public Sector Accounting and Auditing Board has just initiated a major project to study this whole issue of physical assets to identify and define physical assets in a government context and to recommend how to account and report physical assets on a government summary financial statement.

I thought it might be useful just to touch on a couple of terms that sometimes get confused: deficit, net debt, and unmatured debt. The deficit is the excess of expenditure over revenue for the year. It's really the bottom line on the revenue and expenditure statement. The net debt is the excess of the recorded liabilities over recorded assets, and that is the bottom line on the statement of assets and liabilities. The unmatured debt, which is reported as a liability on the balance sheet, is the amount of issued debt payable to individuals and organizations outside the government reporting entity after deducting sinking funds that are set aside to assist in the payment of that debt.

That pretty much covers volume 1, I think.

MADAM CHAIRMAN: Could we allow questions to volume 1 right now? Or could you give an indication of how much time it would take to go through the other two volumes?

MR. DINNING: Madam Chairman, I suspect that Jim is going to take probably another 10 or 13 minutes on the two volumes

combined. We should be finished by 10 to 10; then you've got half an hour for questions.

MADAM CHAIRMAN: Is that agreed?

HON. MEMBERS: Agreed.

MADAM CHAIRMAN: Thank you.

Sorry for interrupting.

MR. PETERS: Volume 2 contains five sections. The first section is the general revenue fund financial statements. The general revenue fund is the primary operating account of the province of Alberta. The majority of the province's revenues and expenditures flow through this account. The general revenue fund receives all public money except where legislation directs that the public money shall be deposited elsewhere, for example to a regulated fund, such as the health care insurance fund, or where public money is received in trust, such as moneys held by the Public Trustee. Expenditure from the general revenue fund covers the day-to-day programs and operations of government departments. Expenditures are made on the authority of supply votes approved by the Legislative Assembly. In addition, certain expenditures are made on the authority of legislation directing that expenditures may be made without annual appropriation, such as debt servicing costs. Valuation adjustments and other provisions reflect changes in the values of assets and liabilities during the year. These changes are also accounted for as expenditures so that if there's a decline in the value of an asset, the amount of the decline reduces the value at which the investment is carried on the balance sheet. That amount of the decline is also charged to expenditures evaluation adjustment.

Section 2 of the public accounts contains a large amount of detail by department. It's really compliance and accountability information for each department. It's displayed in a variety of ways, sometimes comparing actual expenditure with the budget and sometimes displaying a variety of details: budgetary expenditure by department compared with the budget; operating capital expenditure is one set of schedules by department again and by program; budgetary expenditure by program and object, by general control groups, such as salaries, supplies, grants, and so on. Then fuller details of expenditure by object, such as details of supplies, travel, postage, and so on. It also includes statements of departmental expenditure by program and object compared with the budget, showing overexpenditures and underexpenditures. It includes a statement of expenditure by element and a statement of revenues.

Section 3 is the section that contains the financial statements of the revolving funds. Revolving funds are funds authorized by the Legislative Assembly. Initially they have no funds, so they are funded by an advance from the general revenue fund. A good example of a revolving fund is the Public Works, Supply and Services revolving fund, which provides computer processing services to other government departments and charges them for the services provided. If permitted by legislation, the revolving fund may also provide goods and services to entities or individuals outside government such as the education revolving fund, which provides educational materials to the education system and to the public. Users and purchasers of goods from a revolving fund are charged the costs of those goods and services. These costs are based on the amounts that are sufficient to cover the direct costs, the overhead costs, and a provision for amortization. The objective of a revolving fund is to operate on a break-even basis.

In bringing together the statements, the results of the revolving funds are reflected in the general revenue fund financial statements. They're kind of an adjunct to the general revenue fund. The financial assets and liabilities of revolving funds are included in the general revenue fund statements but not any physical assets they may have. For example, the public works revolving fund: the computer equipment that they own would not show as assets on the general revenue fund statements. The net income or loss of a revolving fund is adjusted to a basis consistent with the government accounting principles, and then that is reflected in the deficit of the general revenue fund.

9:40

Regulated funds. Section 4 contains the regulated funds statements. Again, these are special-purpose funds established by the Legislative Assembly. Generally, the legislation that establishes these funds is very specific about what money shall be paid into a regulated fund and also authorizes the purposes for which the money may be paid out of a regulated fund. The health care insurance fund is a good example of a regulated fund. Regulated funds contain public money that is not part of the general revenue fund or public money that has been paid out of the general revenue fund into the regulated fund. Again, the health care insurance fund is an example of that. The school foundation program fund is another example.

Section 5 of volume 2 contains some supplementary information that is required by legislation or by direction of the Provincial Treasurer. There are about eight or nine statements in this section including things like remissions, compromises, and write-offs, which statement is required by section 28 of the Financial Administration Act. It contains a schedule of liabilities for which authority was insufficient during the year and which will be charged to a supply vote the following year. It shows special warrants issued and payments made thereunder. It shows a schedule of borrowings, a schedule of guarantees, indemnities given, payments made thereunder, and recoveries of amounts paid. It includes a statement of expenditure from the ID trust. It includes the financial statement of the office of the Auditor General, and it contains a summary of financial information relating to a large number of other regulated funds that aren't included as separate statements in the regulated funds section.

Volume 3 contains the financial statements of provincial agencies, commercial enterprises, and Crown-controlled corporations.

I thought it might be useful just to touch on a few definitions. A provincial agency is a provincial corporation or a provincial committee. Most provincial committees don't have any financial transactions, so the focus of the financial statements of the public accounts is on the provincial corporations. These definitions come out of the Financial Administration Act, and I've tried to paraphrase them a bit.

A provincial corporation is a corporation that is incorporated by or under an Act of the Legislature, and all or a majority of the directors are appointed by the government or, in the case of a corporation that has voting shares, all the voting shares are owned by the government. A subsidiary of a provincial corporation is also a provincial corporation.

A commercial enterprise is a provincial corporation or enterprise that operates on the basis of full costs being charged for the goods and services provided. The Alberta Treasury Branches would be an example of this; the Alberta Liquor Control Board is another example.

A Crown-controlled corporation is a corporation which is more than 50 percent owned by the government and operates on the

basis of full costs being charged for goods and services provided. North West Trust would be an example of a Crown-controlled corporation.

A few quick words on how to find it in the public accounts if you know what you're looking for, and some other perhaps helpful information. At the front of each volume there's a preface which explains what's in not only that volume but in the other two volumes. In addition, at the front of each volume there's a table of contents which gives you more detail of what's in that volume, and if you go to the front of each section, there's also a table of contents to help you find your way into that section. There's an introduction at the beginning of each section to describe much of what we've talked about this morning. Then as I mentioned earlier, if you're looking at financial statements themselves, the notes to the financial statements, particularly the first two notes, will summarize and help to clarify what the accounting principles and practices and reporting practices are that were used to prepare those statements. There is an alphabetical index at the back of volumes 2 and 3, so if you know the name of the company or fund you're looking for, you'll find your way through with that assistance.

The reason I say if you know what name you're looking for: you might know that we have a capital fund, so you look under "C" and may be surprised to find that it's under "Alberta" capital fund instead.

Then the page numbering system that we use I'm told confuses some people.

MR. DINNING: Including the Treasurer.

MR. PETERS: When you get into volumes 2 and 3, the first number of the page number is the section number, and the number after the decimal point is the sequential page number in that section.

MADAM CHAIRMAN: Thank you very much.

Gary.

MR. FRIEDEL: The issue of changing the accounting policy relating to capital assets has been discussed. As a matter of fact, we discussed it earlier this morning briefly with the Auditor General. Are you planning any significant changes in the accounting policy dealing with capital assets, presentation and such?

MR. DINNING: Madam Chairman, Gary, as you probably know and as the Auditor General may have pointed out and as Jim alluded to, when we buy a capital asset, whether it's a computer or whether it's a dam, it is recorded on the statements as an expenditure, a spending, and not as an asset. As Jim mentioned, that is perhaps our most significant exception to the general policy of accounting when we're talking about accounting on an accrual basis.

As Jim said, there's quite an illustrious group of Canadian citizens who happen to be chartered accountants, many of whom sit on this Public Sector Accounting and Auditing Board under the Canadian Institute of Chartered Accountants, and they have established a project to study the issue, to define what physical assets ought to be considered and accounted for on the financial statements. I leave it to Jim and Mr. Salmon to comment further, but we've gone quite a distance in accepting an awful lot of what the institute's board has recommended. I'm reminded of a letter that I received from the Institute of Chartered Accountants written to the *Edmonton Journal* where they suggested that the province

has taken great steps forward and is now recognized to be a leader among other governments in the standardization of its financial reporting activities. So rather than get it too far out in front of the chartered accountants, we will await their advice on the recording of these assets before we put them into our statements.

9:50

I did ask the Deputy Minister of Public Works, Supply and Services one day just what would be involved here and how we would in fact go about counting up and accounting for all of our physical assets such as all of our buildings, including this magnificent structure. He said that it would be a considerable exercise to do those kinds of valuations and would probably take a one- or two- or three-year exercise to have something that is acceptable financially to be placed into our books. While we're moving ahead, we're awaiting some advice and some further thoughts, perhaps, from the Auditor General, from our own people, and definitely from this Canadian Institute of Chartered Accountants board of advisors.

MR. FRIEDEL: I guess my concern is cost versus benefit. As a matter of fact, the comment was made this morning by the Auditor General: what kinds of assets would a government list as capital? You know, Crown land, for example: we own forests and trees and such. Obviously, these are not for all practical intents and purposes the kinds of things that could or should be in the records specifically. I am concerned what the cost would be if we undertook this sort of a project. I think you've answered my question, partly anyway, as to whether it would be practical. Are there any other groups, interested parties other than the Institute of Chartered Accountants, who have made representation or who would be involved in the review of what the government might do in this direction?

MR. DINNING: A short answer and then a longer one. The first people that come to mind is the Liberal Party. Of course, they've advocated this kind of disclosure. There are other governments across the country who are moving in various ways in doing this kind of disclosure and accounting. Jim reminds me that the Financial Review Commission has spoken of this as well. It goes back to your preamble, goes back to why we would do this. It comes down to: you have capital assets; the province in times of plenty invested several millions of dollars in these capital assets. What's important now to disclose is the consumption of those assets. We're using up our roads every year. We're using up the dams we've built. We're using up the hospitals that we've built over the last several years. Those are real assets. At this point they're not measured on our financial statements, but if we're going to sustain or maintain or enhance the quality of our life in this province, if it can be measured on a balance sheet of the province, we are not reinvesting all of the dollars that were necessary to recover the consumption of those assets.

I think of the buildings that we own. I'll use the Terrace Building. Some people say that it should have been condemned several years ago. In properly accounting for it, public works pays for it. Well, does the Treasury Department or the Education department or the Health department factor in the cost of providing accommodation to its employees? The real costs of delivering health care or Treasury services in this government are not truly reflected in our statements because we don't disclose on a department-by-department basis how much we pay for rent. I think that although it's in the public works budget, it isn't in the Treasury-delivered function budget the way it could be and, frankly, the way it should be. I do think that you've got all these

assets of the province. Some people want to focus on all the liabilities and rub their hands in glee in doing so, but let's have a true balance sheet with a real disclosure not just of the downside but very much the upside that we created by major investment in institutions across the province in the last 20-odd years.

MR. FRIEDEL: My final supplemental actually would be more in the way of a statement. I can certainly see some value in recording assets which are truly depreciable, buildings and such. I think that goes along with reasonable accounting practices, but I have some concerns. I would certainly caution that we don't jump into this just for the sake of having lots of facts and figures that might be interesting and look good but have no practical value in accounting records.

MR. DINNING: That's helpful. That's true, but then we should exercise caution in disclosing all of our liabilities, because some would suggest that disclosing your unfunded pension liability that you're going to pay off over 70 years is merely a bookkeeping transaction. Now, there's a debate about that, and I'm sure we'll have one, but we've done it. So having done it, let's have a balanced balance sheet.

DR. PERCY: Mr. Provincial Treasurer, certainly the province has gone a very long way in terms of the consolidated accounts. I think it's a significant improvement over what had existed previously. Also, I'm very sympathetic to the issue of depreciation, because if we're going to maintain the flow of services from our capital stock, we have to get a very good handle on that capital stock to know what our expenditures ought to be.

Having said that, one concern though. We're right now in sort of a transition as we're moving for a more comprehensive accounting of our assets and liabilities. Given the way that we calculate the consolidated deficit, my guts tell me that if we want a very good idea of our net borrowing requirements, at this stage it's still going to be given to us far more by the deficit on the GRF though, and we're going to be focusing at this time on the consolidated deficit. In terms of what Standard and Poor's and Moody's are going to be looking at, which do you think they're going to key on? Is it going to be at this stage given where we are in this transition on the deficit on the GRF, or are they going to look at the consolidated? Because that ultimately, from the perspective of our borrowing power and our credit rating, is what's important.

MR. DINNING: Well, Madam Chairman, they look at a number of things, as you well know. One of the things they will be looking at is page 23 of the Budget '93 document, which spells out the unmatured debt before sale of assets and the unmatured debt after the sale of assets. That clearly reflects our actual borrowing financing requirements for '92-93, for '93-94, and on into the future. So we've spelled out very clearly that the annual increments in unmatured debt after the sale of assets will be what we need to finance annually. Clearly, when they look at your assets and your liabilities, they're going to look at all sorts of things. They're going to look at this. They're going to look at the state of the province's economy, which they will recognize is relatively robust compared to several other parts of the country. Let's not deny it; they are looking at our fiscal flexibility, our fiscal capacity. Let's not mince words about that. They do. They're going to look at the government's plan and resolve and steeliness, which they've seen plenty of this week, to get its deficit under control. All of those things they will consider. The actual

dollar amounts that they know we will have to finance are spelled out on page 23 of the government's four-year plan.

DR. PERCY: Is this the time to ask a narrow question, or are we still sort of staying at the broad level? Will the Provincial Treasurer be coming back?

10:00

MADAM CHAIRMAN: The Provincial Treasurer will be coming back. This was a briefing session with the ability to ask some questions.

DR. PERCY: Okay. Then just one supplemental. One can envisage very easily instances where our consolidated deficit has been reduced yet our net financial borrowing requirements are going to rise. So I would just say that in terms of focusing on the issue of deficits and the variety of deficits that we can measure, I don't think we ought to lose sight – and I think the public accounts have to focus on it perhaps a little more clearly – that we need to be very clear in here as to what our net borrowing requirements are going to be and the deficit from the perspective of our creditors, which is important. It's going to be, I think, far more at this stage related to the GRF than it is the consolidated deficit. I don't want to beat a dead horse on this. I mean, there are a variety of ways we can measure this, but in terms of front end, the needs we have for financial borrowing, we can't lose sight of the GRF deficit.

MR. DINNING: Madam Chairman, I'm not quite sure whether Mike is wanting to focus on the general revenue fund and thinks that that's the area that we ought to focus on.

DR. PERCY: No. I say that what you've done – I mean, this is a significant improvement, but in terms of, in fact, the pressures on financing, we can do a lot of shifts in the structure of our assets which will make the consolidated deficit look very good, yet our financial requirements are going to be rising very dramatically. So I think we've got to be careful that there are two sets of deficits in here. I know the discussion in the Public Accounts is focusing on the consolidated deficit, but as I say, I can draw very good scenarios where the consolidated deficit goes down, everything looks good, yet our financial borrowing requirements are going to be going up like this.

MR. DINNING: Well, Mr. Speaker – Madam Chairman. I can't help it; I'm in this Chamber.

It's a bit of a dilemma, because if I may say so, and not to be unparliamentarylike but the member is damning us if we do and damning us if we don't. Instead of presenting perhaps a more narrow picture of the government's finances as portrayed in the general revenue fund, we've gone the distance and portrayed it through a true consolidated picture of the province's finances.

Yes, our bottom-line position – I know we're talking about '92-93, but the question takes me out over the next four years – shows that we will go into a surplus position. The bottom-line surplus position in '96-97 by \$220 million will go to an operating surplus position in the same year to the tune of half a billion dollars, but our borrowing requirements will begin to drop. They will still go up, but their rate of growth will drop. It's portrayed on page 23. Our borrowing requirements this year will be \$2.8 billion; next year they will drop by a billion dollars to \$1.75 billion; the following year they will drop another billion dollars to \$700 million; and the following year they will drop to \$200 million. Although it still means borrowing, that is the reduction

in the burden over a period of time. Let us begin in this first term to eliminate the problem of the deficit. In the next term when we're sitting in those chairs, we will begin to tackle the debt.

DR. PERCY: I'll take that actually as the second supplemental. I'm not disagreeing that there have been significant improvements. I'm just saying that I think it's the case that given that we're going to be shifting our asset base, I think over the next two to three years as discussions go on as to what constitutes part of the capital stock of the province with the consolidated accounts, we're going to have to be very careful what we look at.

MR. DINNING: I take your point, because disclosure is important. Consumption – i.e., depreciation and amortization – is also going to be important. I think it's important for everybody in government and everybody in the province truly understanding that you just don't have an asset that stands still over time. My four colleagues to my right will definitely attest to that. There is consumption of those assets. If you want to have a full understanding of how much you're spending every year, it isn't necessarily just even – what you're saying is it's not necessarily right all in here, yet you've got to account for the amortization. It's like a piece of farm machinery: if you don't put on your balance sheet depreciation of that 1966 tractor, which some farmers, I presume, might want to write off several times, you won't truly know the cost of your farming operation. It's no less true in government.

MADAM CHAIRMAN: Two more questioners, if we can keep that in mind when we're answering the questions.

David Coutts.

MR. COUTTS: I notice, Madam Chairman, that we're on a bit of a general topic. I wonder if the minister would look at specifics at this point in time.

MADAM CHAIRMAN: Do you have an objection to a specific?

MR. DINNING: I am coming back, Madam Chairman.

MADAM CHAIRMAN: Ask your question, and let's . . .

MR. COUTTS: No, that's okay. I'll save it for another time. Thank you.

MADAM CHAIRMAN: Are you sure?
Danny.

MR. DALLA-LONGA: Oh, great; my turn. I, too, would like to thank the hon. Treasurer for appearing before us here today to answer some of our questions. My question is more of a general one, and it has to do with the concept of the Auditor General, who is the eyes and ears of the people of the province of Alberta. You know, with the spirit of open and accountable government I'd like to know if we could look at some of the recommendations other than the ones that are made in this book, like some of the management letters and some of the suggested adjustments that he's made, to get an idea from his perspective what he sees are the issues with the accounts of the government. I don't know if that's specific enough. Maybe you might want to comment. I could give you a little more specifics.

MR. DINNING: Goodness knows there are times I'd love to advise the Auditor General what he may or may not put in his

report. I don't presume to be so presumptuous, but the Auditor General does provide management letters following an audit to the ministers responsible or the deputies responsible and then chooses at year-end as to which items are of such significance that he would want them in his report. I think, knowing some of the things that have been in the audit management letters, that he certainly finds an awful lot of things significant, such that he does put a fair number of items that I know are in management letters in his annual report. I don't know whether that answers your question, Danny.

MR. DALLA-LONGA: Not really. I guess what I'm looking at is: I know I've been in one of the other subcommittees and was somewhat frustrated. I didn't have the sort of detail that I'd like to have. I didn't have the sort of idea of what was in the numbers, what the Auditor General in looking at the detail – I could be piggybacking on his efforts. The 38 recommendations: I'm not suggesting that anyone try to influence him on what goes into his report, but I know enough about the type of work he does that there are suggestions, recommendations going back and forth. There are certain adjustments that he's recommending that, you know, may not be material, that may be for another year, that sort of thing. As it currently stands, members of this committee, members of other committees, don't have access to that information. In the spirit of open and accountable government and having gone the distance that you've gone so far, I guess I'm asking just to go a little bit further. So my question is: would we be able to have access to that information?

MR. DINNING: Madam Chairman, I hear what the hon. member is saying, but I look at our job in this Chamber differently than I look at the job that I have as, say, a member of Her Majesty's Executive Council, different from the job that the officials in the department have. They are three distinctly different jobs. This is a Chamber that sets legislation, and that legislation is based on principles. I think that's appropriate. That should be our job. Secondly, you have a government who takes that legislation and those principles and establishes policy. We are policymakers. As a government, as a cabinet, and as a cabinet minister I am a policymaker. I'm not a nits and grits day-to-day manager, and I shouldn't be. I believe it's my job as the Treasurer to go out and make sure that I hire the best managers and operating officers, in this case on the Controller's side, the chief operating officer on the accounting side of government. That implementation of the legislation and the principles and the policy that's established from that occurs by the officials in the department. If they don't do a good job of implementing the policy and the principles and the legislation, then we'll find other ones who will do a better job. Just like as legislators and principle-setters, if the people of Alberta don't like what we set, they will find other people to do that job as well.

10:10

We're embarking on a process in government of establishing three-year business plans that spell out what we should be doing and what we shouldn't be doing, what business we should be in and what we should get out of. Having established those, we will then account to Albertans by placing that material before the Legislative Assembly, before the people of Alberta, and then we'll say to officials, "Go off and implement that," and frankly – may I be frank?

MR. MAGNUS: No, Frank's in front of me.

MR. DINNING: No. May I be really frank and say that when ministers have established that three-tier framework and marching orders, may I say, to departmental officials, then I think that departmental officials should come to the point one day where they tell their ministers and their politicians to go away. "You've established a contract between officials and minister and Legislature. You told us what to do; we're doing it. Don't meddle." Because when politicians meddle with day-to-day management, I don't think that's the right thing to do. I'm not a deal maker. I'm not a nits and grits manager. So I think it's quite proper that you would see that which is significant in the minds and eyes of an officer of this Legislature and that we be accountable, because this starts to touch on the principles, on the legislation, and the policies. The day-to-day implementation, advice from the Auditor General – change this, fix that, do this differently – is something that's got to be done, and the significant stuff has got to be the agenda for this Chamber, this committee, and, in fact, ministers.

MADAM CHAIRMAN: Mr. Minister, in respecting the time that you had allotted us this morning, I apologize to Danny Dalla-Longa for cutting you off once again for your second supplementary.

To the Provincial Treasurer and his staff and the Auditor General and Mr. Wingate, I thank you sincerely for making yourselves available this morning.

Our next meeting is Wednesday, October 13. The Auditor General will be with us once again. Unless there's any further business, we stand adjourned.

Thank you.

[The committee adjourned at 10:15 a.m.]

