



Standing Committee on Crown Corporations

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**STANDING COMMITTEE ON CROWN CORPORATIONS
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Information Services Corporation of Saskatchewan

The committee met at 09:34.

The Chair: — I will call the meeting to order. When we left off there were a number of speakers on a topic, and I'll get back to that in a minute. Before we do, Mr. Nicholson has a comment that he would like to make. And if that raises questions then I'll ask where we want to proceed in terms of the issues that were before us last time. So Mr. Nicholson.

Mr. Nicholson: — Thank you, Mr. Chairman. In the question and answer last week we were asked by Mr. Wall about a number of items I think on the payee list, one of which was Deloitte & Touche.

We were . . . and we gave an undertaking to go and look at what the differences were and we were doing that work last night. And when my officials were completing that work we discovered an error in the information that we had previously supplied to CIC (Crown Investments Corporation of Saskatchewan) which was then subsequently tabled. And what had happened was that the official who had compiled the original list had interpreted the term consultants, we felt, rather narrowly.

And so what we've done is revise the list and I'm prepared to table that this morning, Mr. Chairman. And so that the committee has what we feel is the full and proper disclosure with respect to payees.

I do apologize on behalf of my officials to Crown Corporations Committee. It was an unintentional mistake and so . . . but we do want to disclose it this morning as soon as we found the error last night.

The Chair: — I have a payee list for consultants — this is paid over 10,000 — with a total of \$8.26 million.

Mr. Nicholson: — That's correct, Mr. Chairman. That was the information that we supplied to CIC which was then subsequently tabled. The new list is about \$10 million and has a number of additional items on it.

The Chair: — Okay.

Mr. Nicholson: — Seven, I believe, close to 7 million of the \$10 million went to EDS (Electronic Data Systems), who of course are our supplier. They're the developer for the LAND (Land Titles Automated Network Development) project system.

The Chair: — Okay. We still have a speaking order from last time. I had Mr. Wall who was on the issue of marketing. And that turned into a discussion then on the role of the committee with respect to consideration of issues other than those contained in the annual report or in the auditor's reports. And so at this point I would ask the committee members if any of them want to pursue that matter at this point in time. I had on the list Ms. Atkinson and Mr. Wall for . . . (inaudible interjection) . . . no.

Ms. Atkinson: — Yes, I . . . (inaudible) . . . looking into the

special report of the Standing Committee on Crown Corps.

The Chair: — You want to turn to the special report. Before we do that, are there any other matters? Mr. Wall.

Mr. Wall: — Thank you, Mr. Chairman. Just on this list, I wonder if officials could comment on the Deloitte Touche entry there. Now those . . . they are the appointed auditors, but also they were retained to do some marketing, some market research for the Crown. And I wonder then if that figure contains or represents the amount paid for both of those functions. And if it does, then how would that break out in terms of the amount for the audit and the amount for the market research?

Ms. Powers: — Mr. Chairman, no, that doesn't include the audit fees. I can give you the break out of the significant components of that item if you like?

Mr. Wall: — No, that's . . . of this 328? If you would, please.

Ms. Powers: — Okay, the significant components of that item were some tax advice regarding our GST (goods and services tax) and PST (provincial sales tax) position, some advice regarding business arrangements. There was some services provided to assist in some analysis that we were undertaking. As well we had a review of our land titles model that was undertaken by Deloitte & Touche. There was market studies with respect to the emerging markets as well as to the Canadian, US, (United States) and other developed countries. And the final significant item related to different business arrangement type of initiatives.

Mr. Wall: — Thank you, Mr. Chairman. Would those have all been done then by the Toronto — but which part of Deloitte — by the Toronto offices, so to speak?

Ms. Powers: — Mr. Chairman, with the exception of the tax work and the review of the land titles revenue model, as well as just some assistance and some analysis work that we were conducting, it was conducted by Deloitte & Touche, Guelph, and Deloitte & Touche, Toronto.

Mr. Wall: — There were some portions of that 328 though that were done by the Regina office of Deloitte Touche?

Ms. Powers: — GST and PST advice was provided by Deloitte & Touche, Regina. The land titles review work was done by Deloitte & Touche, Saskatoon.

Mr. Wall: — Okay.

Mr. Nicholson: — Mr. Chairman, just as one additional clarification, we mentioned last week that some of the work had to do with emerging markets and a practice of Deloitte & Touche in Washington, DC (District of Columbia) that focuses on that. When Ms. Powers gave the reference to Guelph, it would have included, that would have included the Washington, DC work.

Mr. Wall: — Thank you, Mr. Nicholson. Mr. Chairman, what is the amount of the . . . so what, again, the amount of the market study for both the emerging and the . . .

Ms. Powers: — Mr. Chairman, total market research would have totalled approximately \$150,000.

Mr. Wall: — Thank you. Mr. Chairman, are there any other payees on the list here that would have done . . . I can see some firms, for example, with the name Research — or at least one with the name Research in the name of the company — so I'm not sure if that was . . . if those were market research or not. And so just to save the time of the committee: are there any other consultants listed in the payee list that would do . . . that would have done market research for ISC (Information Services Corporation of Saskatchewan)?

Mr. Nicholson: — LDT Consulting, Mr. Chairman. That's sales, business development, and some marketing work. I believe Mr. Hewitt described that last week.

Mr. Wall: — So just the Forrester Research Incorporated, what would that have been?

Ms. Powers: — That was core research on the IT (information technology) industry. So not specific to LAND.

Mr. Wall: — But with a view to accomplishing what, on behalf of the corporation?

Mr. Nicholson: — It looks at the marketplace for software sales and how trends are emerging in the software industry.

Mr. Wall: — I apologize if I didn't phrase my . . . question my . . . that I had a couple of questions ago properly or broadly enough.

Could you please highlight all of the payees on this list that would have performed work for the Crown corporation, intended to assist it with the marketing of any of its products and services.

Mr. Nicholson: — It would have been those already mentioned, Mr. Chairman. And also the Gartner Group. Also at the bottom, The Whitehead Network.

Mr. Wall: — And what kind of . . . What were those firms retained to perform for the corporation?

Mr. Nicholson: — The Gartner Group work, Mr. Chairman, would have been similar to the Forrester Research — looking at the IT industry generally, what trends are emerging in terms of delivery of services electronically, who are the kinds of people who develop and sell but also those who receive services electronically.

With respect to The Whitehead Network, that would have been focused around GIS (geographic information system) products and services.

Mr. Wall: — Thank you, Mr. Chairman. And how is the corporation now using . . . Not knowing the timeline of when this work was completed for the corporation, how or is the corporation now using the market intelligence it would have gained from those considerable expenditures?

Mr. Nicholson: — Well, Mr. Chairman, I guess we would

undertake that market research, as all corporations do, in the formulation of your business plan. So you need to understand where the markets are, what the competitive issues are, and how you should focus your efforts in terms of business development and sales.

So as a general response, I would say the research would have been utilized in the formulation of our business plan for the current year and going forward.

Mr. Wall: — Thank you, Mr. Chairman. How does the . . . especially for . . . Specifically for the Deloitte Touche marketing piece, was there an RFP (request for proposal) or a tender done and associated with that . . . in association with that?

Mr. Nicholson: — No, Mr. Chairman.

Mr. Wall: — What are the policies for ISC in terms of when they need to ensure there's some competition with respect to bids for various kinds of consulting?

Ms. Powers: — Mr. Chairman, I'll address that question. Basically we tender wherever possible. But if there's specific expertise that we require, then we will source that specifically to a particular party.

Mr. Wall: — And in all of these cases . . . I shouldn't say that, but in these other marketing pieces here that we have highlighted, were those tendered or are this part of the latter group that you explained? That would be The Whitehead Network. Well LDT I don't think was because of the prior — I don't want to put words in your mouth but I'm assuming that wouldn't have been; maybe it was — and a Gartner Group and Forrester Research.

Mr. Nicholson: — I believe Forrester Research and Gartner Group are subscription services. They supply research, standardized research, to companies who are involved in our marketplace. And so by way of a subscription you just buy their regular research reports, much as you do maybe from say a stockbroker or something, if that would be an analogy.

With respect to — I believe Mr. Wall has commented on LDT — with respect to The Whitehead Network no, Mr. Chairman, I don't believe that work was tendered. The individual involved has specialized knowledge in GIS and the IT industry generally, but very specialized knowledge with respect to GIS.

Mr. Wall: — And the Deloitte Touche marketing piece?

Mr. Nicholson: — No, I don't believe . . . No, that was not tendered. The group involved, Guelph, Washington, as I mentioned last week, headed by a Canadian, they have a worldwide practice that focuses on emerging markets so it is an intensely focused or specialized group.

Mr. Wall: — The IBM Canada entry at \$281,000, you know, could you outline what that was for, please?

Ms. Powers: — Mr. Chairman, that was for project management . . . project managers involved in projects that the corporation was delivering.

Mr. Wall: — And The Focus Corporation at the bottom?

Ms. Powers: — Mr. Chairman, that was PPS Consulting on the LAND project.

Mr. Wall: — And the Varimax Information Systems?

Ms. Powers: — Mr. Chairman, that was for a conversion consultant on the LAND project.

Mr. Wall: — Thank you, Mr. Chairman.

The Chair: — Okay. Any other questions on this topic? No. Then I would point out to members that we have all received a special report to the Standing Committee on Crown Corporations from the Provincial Auditor.

The auditor is with us today and I would, with your indulgence, ask the auditor at this point to review or to make any comments that he would like to make further to his special report, and also to Mr. Nicholson, if he has any further comments to make. And then let's take it from there.

Mr. Wendel: — Thank you, Mr. Chair. You will have received two documents today and this is our report. It's very brief. I'm usually a little more verbose than this that we have . . . and this report . . . I want to say when I say our report I mean Deloitte & Touche and all of us together. This has been a joint report, all of us. In this report . . .

Mr. Prebble: — I'm sorry. I don't have copies of that material. I have the special report but I don't have the report of the . . . your report, Mr. Wendel. Thanks.

Mr. Wendel: — And the other report you'll have received is a report prepared by Information Services Corporation. And in that report they've included three of our reports where we've provided assurance on the schedules that they've included in here.

The purpose of this report was just to have something on the record that we finished our work at ISC and did the work that the committee asked us to do.

Now regarding our reports, we've got three reports in their report. The first report appears at page 1-7 and that report advises you that the schedule that starts at page 1-8 is a reliable report on ISC's financing.

The second report which appears at page 2-14, that report advises you that the schedule starting at page 2-15 is a reliable forecast of the cost to complete and the total forecast costs for the LAND project.

The third report which is at page 3-11, that report advises you that the schedule performance information starting at page 3-12 is a reliable report of ISC's progress towards achieving its objectives and performance targets including any departures.

We followed Canadian generally accepted auditing standards to provide these three reports. Management of ISC is responsible to prepare the schedules that we audited and the management discussion and analysis. We did not audit the management

discussion and analysis that are included in ISC's reports.

And to close, I just want to thank Deloitte & Touche and the staff and management of the corporation for their co-operation. And that ends my comments. I'm not certain if John has anything he'd like to add to that.

Mr. Aitken: — Yes. Just briefly to say, when I . . . when I came forward there this morning, the Provincial Auditor complimented myself and the audit team at Deloitte & Touche for the quality of the calibration that was evident in this assignment. So I think I want to echo that.

I was pleased to hear that, because I've heard otherwise from time to time in my past. So I think there was a . . . there was a certain novelty, if you like, of that conversation and I try . . . I bring that perspective here this morning.

Having said that, I have with me today two of three main people from Deloitte & Touche who were involved in this work, Glenda Rowien, who is the audit manager of the audit of ISC, heavily involved in this project; as well as Bill Matiko from our Saskatoon office, who is a certified business valuator and was involved in this project with these skills. The third member of our team is not here today. Karen O'Brien is a computer assurance review person who was involved in this project because it did involve that whole world of computers and development.

We worked very closely throughout the whole piece starting with the meetings of Public Accounts when we were in attendance here; the two days I think, of the Crown Corporations' deliberations on this issue. And I think on the basis of that discussion, it was helpful to focus on what were the issues that the members were seeking to have addressed.

And we brought that forward into our audit program in collaboration, as I say, on all of these three questions that we addressed, working pretty closely with both management in terms of their assertions, and the Provincial Auditor. That's all I thought I should say at this time.

The Chair: — Are there any comments? Questions? Mr. Wall, then Mr. Prebble.

Mr. Wall: — Thank you, Mr. Chairman. I want to focus if I can for a little bit on the first section of the report. And in doing that, on behalf of the opposition, I also want to thank the Provincial Auditor and the appointed auditors and the staff at ISC for co-operating to get this done.

In the description of reporting areas section on 1-4, the report discusses some variances, some material variances, and gives a reason for those. And I'd like to spend some time asking some questions about those, Mr. Chairman.

The first one would be on the land titles and I'm not sure who to address these to. I guess I offer them up and whoever the right group is to respond to them . . . maybe it's ISC officials, maybe it's the auditors, I'm not sure.

But could you . . . I guess I'm looking for a little broader explanation of the material variance between the budgeted and

actual operating revenues in the land titles. And specifically you know . . . you know at the end of this report there's some significant discussions of how the corporation has gone about mitigating risks and managing the risks, and I'm wondering if you could please tell us how you . . . if you could expand basically on the explanation given here for the material variance in the budget to actuals on the land titles . . . on the operating of the land titles. That's page 1-4.

Mr. Nicholson: — Mr. Chairman, I guess I'd ask if the member could give a little more clarification. I'm not quite certain of what his question is. I don't want to obviously read the excerpts from the report and I'm happy to provide explanations but . . .

Mr. Wall: — Well the lower volume in land titles offices than the historical level. I wonder if you have an explanation as to why that might have occurred and why they obviously . . . the forecast was, you know, higher than what actually happened. I mean it's a fundamental operation question I guess — just wondering why.

Ms. Bradshaw: — Excuse me, Mr. Chairman. The volumes of work that are handled in the land titles offices are driven by activity in the economy which varies obviously from year to year, although we have increases in our volumes based on both upward trends as well as downward trends in the economy because things like bankruptcies and foreclosures actually generate work in our offices. So there are variations . . . we do not control the volumes of work that come in through the door.

So in part, simply the volume of work coming in through the offices in the year 2001 was somewhat less than in previous years. And as well with the revised schedule of implementation in the offices, it delayed implementation of the new revenue schedules, new fee schedules; as well as we have identified that as new offices come on there is a sort of a phase-in period in terms of people using the system in any one district.

So that has all pushed volumes throughout the year and to some extent had an impact on the volumes of work coming in the offices during 2001.

Mr. Wall: — So when ISC was doing its planning then, Mr. Chairman, didn't they . . . did they use sort of . . . How conservative were they in their pro formas when you were projecting it out? I mean if it's a function of transactions, did you look at the, you know, in recent history the lowest level of transactions that the old system had underwent and used that and the numbers came in even lower than the historical lows or . . . I guess I'm trying to get to what you based whatever pro forma work you did to come up with your forecast, say your forecast operating revenues.

Ms. Bradshaw: — Yes, Mr. Chairman. We had used five-year averages for those particular volume assumptions. However in addition to that, in year 2001 specifically we were attempting to project how the differentiation in services and products, options that are available to customers, would be used by them in the new system which wasn't based solely on historical information.

So we were not just projecting straight through the same services and products as in previous years. We were attempting

. . . We had to use old-world information to try and anticipate how the volumes in the new system would be driven. So there's a combination of factors there.

Mr. Wall: — With respect to the geomatics section there are several reasons given for the material variance between the budgeted and actual operating revenues in geomatics as well including . . . The first one is price reductions to accomplish sales targets were not concluded until May 2001. So what I'm seeing here then is that an explanation for why the numbers are off, certainly in a material way, is because that you came up with a price for the work and then the sales weren't coming in so you reduced that price and therefore your total revenues were down. Is that correct?

Ms. Bradshaw: — Yes. We had undertaken, Mr. Chairman, extensive review of what was happening with the GIS products in Saskatchewan and had done extensive consultation with our users in the province during the year 2000. One of the pieces of feedback we got was that the prices were prohibitive in terms of people acquiring the large data sets.

We therefore undertook a reduction in the prices to stimulate the demand for those products. That was delayed into the year beyond a time that we expected it to be and therefore had some . . . So we didn't get the take-up again earlier in the year which is what that point is meant to reflect.

Mr. Nicholson: — And just to clarify, Mr. Chairman, on that point: when we undertook the consultations in 2000, we had inherited a pricing structure that . . . formerly used by SaskGeomatics, '99 and earlier. And so the consultations in the year 2000 were with our customer groups and users with respect to the historical geomatics prices that existed before the corporation came into existence.

Mr. Wall: — So what kind . . . I mean you found out that the prices were too high after the fact. Would that information have been available to the corporation had they retained some . . . either done it themselves or retained some help to find . . . as they have seemed to be doing now in terms of market development and market research? Was that information unavailable to the corporation prior to it setting the price in the first place and making a forecast that clearly has turned out to be materially too high?

Mr. Nicholson: — Well, Mr. Chairman, as I was just trying to explain — maybe I'm not being clear — we inherited SaskGeomatics division from SPMC (Saskatchewan Property Management Corporation) and we inherited their products and services and we inherited their pricing structure. We did not come into existence until January 2000, and during the course of the year 2000, we undertook consultations with respect to the GIS customers. So the pricing structure that was in place was pre-corporation and we couldn't do a business plan before we were in existence, I guess is the point that I'm trying to convey.

Mr. Wall: — Fair enough. But certainly ISC was going to acquire this as part of its, as the thing kept getting bigger and bigger. And the first step towards it getting bigger was this geomatics function. And certainly then there would be some — and I hate to use this word; unfortunately it's been beaten to death by all sides of the House — but certainly would there not

have been a due diligence function to say look, here's what we're taking over from in terms of geomatics?

The world wouldn't have to stay the same if we were going to take this function over, and wouldn't you want to be . . . I mean I don't understand, just as a layman I don't understand why you'd want to go into this significant expenditure, this whole area of geomatics, and just accept what has been going on for some period of time by who was doing it previously, both in terms of product and price.

Especially if the market — it's the pricing's prohibitive — especially if you're able to find out in relatively short order, because the price changes by May it looks like, or shortly thereafter. You find out in short order that this is just, if the pricing's prohibitive, to use the words that we've, from the official — a fair word — I don't understand why you'd base forecasts on what appears to be this sort of a lack of due diligence.

Mr. Nicholson: — Well, Mr. Chairman, the corporation was not created until January 2000. At the time cabinet made the decision in November 1999, I was then deputy minister of Economic and Co-operative Development. I wasn't involved in the preparation of the documents leading up to the cabinet decision because the corporation was not in existence.

And so what I guess I've been trying to explain is that I inherited, when the corporation was established and I became the president and CEO (chief executive officer), I inherited all that had taken place in terms of the cabinet decision. And it was then my responsibility to undertake the work required to set up the corporation, and that's what we did during the course of the year 2000.

Fairly early on in the year 2000, Mr. Chairman, we, in discussion with customers — GIS customers — we found that there were concerns about the price, about some of the quality issues being maybe higher quality than what they wanted to pay for. There were a variety of issues; licensing arrangements for geomatics products and services.

So during the . . . as the year 2000 unfolded and we were setting up the corporation, we were in consultation with customers. I believe through the year we would have consulted with approximately a couple of hundred people in total — federal government, provincial government, municipal sector, private business people, Crown corporation people who use GIS. So we did very extensive consultations during the year 2000, which resulted in us bringing in a lower pricing structure. That didn't come in until May 2001.

So I guess what I would say, Mr. Chairman, is that I couldn't, I couldn't have done the work before I became the president. And I guess that's the best I can do.

Mr. Wall: — Fair enough. And so hopefully we'll get a chance to ask the minister who would have been at cabinet when this decision was made and when information was presented to it that clearly turned out to be wrong by a lot and for no apparent mystery, because there had been some history with this particular work and pricing and the product. It wasn't a mystery at all. It was all known.

And this is just the revenue element of the geomatics. There's also some significant variance. I mean some of the other reasons here . . . And I don't think your comments would change, but I'd like to highlight them, that the database transfer to ISC was only current to 1996. Well I mean they would have, they would have been able to know that. Then information wouldn't have been a mystery to the Government of Saskatchewan because it was coming from the Government of Saskatchewan.

The municipal market opportunities did not develop as anticipated. I guess I'm interested in the officials' comments on that. Because we are talking about a very significant . . . You know, the budgeted revenue is 6 million and the actual is 3.6. How much of that would have been made up by the municipal market opportunities and how much work was done in advance of it? Did the corporation or its predecessor go out to the municipalities and actually ask them if they were going to be . . . you know, do a little bit of market research with respect to this?

Mr. Nicholson: — Mr. Chairman, I guess I can't answer for officials for whom I had no responsibility prior to the corporation being established, so what work they may have undertaken and so on, I, with apologies, I can't answer that.

With respect to the municipal market opportunities, I think it certainly has been anticipated and we would anticipate going forward, that there is . . . that there are opportunities for GIS in the municipal area. There's been a dramatic increase in this area in the United States and the GIS data generally is now cheaper than it used to be as a general market trend.

In Saskatchewan there are clearly Regina, the city of Regina, and the city of Saskatoon are significant GIS users themselves. As communities get smaller of course they don't have the financial capacity or the market size, if you will, to warrant large expenditures in the GIS area.

So I think there are opportunities in the larger communities in Saskatchewan. We have been working on those. It'll take time however for them to develop.

Mr. Wall: — Mr. Chairman, you know I respect the fact that the CEO wasn't there. But you know this is a fairly important meeting. This is a large piece of work that's been done by the Provincial Auditor in association with the appointed auditors, with the co-operation of officials, at the request of a committee of the legislature.

And now we're asking questions about that report. And I don't expect anybody to be able to answer for things they don't know the answer to, but I think we should all have a reasonable expectation that there would be somebody here from the corporation who can answer these questions on this report we're dealing with as to why . . . you know the report itself — which I understand from what the auditor has said, ISC prepared and the auditor has verified — it has highlighted this as one of the problems, one of the reasons for the fact that the revenues in geomatics, the operating revenues, were significantly lower than budgeted.

So we'd like to explore that a little bit and we don't have the

answer to those questions. And I don't know where to turn in terms of an answer but if someone could provide one as to what research wasn't or was done on the municipal market.

Ms. Atkinson: — Perhaps the people from Deloitte Touche can answer it. And I know that Mr. Hewitt has been on this for a long time. He might be able to answer. So I don't think that we're totally in the dark here.

I know you're wanting to go in that direction, but there are some people in the room that could answer your questions.

Mr. Wall: — Well that's what I'm asking them. Let's carry on.

Ms. Atkinson: — Good.

Mr. Aitken: — I find myself in somewhat . . . Excuse me.

As the appointed auditors of ISC, it would be fair to say that we find ourselves in the same circumstances as Mr. Nicholson in the sense of we were appointed auditors in early 2000 upon the formation of the corporation. Therefore transactions prior to the geomatics system, prior to December 31, 2000 . . . or December 31, '99 is not exposed to our purview as auditors of ISC.

So this report, in terms of process, I think it's fair to say we adopted as auditors the same model as for the financial statements audits in the sense of the management discussion analysis is clearly management's explanation of the business side and the decisions and the transactional aspects. Whereas the schedules clearly are what we have audited and done a lot of work around is the reliability, as the Provincial Auditor mentioned earlier, of the numbers.

So the audit aspect of the schedules and the notes to the schedules, the management discussion and analysis was management's accountability for what does all these . . . what does all of this mean and what was the operational context in which . . . So there is obviously management's perspectives on what the driving forces were in that area.

So my sense is, yes, we're aware of the flow of transactions from SPMC or predecessor corporations into ISC. And to the extent that it impacts our audit, we can answer questions on that, on that piece.

Ms. Atkinson: — If I might, I know that Mr. Hewitt certainly might be able to talk about the land titles situation. So maybe we could direct some questions to him.

If it's a matter of how we . . . how the geomatics was dealt with, perhaps we can ask someone from SPMC because there is an evaluation put on this.

I don't want the committee left with the impression that we can't get the information. We may not have the right officials in the room. So if Mr. Hewitt might be able to help us, certainly on lower volumes, because he's been there since day one as far as I know.

Mr. Wall: — Actually we're not on that any more. We're on the geomatics question. And that was my question.

Ms. Atkinson: — But you're trying to paint a picture, Mr. Wall. And there are some officials in the room that might be able to answer the question.

Mr. Wall: — That is what I was about to do.

Ms. Atkinson: — Or we can get the officials . . .

Mr. Wall: — Then let me reword the question. Is there anybody that can answer . . . that can fully explain why the municipal market opportunities did not develop as anticipated in terms of the geomatics?

Mr. Nicholson: — Mr. Chairman, I believe I've answered that question. I believe the record will show I just answered that question. I believe Mr. Wall was speaking with his colleague when I was answering the question.

I'm happy to answer it again. The answer is that there is a trend in the geomatics industry generally for cheaper data and more use. The trend is fairly dramatic in the United States.

I explained about Regina and Saskatoon. And we still see opportunities for that development in Saskatchewan. It's perhaps not as rapid as we earlier anticipated, but we still see opportunities and we're working with the municipalities to try to develop that.

It was incumbent upon us however in order to realize on that, that we had to undertake price reductions in order for it to be realistic for the municipalities to buy our data.

Mr. Wall: — Right. You did answer that and I apologize.

What I don't have an answer to is this question: who did the . . . why was this element missed? Why was this overestimated? Was there due diligence done by officials with the corporation or its predecessor on this particular piece — on the municipal market for the product? And was the due diligence then presented to those who made the decision that this would be a good idea for ISC to go ahead and get into geomatics?

Mr. Hewitt: — Well I'll attempt to help out here. I'm not sure I can. On the municipal market issue, you're asking specifically on the municipal market issues and the information?

Mr. Wall: — Yes.

Mr. Hewitt: — That's one I can't handle. On the other two, if you want me to comment on those?

Mr. Wall: — Sure. Please, Ron.

Mr. Hewitt: — I mean when the corporation was created with the intent to include SPMC, prior to that our only involvement with SPMC and SaskGeomatics was a joint project to do the LAND project — so to use the GIS technology and add on to it, enhance it in effect, by adding the LAND information to it. So that was the only involvement we had. So it was a joint project of SPMC and Justice.

So the database obviously from ISC or sorry, from SGD (SaskGeomatics division) as it was called at that time,

SaskGeomatics, was really important for us to have. And so on the second point with the database transfer in 1996, we had not, I think at that time, understood clearly that the database was not as up to date as we had hoped it would be when we became involved with the LAND project.

It was only after we acquired the LAND . . . the assets from SGD that it became apparent that the effort associated with upgrading that was a lot more substantial than we had anticipated it was — the information that we got there. And I'm not certain that the individuals at SPMC at that time understood as well the amount of work required to upgrade that 1996 data to the current standards. So I think it's fair to say none of us understood exactly what was happening with respect to that.

The price reductions, those prices had been set by SPMC and SGD for some time as part of the, what they called the ISDB (integrated spatial database) project. And those prices when we got them, we started talking to customers and we realized that those rates were not probably sustainable. So it took us quite a bit of consultations, I think Mr. Nicholson pointed out, in 2000 to get those . . . to get people's views on that and we talked to quite a few customers on that.

But to actually implement the price change and go through the process to implement the price change is what took till May 2001. So in the year 2000 of course any increased revenue associated with the lower prices weren't achieved. So I don't know if that helps or not, but at least on those two points that's my understanding.

Mr. Wall: — Who at ISC then offered an explanation for the material variance, one of the explanations being the municipal market opportunities did not develop? Who would have offered that, that it would appear in the report we're dealing with this morning?

Mr. Nicholson: — With respect to that issue, Mr. Chairman, the reply to the questions was a collaborative effort of officials. Certainly as the CEO, I'm prepared to answer on that question and I think have attempted twice to answer the question.

Mr. Wall: — You have. No, I want . . . As you know, the question that I'm asking is, who did the due . . . who did the research, if there was any research done as to this particular market, that it did not materialize and somebody highlighted it as a problem because it's in the report. But we can't get an answer to that and maybe that official's not here. Fair enough.

And they could undertake to get that information to us if they're not here, through you. That's what I'm asking. It's in this report that we're considering this morning. It's a fair question, and we're asking. And that's why we're asking. If the person's not here, fine.

Mr. Nicholson: — Mr. Chairman, I believe the awkwardness we're having here is that, is that it's not that there aren't officials who can't provide an answer; it's that the corporation was established at a certain point in time and then we went forward.

John Whyte . . . I believe Mr. Hewitt indicated at our appearance before the committee in January that John Whyte,

the deputy minister of Justice, had indicated to us that if questions materialized that pre-existed the corporation for which he would have then been responsible, he was willing to come forward and answer those questions that pre-existed the corporation with respect to land titles and the Department of Justice.

I have no reason to believe that John Law, who was then the president of SPMC, who had responsibility pre-corporation for SaskGeomatics would not do the same. I apologize that I don't have that information and the other officials here don't have that information with respect to SaskGeomatics as it existed at SPMC.

But there are officials who the committee may wish to bring forward who can go back into that history.

Mr. Wall: — Well we're going to stay with that, and I certainly hope we get some answers because another material variance was the capital costs that were paid for the . . . to the Saskatchewan Property Management Corporation I would guess, to acquire this . . . to acquire the SGD or the geomatics division.

Now in the report here on page 18, the variance on the capital expenditures in that geomatics for the first . . . for the two years that ended December 31 last, was just under \$6 million, and I'm wondering how much of that variance is accounted for by the obvious change in price.

In other words, ISC purchased the geomatics division, acquired . . . made a capital expenditure to acquire that particular capability from another Crown. And the price that they paid was how many millions of dollars over what they had planned to pay? — is the question.

Mr. Nicholson: — Mr. Chairman, in our 2000 annual report which has been I guess presented to the committee and voted off by the committee, we have in the notes to our financial statements for that 2000 year a number of items to do with geomatics.

And on page 21 of our 2000 annual report we indicated that the corporation acquired the assets of SaskGeomatics from SPMC for \$5,770,742 of which \$4,520,622 was for capital assets and \$1,250,120 was for networking capital.

We also disclosed in our 2000 annual report, at page 24, note 12, a provision for asset impairment. At December 31, 2000, the corporation determined that the carrying value of its geographic information system exceeded the net recoverable amount. The impairment in the carrying value of the asset in the amount of \$3.61 million was charged to operations.

So I believe that we've disclosed this information in our 2000 annual report and members may refer to the notes in the financial statements for the details, but I think it's all been before the committee and voted off in the past.

Mr. Wall: — Mr. Chairman, the note on page 1-5 of the special report we're considering this morning, an explanation of the material variance between the budgeted and actual capital expenditures in the geomatics reporting area, says and I quote:

(The) Acquisition price paid for capital assets of the SaskGeomatics Division acquired from the Saskatchewan Property Management Corporation exceeding (the) original budget.

And I apologize if this is getting mundane for officials, but that was the question. What was the acquisition price paid for the assets and by how much did it exceed the original budget?

Mr. Nicholson: — Mr. Chairman, from memory, I believe that the budgeted amount — I'd stand to be corrected on this — but my recollection is that the budgeted amount was \$1.2 million plus an amount to be determined in the year 2000 after a review.

So it was 1.2 million plus an amount to be determined. Ultimately the amount was 4 million, the number to which I referred a few moments ago — 5.77 million and so on. And then I gave the breakout in terms of capital and networking capital.

Mr. Wall: — Thank you, Mr. Chairman. Who came up with the one point . . . how did the corporation arrive at the \$1.2 million to . . . the budgeted price to acquire this from another Crown?

Ms. Powers: — Mr. Chairman, I believe that that was the amount of debt that was assumed from SPMC at the time of transfer of the assets.

Mr. Wall: — So it was assumed . . .

Mr. Nicholson: — I recall that as well, Mr. Chairman. That is correct.

Mr. Wall: — Thank you. So it was assumed then that you could acquire the SaskGeomatics division by assuming the debt, is that correct — as the purchase price?

Mr. Nicholson: — I think that's what was, that's what was put in the budget, yes.

Mr. Wall: — So was that based on any consultation with Saskatchewan Property Management Corporation?

Mr. Nicholson: — The timing of that would have been pre-corporation and so I can't . . . I just can't comment on that issue.

Mr. Wall: — Can anybody answer that question?

Mr. Nicholson: — We can give an undertaking to have the officials from SPMC provide the information, Mr. Chairman.

Mr. Wall: — Well that would be good if we could. Because here we have a Crown corporation — or what was to become a Crown corporation — budgeting to acquire some significant geomatics capital equipment, I guess, because I don't . . . I'm not an expert in that by any means. And they either assumed, or somebody at SPMC told them they could have it for the debt, or could have it for 1.2 million bucks.

As it turns out, their fellow Crown in the . . . their brother Crown in the family winds up charging them, decides to charge

them 5.7; part of it's breaking out on this . . . on the capital networking so let's . . . we'll even use the number you've indicated of \$4.57 million. You know, almost four times the amount budgeted.

So we would like to know why you're undertaking, if you don't mind . . . who . . . What kind of due diligence, I guess, generally went into the, went into the costing of this? And maybe, maybe we'll have a discussion somewhere else about how it is that a Crown corporation can apparently, after a deal . . . Because I'm assuming, I'm assuming that there was a deal in principle for the 1.2 million. Surely there would have been.

I don't believe any official or anyone at what was to become ISC would just pick a number out of the air and say, you know what, we're going to be able to acquire this for 1.2 million because that's the debt. Certainly there had to be some agreement on the part of SPMC for this. And what happened subsequently, apparently, is SPMC, another Crown, decides that, well maybe they can, I don't know, shake down ISC or get a little bit more money and make its empire look a little better. So it increases the price almost fourfold. So I would ask for an undertaking.

And I would, for the record, Mr. Chairman . . . I mean this is a major material difference that we're talking about here and one of the most fundamental elements of this report. I mean there is lots of things in here that the auditors have indicated that are . . . that ISC is doing a good job of in terms of, in terms of the accounting and there's various comments to that effect. But there are also some . . . it also highlights some concerns and some material variances.

And so here we are today, expected to deal with this, and we can't get the answers to these questions. And I . . . that's frustrating. I'd like to say that for the record. You know, it probably doesn't help.

Mr. Aitken: — I hear the member's plea for help on this question of the transfer of the, of the assets from SPMC to ISC. And that did come under our audit purview. Mr. Nicholson has explained the asset impairment adjustment that was made in 2000 and certainly that was made in light of the geomatics business inherited from SGD of SPMC.

So I think however it should be borne in mind that there are some peculiar — and I guess I use the term wisely — peculiar to government accounting rules that deal with, if the assets of one division are moved into another Crown or another division of a department of government, the determination from an accounting perspective of the value of that asset is not necessarily reflected in the transfer price. Rather if it's on your books at a number and it's getting transferred to another entity in which you have the same interest, that's called a related party transaction for accounting purposes. And therefore the transfer occurs at its historical book value. So whatever it was on the books at in SPMC, that's the amount that it gets transferred on to at ISC. That was a matter that clearly came up in the audits in 2000 and 2001.

In terms of due diligence, the accounting derives some due diligence as well in the sense of in determining that impairment, you take your experience and the SGD assets were . . . there

were contracts with customers that were in place. So the determination of your writedown of the asset is with reference to the business that you're conducting — revenues, expenses, and matters taken as a whole. And clearly, as auditors, we have been involved in that world. It was an element of the due diligence.

I don't think we can speak to who come up with the \$2 million because that arose prior to the creation of the company, of the corporation.

Mr. Wall: — But whoever came up with the \$1.2 million original price would certainly have access to this basic fundamental accounting principle of government, of related party transactions. And I . . . That's not a fair question.

Mr. Aitken: — Exactly. I cannot speak to that.

Mr. Wall: — I assume that would be the case. So then . . . but what the auditor . . . Specifically, your answer though, what the auditor is saying or what . . . is that the increase in the price, or I should say in the book value I guess of the price, or in the capital expenditure was driven then by cautions from the auditor — not the Provincial Auditor but Deloitte Touche?

Mr. Aitken: — The way that transaction is reflected in the financial statements of the corporation, sure, is driven by that overriding rule that says . . . and it makes sense if you look at it this way. How could the government as a whole make money from transferring the assets from SPMC to ISC and record a profit because it's doing business with itself? So that's the underlying theory that says whatever it's on the books at on SPMC, new management of ISC inherits that number. That's . . .

Mr. Wall: — Could it only have recorded a profit though if it booked . . . if it acquired it for the debt at \$1.2 million and then booked it at a value of 4.5 or whatever?

Mr. Aitken: — Yes, and in fact that's where we jump in as auditors and say, if you do that, you don't get the bump in value to say this is its real value. You inherit, for good or for bad, the book value of that asset. I'll maybe ask my provincial auditors to speak to that. In other words, you can't make money by doing business with yourself — that's the underlying theory.

Mr. Wendel: — The underlying thing we hold government agencies accountable for is what John was saying is, you can't make money dealing with yourselves. If you transfer the assets from one government organization to another, you have to take it over at book value. We can't . . . you can't bring it in over here at an increased value and pick up a profit in the old company. Otherwise you'd make money dealing with yourself.

So we insist on government agencies transferring assets at book value. That's an underlying principle.

Mr. Wall: — Thank you, Mr. Chairman. So would cabinet approve the original capital expenditure then of \$1.2 million for the acquisition of this division?

Ms. Powers: — Mr. Chairman, yes. That was part of the November '99 CDI (cabinet decision item). So it was the

assumption of the liability, which is 1.2 million plus an amount to be determined. The actual budget though reflected 1.2 million — no additional incremental amount. And the transfer was made as indicated by the auditors, at the book value on SPMC's books.

There's a difference between the cash paid and the book value. Those two do not have to equal, and they did not equal in this case.

Mr. Wall: — And what were the two then? The cash value was . . . What did SPMC receive for the . . .

Ms. Powers: — Mr. Chairman, SPMC received a total of \$4.5 million for the capital assets.

Mr. Wall: — And then the one point . . . okay. And the book value then?

Ms. Powers: — The book value, I believe, was about \$7 million.

Mr. Nicholson: — I believe, Mr. Chairman, the book value at SPMC was in the range of \$7.3 million.

Mr. Wall: — So could someone help me again then with these . . . with this whole related-party transaction? If they . . . if it's booked at, if the asset's booked at 7 . . . and what I understood clearly from the various auditors was that you can't make any money on a related-party transaction.

So could you clarify then how you could book this asset at 7 if you've only actually paid 4.5? I'm just wondering, just wondering.

Mr. Aitken: — Can I . . . The answer to that question is, to the extent that you pay more or less in cash than the book value that we just said, the overriding principle is it will come across on your books at book value.

But you've also paid cash so to the extent that the cash is different from the book value there was an adjustment to the contributed surplus to the province's equity, and that's what happened in 2000. It's in the financial statements. It's that price adjustment between what's coming across at the book, and what is the . . . (inaudible) . . . consideration paid.

Mr. Wall: — So the cabinet looks at the cabinet decision item in '99 — November of '99 — and it has this and a whole myriad of other items in it. And we've highlighted . . . There's, you know, there's some material differences, some significant material differences in what they would have seen.

You know, the total on page 1.8 for the first two years ending December 31, 2001, the total budget was \$49.8 million. These are of the reporting areas that we're dealing with, and the actual came in at sixty-four six. And one of the reasons of course is this area geomatics, which had about a 7, a 6 or \$7 million variance in and of itself on only a budget of \$5.8 million.

So cabinet . . . What kind of background work goes into this, where cabinet can make a decision and wind up it being a, you know, a \$3 million mistake in terms of being too high, or I beg

your pardon, too low an estimate for what it's going to cost to acquire this geomatics division? What goes into the cabinet decision?

Mr. Nicholson: — Speaking, once again, Mr. Chairman, speaking personally I was then at Economic and Co-operative Development so I can't give personal evidence or information concerning the preparation of the cabinet submission. As a general point what I can say is that the process essentially works such that if there is a submission to cabinet the sponsoring department or departments would collaborate on the preparation of the document.

If there are interdepartmental implications they would be negotiated or worked through. If there are financial implications they would be reviewed with the Department of Finance. And so as a general — I'm sure I'm not surprising Mr. Wall with this answer, Mr. Chairman — it is a . . . a cabinet submission of this kind, being very complicated, would involve a collaborative effort of a number of departments and including consultation on financial matters with the Department of Finance.

The Chair: — I wonder at this point if we can take a five-minute break and reconvene.

The committee recessed for a period of time.

The Chair: — We are reconvened. I have Mr. Wall, then Mr. Prebble, then Ms. Atkinson on my list. Mr. Wall.

Mr. Wall: — Thank you, Mr. Chairman. We're still on the description of reporting areas and the material variances that were reported between what the corporation or its predecessors had planned, and what actually occurred.

And I'd like to discuss if I can, or ask some questions about the other/common category where the special report from the Provincial Auditor indicates that the material variance between budgeted and actual operating revenues in the other/common reporting area is due largely to the sales cycle for system and component sales. And then it says as well as consulting contracts being longer than originally estimated.

And so since this is a revenue section, I wonder if the officials could clarify what that reference means. Oh 1-6, sorry.

Mr. Nicholson: — Mr. Chairman, I believe the rationale is pretty much as presented there, and as I've commented to the committee previously. The sales cycle for systems sales is a . . . takes a while. And it's not a matter of weeks or even months. It takes a while to sell systems.

I guess Saskatchewan began considering the development and implementation of the LAND system some five, seven years ago now. And so other jurisdictions would be just as prudent in terms of assessing what they wanted to do and the system development required and planning for implementation and so on. So it takes a considerable period of time.

Inasmuch as ISC is a new company, we have had to establish ourselves in the marketplace, get our name known. We've been doing that at the same time as we're implementing in

Saskatchewan. As I mentioned at the last meeting of the committee, we've gotten recognition now from a number of international technology companies, Microsoft, IBM (International Business Machines Corporation), EDS, and so on for our LAND system. We've also been featured in the *Title News*, as I mentioned at the last appearance of the committee.

So it . . . generally speaking, we're getting our name known; the system is being implemented in Saskatchewan. And so the sales cycle, as I've described, takes a period of time. And I guess I would concede that perhaps in the sense of a whole system sale, longer than originally estimated.

Mr. Wall: — Okay, but . . . Thank you, Mr. Nicholson and through the Chair, though, my question — and I wasn't clear, I don't think — my question was the variance in operating revenues is due largely to this . . . You were talking about the sales cycle for system and component sales. But then it says, as well as consulting contracts being longer than originally estimated.

Mr. Nicholson: — Mr. Chairman, I believe that may be, that may be just awkward wording. I think what it intended to say is that the sales cycle for system and component sales is really preceded by consulting contracts, establishing a relationship with potential customers. I believe it's just awkward wording to describe what is the sales process.

Mr. Wall: — Oh, I see. So the consulting work that ISC has done, I guess, has it made its . . . has it made a profit on that consulting? In other words, did the revenues from the consulting exceed the costs of the consulting?

Mr. Nicholson: — We don't have the details of each of the consulting contracts with us, Mr. Chairman, but, yes, we have made a profit on our consulting contracts.

Mr. Wall: — Okay. That same section goes on to talk about the material variance between budgeted and actual operating expenditures in this other/common area. And it says:

The most significant factor is that no marketing and business development capacity, or sufficient corporate infrastructure for operational support had been included in the original November 1999 budget.

And so while there obviously was a plan to make sales, this — and if I'm wrong, please correct me — but it looks like while there was a plan at least to sell this system and to do consulting, it indicates there's no marketing or business development capacity or infrastructure for operational support.

So they had planned to make some sales, but they didn't put in the staff, the infrastructure that the corporation needed to actually go out and try to get those sales — is that what that's saying, those two paragraphs?

Mr. Nicholson: — Mr. Chairman, with the greatest respect to Mr. Wall, I . . . the record, I think the record is very, very clear that the . . . I've been clear — I believe Mr. Hart has been clear — in saying that the original submission, the original budget did not include one system sale. I'm mindful of the comments of others on this topic, but I believe Mr. Hart and myself have

been extremely clear on the point that there were no system sales in the original budget.

And therefore with respect to the comment from Mr. Wall, I believe in the original budget, Mr. Chairman, there wasn't a marketing or business development expense anticipated because there were no system sales anticipated back in 1999. And I say that with the greatest respect. I don't wish to be sparing. But I think the record's clear that there were no system sales planned in the November '99 submission.

Mr. Wall: — When did the system sales begin to be planned?

Mr. Nicholson: — Mr. Chairman, that I think emerged during the 2000 fiscal year. It resulted from our market research that we've previously referred to. And so I believe we began to see an opportunity starting in the 2000 fiscal year of the corporation as a result of the early research that we were doing.

Mr. Wall: — Why then wouldn't some factor for marketing and business development capacity or sufficient corporate infrastructure for operational support be then included? Or was it?

Ms. Powers: — Mr. Chairman, in . . . for the 2001 budget there were both revenues and expenditures included in the budget. What the comment refers to, that there is no marketing and business development capacity — that refers to the 2000 budget which was what was . . . came out of the November '99 CDI.

Mr. Wall: — So the decision — it's just so I have it straight — the decision to make sales or to start selling the system is made in the year 2000? Not in . . . It's not part of it, the original plan, under any circumstance? And in 2000 it becomes part of the plan and then they're . . . they start to plan for that sales program though but not until the 2001 budget?

Ms. Powers: — Mr. Chairman, from my review of the November '99 CDI, it's certainly in our mandate — included so that it would be considered, so there was a reference that it would be considered, but the budget figures explicitly excluded the revenue side as well as the expenditure side.

Mr. Nicholson: — Just for clarity, Mr. Chairman. The order in council which established the corporation had as specific wording: to investigate and develop potential markets for use of the corporation's information systems. That was included in the objects and purposes of the order in council which created the corporation as specifically as part of our mandate. But there were no numbers associated with that in the November 1999 submission. So while it was part of our mandate, there were no numbers associated with it. The mandate was finalized prior to the existence of the corporation.

Then when we began to undertake our work in the year 2000, we began to pursue that element of our mandate — to explore and develop potential opportunities. We began . . . we did some market research. We saw that there were some opportunities and then we began to undertake the business development and sales and marketing efforts.

Mr. Wall: — For the first two years ended December 31, 2001 according to the special report by the auditor, ISC budgeted

\$2.3 million in revenue in this category of other and common.

And so what I'm hearing then is officials indicating that none of that would have been attributed to any period prior to 2000. But could you break down that number? What does the \$2.3 million in budgeted revenue under other or common represent? Does it represent system sales or consulting or . . . and what portion thereof?

Ms. Powers: — Mr. Chairman, I'll just start from there and let Mr. Nicholson speak. 306,000 of that pertained to the year 2000, which had nothing to do with business development. I believe it was miscellaneous revenue from other sources that couldn't be attributed to one of the other lines. But it wasn't business development and I just don't have the recollection right now of exactly what it was. It may have been chief surveyor's office, but I'm not positive on that.

Mr. Nicholson: — What we've attempted to do, Mr. Chairman, in answering the three questions is, of course, to — and so there's maybe an unusual format here — we've added together our two annual reports. We've taken our 2000 annual report and our 2001 annual report and added numbers together by business line in the interest of answering the questions.

So if further detail is required, we could then go back and separate it out from our 2000 and 2001 annual reports again.

Mr. Wall: — Well would they . . . would you have had the budget elements in your annual report?

Mr. Nicholson: — No.

Mr. Wall: — No, you wouldn't, no. So could I please have a breakdown of the \$2 million that you budgeted over the last two years for revenue in other . . . in the category of other and common?

Mr. Nicholson: — We can give an undertaking to bring that detail back.

Mr. Wall: — Maybe some other members want to ask some questions. I'm not done with the section, Mr. Chairman, but I'm hearing heavy sighs. So if someone else has some questions, I'd certainly want to provide them . . .

The Chair: — Could I just clarify something? You talked about the evaluation of geomatics and that you had a provision in your budget of \$1.2 million, plus some qualification. What was that qualification?

Mr. Nicholson: — It was an undetermined amount to be finalized after the start-up of the corporation. So essentially what was provided for was the 1.2 million in debt that existed at SaskGeomatics at SPMC, plus an undetermined amount to be determined in a process in the year 2000.

The Chair: — So you were at a certain point in a cycle; you had to put something in the budget pending the completion, I guess, the sum valuation as to what the book value was?

Mr. Nicholson: — Yes, the officials who would have been involved in preparing that '99 document, Mr. Chairman, would

have put in the 1.2, plus the undetermined amount. And then when I became responsible, I had to, in early 2000, to undertake a process to determine what the undetermined amount should be.

The Chair: — Okay. And this is all last year. The year 2000 annual report is covered?

Mr. Nicholson: — Yes. We disclosed in the 2000 annual report what we actually paid. We also provided the notice I referred to earlier for the provision for asset impairment. As a part of the process in the . . . early in the year 2000, I looked at the whole question of geomatics, of the pricing structure, as I noted earlier, other matters. I also made some management changes in that particular area.

So I think in the year 2000 we did a number of things, looking at the numbers but also looking at the organization structure, and we made management changes in addition to pricing changes and licensing changes and so on.

The Chair: — And if I can just . . . to the auditors. This was an issue that you reviewed then in the year 2000, this matter of the actual capital expenditure which I assume, the book value for geomatics?

Mr. Aitken: — Mr. Chairman, yes. And to the extent that these matters are disclosed in the financial statements and Mr. Nicholson referred to the particular notes, there is a note around the acquisition of the geomatics assets, and there is another note dealing with the writedown of the impairment in the value of these assets that was recorded in the 2000 financial statements. Clearly that was part of our audit of the year 2000.

The Chair: — And I assume, I guess this is probably more appropriately put to the Provincial Auditor, a corresponding figure would then be set down for Saskatchewan Property Management Corporation?

Mr. Wendel: — The transfer would have gone at book value between the two corporations, yes.

Mr. Prebble: — Thank you very much, Mr. Chairman. Mr. Chairman, my questions relate to two matters. The first matter is just a clarifying question with respect to the geomatics transfer.

Mr. Wall and the officials have engaged in discussion around the transfer costs of this asset. And I just want to . . . I want clarity on this because, as I see it, there is absolutely no cost to the taxpayer as a result of this overexpenditure of a capital asset compared to what was originally budgeted for. This is simply a transfer between two provincial government entities.

And we're talking about ensuring that there's adequate identification of book value transfer. There's no cost to taxpayers here as I see it. But I want clarification on that point, both from the Provincial Auditor and from our officials at ISC.

Am I correct in saying that there is absolutely no cost to the taxpayer associated with the numbers that are attached to the \$5.7 million transfer of — the purchase in other words by ISC — of geomatics assets that were held obviously by SPMC? Is

that correct? Is there any cost to taxpayers associated with this?

Ms. Powers: — Mr. Chairman, my belief is that there would be no cost to the taxpayer. It would be a transfer; taking an asset from one entity and placing it within another entity, taking cash from one government entity and putting into another government entity.

So in my opinion there wouldn't be a cost to the taxpayer.

Mr. Prebble: — And could I just ask the provincial . . . Thank you, Ms. Powers. Could I ask the Provincial Auditor the same question. I just want to be certain about this. Because what is being inferred here is that somehow taxpayers are on the hook and that there's been this massive overexpenditure in terms of capital.

And absolutely there's been a higher expenditure of capital than was budgeted for, but there's no cost to taxpayers involved, I don't believe. And I just want to have clarity from Mr. Wendel for this as well. Thank you to the Provincial Auditor.

Mr. Wendel: — Sure. Mr. Chair, there would be no additional cost to the taxpayer. The cost to the taxpayer would have happened when SPMC spent the money to develop a geomatic system. They carry that on their books based on a set of accounting policies that are used for government service organizations, which are the organizations that are not-for-profit organizations. So they carry things at book value. Whatever it costs, that's what's there.

When it transfers over to Information Services Corporation, it now has to be valued based on a new method because it's a business enterprise. It's a profit-making organization. So they have to take it down to the net cash flows. And that Mr. Nicholson was talking about, how they had to bring it down to a different level. Okay? That's what they were talking about.

But the asset is still the same asset. The costs were incurred when we built that asset at SPMC.

Mr. Prebble: — Mr. Chairman, my second questions relate to the comments that were made by Mr. Wall at our last meeting when he stated that, when he argued that start-up costs are being buried in operations — I'm looking at page 274 of *Hansard*.

And I considered this to be a matter of some concern because it raised questions about whether we had proper accounting principles being followed. And now that we've got all the data for 2001 in front of us, as well as 2000, I want to ask the Provincial Auditor and Mr. Aitken and those representing Deloitte & Touche whether there is any evidence whatsoever of operating costs being — I'll use Mr. Wall's words here — start-up costs being buried in operations? In other words capital costs presumably being buried in operations.

Is there any evidence at all that that is happening?

Mr. Wendel: — Mr. Chair, I'm not aware of any evidence to that.

Mr. Prebble: — I wonder, Mr. Aitken, are you able to

comment on that?

Mr. Aitken: — Yes.

No, I'm of the same view there are . . . Part of our audit, both with reference to the three questions that this committee has asked as well as the annual financial statements, part of our audit examination looks at, as an expenditure is made, is that a capitalized cost, is it start-up cost or should it be expensed? We have gone through a rigorous process of examining various headings of expenditure.

Clearly, in accounting, it's not always black and white. There is judgment involved in what to capitalize and what to expense. Clearly there are guidance and there's a lot of guidance out there on what happens.

To the best of our abilities, going through both the annual financial statements and the three questions, our report speaks for itself that we are not aware of any heading of expenditure which should have . . . of expenditure which should have been expensed which was capitalized.

Mr. Prebble: — Mr. Chairman, I don't know if this is in order but, given the responsibilities that our officials have for ensuring that revenues, expenses, assets, and liabilities are neither overstated or understated, their obligation to us, I considered this charge by Mr. Wall to be a very serious matter. And I think there should be an apology from Mr. Wall to the committee or to our officials in this regard.

Now I don't know whether you want to deal with that now or later or whether Mr. Wall wants to deal with this now or later. But I do consider this to be a very serious matter because it speaks to the ethical conduct of our officials.

The Chair: — Well there is a . . . there is, of course, rules of order that pertain to protection of officials and that we ought not to impute or say things about officials because they're not in a position to answer.

But having said that, this is an issue that was raised some time ago, so I don't think that it's a point of order that necessarily can be raised at this time because that's something that should have been done at that point.

Having said that, we have before us officials from ISC who are here to answer our questions pertaining to the 2001 annual report, any comments the auditors might have, and also the special reports. And I think, in fairness to them, we should complete our questioning of the officials. If there are then other matters that the committee wants to turn its attention to, then we can do so at that time. That would be my view of this.

Mr. Prebble: — Might I just make one comment in closing on this, Mr. Chair. I mean, it's interesting that last . . . at our last meeting, we were discussing Mr. Wall's accusations that capital costs were being hidden in operating expenses. Today, Mr. Wall, you're arguing that . . . you're asking why capital expenditures are being over-inflated.

I mean any way . . .

The Chair: — I think we should try at this point to direct our questions to the officials. And then when we're completed with the officials, and if there are other issues that . . .

Mr. Prebble: — I think that's quite proper, Mr. Chair, and I apologize. We'll deal with it later, yes.

The Chair: — . . . in voting off the corporation that we want to indulge, we can do so at that time. Mr. Prebble, any further comments?

Mr. Prebble: — I have no further comments at this time.

Ms. Atkinson: — Then I would suggest, Mr. Chair, that the officials, given that we're not going to vote this off, given that Mr. Wall has said that he's just gone through the first chapter of the report, that we need to deal with this issue. Because Mr. Wall clearly indicated on January 9, 2002, on page 277, that he would apologize if both the corporation's auditor and the Provincial Auditor could confirm that none of these expenses were really relative to the capital project.

So I think, Mr. Chair, Mr. Wall undertook an undertaking to apologize. And there were some significant comments made about . . . which I thought impugned the integrity of officials. Maybe those officials should leave and then we can have Mr. Wall's apology.

The Chair: — Well I'm . . . Again I just want to appeal to the committee. We have a process, as I understand it, albeit that I am a relatively new Chair. The process as I understand it is that we have material that is referred to us by the Legislative Assembly. We invite officials to meet with us for the purpose of putting questions to those officials.

When those questions are exhausted, then we as committee members have an opportunity to debate what is usually a pro forma motion about adopting or . . . I forget how it's worded, Viktor, the pro forma motion that we put at the conclusion of hearings from . . . that the Standing Committee on Crown Corporations conclude its review of the annual report and financial statements, and at that point we can involve ourselves in debate.

And so I would just say that, from a point of order, that we should at this point carry on with any questions that we may have for the officials, and then when we're concluded with the questioning we can always turn . . . you can always make the comments that you want to make at that point, when we deal with the pro forma motion.

So I don't, don't want to go there at this point. And I would just encourage the committee to carry on with this questioning of the officials and to conclude when we normally conclude.

Now I'm . . . That's not my ruling. That's my suggestion as to how this process works and how we should carry on.

Ms. Atkinson: — Unless of course Mr. Wall wants to apologize. And then we don't need to . . . (inaudible) . . . I mean we can just apologize and get on with the next set of questions.

The Chair: — In the context of questioning officials, there's

always, I guess, what in legal circles you call *obiter dictum*, extraneous comments. But having said that, I'd certainly encourage members to stay with the process that we . . .

Mr. Wall: — I think I already . . . First of all, it wasn't at the last meeting, it was a meeting in December. And I think *Hansard* will also reflect when Mr. Nicholson took some exception to how I was phrasing questions, that I apologized to Ms. Powers if she had felt that I was impugning her integrity. I did that, that day.

More to the point. We can have this discussion afterwards. I'd be happy to do that. Because here we have had today, here we have had today, on a day when we were to consider this report and the reasons for any variances, or the reasons for any insignificant variances perhaps, what we have had today is simply non-answers from officials. For whatever good reason or whatever reason that I might object to.

And I would like to complete the work of this special report. We can deal with whatever political thing you want to deal with at the end of that meeting. I have no problem with that. I think the record in December was clear in terms of what of I've already said.

My problem and concern was, and remains, with the government, with the cabinet, with the politicians — not with the officials with respect to the whole ISC file — what they promised Saskatchewan people, the price they promised it for, and what it was delivered for in the end, and how it's working. And the cabinet and the politicians are to be held accountable for that.

And that was also my indication, frankly, in an . . . in the interview on the subject of Mr. Nicholson's assumed departure to another opportunity. I just simply don't want to get into it with officials, and apologized if I had done that on that December day.

My concern, my problem is with the NDP (New Democratic Party) government, not with the officials at CIC, notwithstanding a concern I have today that we're not getting answers to questions on this report.

Ms. Atkinson: — . . . that's where I was going to go. I think, Mr. Chair, that we need to hear clearly from Mr. Hewitt who has been there since the get-go in the Department of Justice. He has been the lead person on this file. We need to hear from him.

Secondly, I do think we need to hear from SPMC because there were discussions going on about this. I mean there needs to be checks and balances in the system; there needs to be accountability.

I know Mr. Nicholson was not there prior to 1999, but Mr. Hewitt, Mr. Ron Hewitt clearly was there. And we need to hear. And if it means bringing Mr. Hewitt and Mr. Whyte and the people from SPMC, then I suggest that we do that for our next meeting so that all of our questions can be answered.

But I would, I would make this point. And I've made this point in the past and I'll make it again. There is a difference between officials and politicians. And we need to be very careful in

terms of the language that we use with officials who cannot defend themselves. And that's why I think Mr. Prebble wanted to discuss this issue. It's clearly been found that no one was burying anything — that was confirmed by the Provincial Auditor, confirmed by the private auditor. And so when we ask questions we need to differentiate between political questions and administrative questions.

But I would suggest, Mr. Speaker, that Mr. Hewitt and Mr. Whyte be fully prepared to answer questions — what happened before January 1, 2000? — because there needs to be accountability in the system and transparency. And SPMC needs to be brought before the committee as well.

The Chair: — Speaking of language, a moment ago, Mr. Wall, you indicated that you were getting non-answers from the officials. Might I take a charitable view that the non-answers in fact means that this is not the cabinet who's providing you the answers?

A Member: — No. No.

The Chair: — Or is there a less charitable view that . . . Because you weren't clear on that.

A Member: — That's fair. That's a fair question.

The Chair: — And I think that when it comes to ascribing anything to officials, we want to be very clear in our language and not impute anything that we ought not to do.

Mr. Wall: — What I was referring to, Mr. Chairman, is we dealt for some significant period of time this morning on the questions or the material variances listed on 1-5. And there was very specific questions that we asked related to, not anything that wasn't on this page, what's in the page and apparently written by ISC officials. And we ask for the reasons why some of these things happen that caused the material variance and there was no answers. So there's nothing subjective about saying that it's a non-answer.

I mean, we . . . there's been many questions that have been answered. There have been some that have been . . . haven't been. And my opinion is, is that on . . . when we're dealing with this, there shouldn't be any in the latter category at all for whatever reason. As I said, good reason or otherwise.

The same is true, the same was just true a moment ago when the officials directed me to go to the annual reports to find the reasons behind — or the breakdown behind — the \$2.3 million budgeted revenues in other and common as listed in the Auditor's report when of course there was no, as the official agreed, there would be no budgeted figures in those reports. And that question is yet to be answered — what the breakdown of the \$2 million was in terms of revenue.

These are important questions in dealing specifically with this report. I'm not impugning anybody's integrity here, but I am saying we deserve answers. That's what I'm saying.

The Chair: — At this point we have five minutes left. If members want to carry on with questioning of the officials at this point, or if they feel this is an appropriate time to adjourn,

I'm up to whatever the committee wants to do.

Ms. Jones: — I move we adjourn.

The Chair: — Ms. Jones has moved that we adjourn. Is that agreed? That's agreed.

The committee adjourned at 11:25.