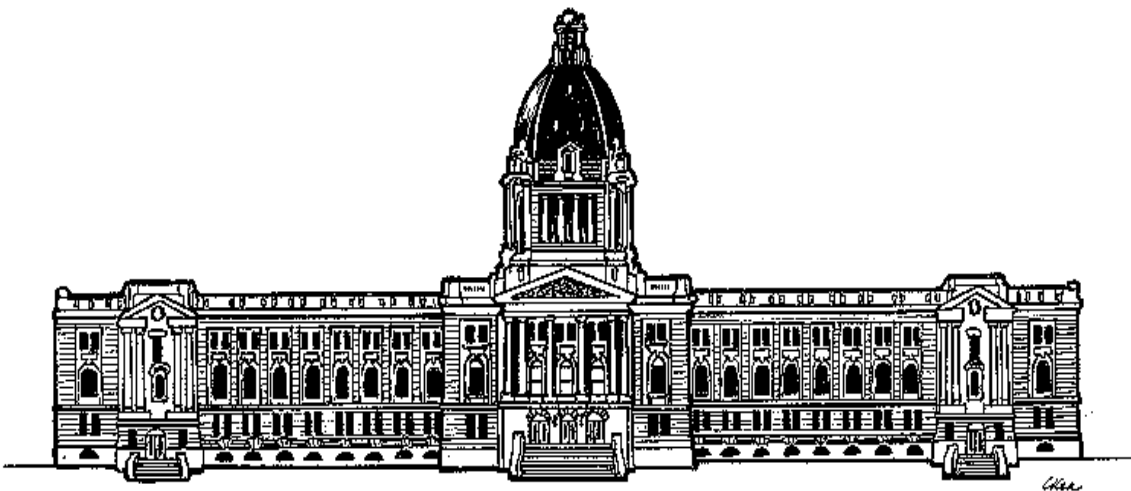




STANDING COMMITTEE ON PUBLIC ACCOUNTS

Hansard Verbatim Report

No. 21 – May 10, 2005



Legislative Assembly of Saskatchewan

Twenty-fifth Legislature

**STANDING COMMITTEE ON PUBLIC ACCOUNTS
2005**

Mr. Elwin Hermanson, Chair
Rosetown-Elrose

Mr. Lon Borgerson, Deputy Chair
Saskatchewan Rivers

Mr. Ken Cheveldayoff
Saskatoon Silver Springs

Mr. Glenn Hagel
Moose Jaw North

Mr. Ken Krawetz
Canora-Pelly

Mr. Kim Trew
Regina Coronation Park

Mr. Kevin Yates
Regina Dewdney

[The committee met at 10:45.]

Public Hearing: Culture, Youth and Recreation

The Chair: — Good morning, ladies and gentlemen. We will now commence with the Public Accounts Committee meeting. We have one item on the agenda this morning and it is chapter 14 of the 2004 *Report of the Provincial Auditor*, entitled Culture, Youth and Recreation. We will follow the usual format for our committee meetings by first hearing from the Provincial Auditor's office. Judy Ferguson, the deputy provincial auditor, will be reporting on chapter 14. Then we will welcome the deputy minister, Barbara MacLean, to not only introduce her colleagues but to briefly respond to the auditor's report. And then we will open up the committee hearing for questions by the members.

Before we commence though I will just mention that Jason Dearborn is substituted in for Ken Cheveldayoff. I would also mention that I have a letter from Deb McDonald, deputy minister of the Property Management Corporation, regarding a question by Mr. Krawetz at the previous meeting. And we will table that with the Clerk, therefore . . . Yes, Mr. Borgerson.

Mr. Borgerson: — I'll just indicate that Mr. Warren McCall will be substituting in for Glenn Hagel and he's on his way down.

The Chair: — All right. So then we have a further substitution of Mr. McCall for Mr. Hagel. Thank you. We've got the housekeeping out of the way. We will now turn the floor over to Judy Ferguson from the Provincial Auditor's office.

Ms. Ferguson: — Thank you, Chair. Members, officials, as indicated this morning I'm pleased to present chapter 14 of our 2004 report volume 3.

The department is responsible for eight special purpose funds and Crown agencies as listed on page 283 of our report. These agencies help the department meet its goals and objectives as set out in its performance plan.

As set out on page 284 of the chapter, we conclude that for the fiscal years ended up to March 31, 2004 the department and its agencies had adequate rules and procedures to safeguard public resources and complied with the law except for its need to improve its oversight of its funds and agencies.

The 2004 financial statements of six agencies are reliable. And as I will briefly explain, the 2004 financial statements of the Community Initiatives Fund and Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation are not.

In our audit we noted that while the department takes steps to oversee its agencies, it has not yet documented these processes. Documenting processes helps ensure staff understand and carry out the processes as and when expected. On page 286 of the report we make one new recommendation for the committee's consideration. We recommend that the department set out written processes to adequately oversee its agencies.

Moving on. As described on pages 286 to 289, in our opinion

the financial statements for the Community Initiatives Fund and Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation for the year ended March 31, 2004 are not reliable because they do not follow generally accepted accounting principles. Both the initiative fund and trust fund make grants to third parties and record some of these grants as . . . record these grants as expenses. Since certain grants are used to pay for expenses of future periods, we think these funds should not record these grants as expenses in the current year. Management of the funds disagree.

Your committee has previously considered a similar matter reported for the stabilization fund in November 2002. At that time your committee heard that the Canadian Institute of Chartered Accountants was examining related accounting standards to make the accounting for these types of grants clearer. At that time your committee deferred its decision pending the results of the Canadian Institute of Chartered Accountants project. Since then the Canadian Institute of Chartered Accountants has not changed the related accounting standards. It is still looking at this matter and plans to issue a public exposure draft on this matter later in the current year.

Mr. Chair, we recommend that this committee wait for further guidance from the Canadian Institute of Chartered Accountants before dealing with this particular matter. That concludes my comments and we'd be pleased to respond to any questions that you may have.

The Chair: — Thank you, Ms. Ferguson. Mr. Borgerson.

Mr. Borgerson: — Yes. I wonder if I might get in first here just to clarify.

The Chair: — Is this just a matter of clarification?

Mr. Borgerson: — No, I want to ask a question.

The Chair: — Can we have the response from the deputy minister then first, please?

Mr. Borgerson: — Oh, I'm sorry.

The Chair: — Thank you. We would invite the deputy minister, Barbara MacLean, to respond, also to introduce your colleagues if you would.

Ms. MacLean: — Thank you, Mr. Chair. I will take this opportunity to introduce the officials who have joined me today. To my right is Melinda Gorrill, our director of corporate services. Dawn Martin is the executive director of the culture and heritage branch. And Dylan Jones on my left is the executive director of the strategic policy and youth branch.

I would like to begin by thanking the Provincial Auditor and their staff for both their assistance and the advice in improving the systems and processes of the department. As you will note in the report, the Provincial Auditor recommended that Culture, Youth and Recreation set out written processes to adequately oversee the agencies that we work with. The department concurs with the recommendation that it is important to clearly outline in writing to staff what is expected of them in the roles

with the various agencies.

I would like to inform the committee that this work is under way between the department and these organizations and has resulted in very constructive discussions, not only on the processes themselves but also on the broader accountability framework that includes performance indicators and outcomes.

On the matter of the comments of the Provincial Auditor on page 288, I would like to note that our third party organizations take the stewardship role of these funds extremely seriously. These organizations have provided financial reports in a manner that has been directed by government through Treasury Board and are consistent with the arrangements between other government departments and the respective third parties. The external auditor for these funds has audited the financial statements and has provided an opinion that these statements are reliable, and fairly and accurately account for the expenditures.

That concludes my remarks, Mr. Chair. And I'd be pleased to answer any questions the committee may have.

The Chair: — All right. Thank you, Ms. MacLean. And I see Mr. Borgerson is still raring to go. So Mr. Borgerson.

Mr. Borgerson: — Well the reason I jumped the gun, Mr. Chair, is because my question is actually for the auditor. Just in . . . I would like some clarification with regards to processes. As you indicate here, the size, complexity, and nature of operations of the agencies, the eight agencies vary. The processes the department uses to oversee its agencies varies from agency to agency.

So my question as I read this was, is the expectation of the auditor that there would be a standardized process or would the processes be tailored to the specific agencies?

Ms. Ferguson: — Thank you. What we're saying is actually not so much that . . . We don't have concerns that the processes do vary. And we would expect the processes to vary by agency, agencies, you know. And it's not just the size of the organization but it would be the risks that that particular organization would present to the department. And they would, their processes would respond to the risk and the complexity that that agency reflects.

The point that we were raising actually is that they need to document the processes to make sure that staff in fact do carry them out as planned and when planned so that they meet the expected result.

Mr. Borgerson: — So on that note then I guess I would ask, is that indeed the case that you find that you have to set out a different set of processes for each of the agencies? Or are you able to . . .

Ms. MacLean: — Well processes right now vary from agency to agency, and what . . . In our discussions with these organizations what we've discovered . . . What we thought was a fairly straightforward, simple process in just documenting has led to actually probably more constructive discussions around the nature of the relationship between the department and these

agencies.

So we are I think taking it further than what was recommended by the Provincial Auditor and trying to configure something that's meaningful in terms of a working relationship between the department, how we identify it, and of course put it in writing so that there's something to follow. I don't believe they will be necessarily the same across the organizations, but I believe they'll be similar elements. How we configure them may look somewhat different.

Mr. Borgerson: — Okay. And that's good for me for now.

The Chair: — Mr. Dearborn.

Mr. Dearborn: — Thank you. I suspect this question should be for the deputy minister. First and foremost, looking at page 284, I have some questions around the estimates. And specifically what I'd like to know with regards to the eight different aspects outlined in the original estimates — the actual estimates, the bottom one, administration — is this administration responsible for the previous seven or do they have their own administrative personnel and whatnot as well?

Ms. MacLean: — It's our department's administration.

Mr. Dearborn: — Okay, could you . . .

Ms. MacLean: — If I'm understanding the question clearly.

Mr. Dearborn: — So that administration estimates and the actual expenditures of \$1 million would be, they would administer 100 per cent of the culture, 100 per cent of the heritage; or do those culture, heritage, community initiatives, etc. have their own administrations as well?

Ms. MacLean: — The administration identified in the estimates and in the actual expenditures are those expenses associated with the minister's office and the executive administration of the department — so my office and the supports that go along with that. The administrative costs associated with each one of those respective lines above that are included in those particular lines.

Mr. Dearborn: — Thank you. Could you give me a rough percentage then, with regards to the other seven, how much would be involved in administration? And I ask this as this is \$47 million in expenditures.

There was a great deal of hirings last year by the department — 17 new positions, I believe. I just went through the list and a number of part-time, semi-permanent, as well as a number of student jobs. And I'm just wondering, within these what kind of dollar number are we looking at out of this total \$47.7 million, excluding the 1 million for administration directly from the office, would be designed in administration or program oversight?

Ms. MacLean: — It would be less than 10 per cent in each one of the categories. I'm sorry, I'd have to go through branch by branch to give you an accurate percentage on each one of the branches. But for example on the culture line, the total budget being 14.5, our administration — which includes our staffing

and operations support — would be \$847,000.

Mr. Dearborn: — I'm just wondering then . . . Thank you for that answer. So with regards to the \$47.7 million expended, it would be \$5 million or less would be the total amount related to administration.

Ms. MacLean: — Yes. Approximately, yes.

Mr. Dearborn: — Fair enough. I guess the question that I have is, with the change in the department there has been a change in service provision, hasn't there, towards third parties providing more of the service? And then that begs the question then, is this administration making sure that they're following protocol? Is it designing programs? What is the major function being undertaken for, you know, a little more than 10, around 10 per cent of the total budget being spent on administration and personnel? Am I correct in the assumption that there has been a movement away from program delivery?

Ms. MacLean: — That's correct. In the fiscal year 2004-05 there was some significant restructuring undertaken. And where in the past the department had a more direct role in program delivery, what has been redefined as more of a policy research focus as well as working closely with our partners on defining performance indicators, working with them through the accountability framework, and certainly looking at our role as it relates to the stewardship of the dollars and the funds that are sent out.

Mr. Dearborn: — Thank you for clarifying that. I guess the question that would follow that is previously in 2004 — previously, or 2003, backdating — approximately what kind of percentage was involved in administration costs when the department was more involved with actual program delivery?

Ms. MacLean: — I don't believe there is any change in the program, the administration costs. This was really defining an existing complement of staff and the responsibilities rather than increasing or decreasing total numbers. It was really changing the functions versus changing the actual cost of it.

Mr. Dearborn: — Okay. This begs the question to me. One of the problems that's arising in my mind is if we're moving away from program delivery — and obviously that's a decision that's been made for some reason, is oversight — what is the reason that oversight would maintain the same level of spending? Obviously if other people are doing the delivery, what would the requirement for as much oversight be as was previously there in program delivery, when they're not doing the actual nuts and bolts, hands-on?

I don't understand the process behind creating more policy for essentially something that's been offloaded to someone else — and I'm not saying that in a derogatory term; I'm sure it's being used in the best possible manner — but that the administration would exponentially increase in the policy side or the administration side when there's a downsizing in actual delivery of the programs from the department. Could you clarify that for the committee, please?

Ms. MacLean: — I can speak generally to the changing role of the department. In actual fact, while the changes in staffing took

place in 2004-2005 and reconfiguring those responsibilities, the department had actually been out of the business of direct program delivery for a number of years. And it's actually . . . if you look and reflect back on the early '80s the department had a far more visible role, if you like, out in a variety of communities doing program delivery. And that's actually been redefined and reshaped over the last 20 years.

So when it came to looking at what the role and the function was of a newly established department, it was really in response to some of the recommendations and directions from the Provincial Auditor around the stewardship role and the existing responsibilities of the staff that were in the past . . . may have been focused on program delivery now.

And we're really looking at redefining the functions from a research perspective and evaluation perspective, working in a different manner with our partners to actually work with them to articulate what would be the outcomes and expectations of a series of funds and arrangements that are made between the department and the agencies themselves.

Mr. Dearborn: — Thank you, Deputy Minister. I'd like to just do a follow-up with that explanation to the auditor. Because my history here is not as long-standing over those 20 years that you've been making recommendations, has the switch from delivery of programs to policy analysis caused the department to by and large be meeting the recommendations put forth from your office on an ongoing basis?

Sorry. Is my question not clear?

The Chair: — Mr. Wendel.

Mr. Wendel: — I'll try and answer it. We've been asking for several years for government agencies to put out clearly their objectives and their measures to measure where they're going and to know whether they're getting there. The other thing we've been asking them to do is where they have other agencies involved, such as Culture and Youth, where they have other agencies that they're financing, they need to make sure that the objectives of those agencies align with their objectives and meet the performance measures to make sure that they're doing the things that are necessary and following up on those.

So that's where our recommendations are coming from and we've been talking about this for a few years now.

Mr. Dearborn: — And the second part: by and large this is being met? Because if there has been a change in the department, more policy people, I take it that that's to try to ensure part of these goals that the third parties . . . Is that in fact being met here?

Ms. Ferguson: — Basically where we're at, I think, for — it's not only Culture, Youth and Rec — is that this is, the whole process of moving towards performance management I would suggest is an evolutionary process. It's only recently that the departments have actually shared publicly what their goals and objectives and their measures are and set out how they're actually going to be measuring that and collecting baseline information. As the committee has discussed in the past, as yet they haven't shared publicly their targets. So the whole area of

performance measurement is evolving.

So in responding, has it been met — no, not quite, but they are moving in the right direction in conjunction with the accountability framework that the government has put forward and the incremental approach that that framework is taking in terms of it . . . As opposed to expecting everything to be done at this point in time, let's move forward gradually so that the capacity to do this is growing as we move forward.

Mr. Dearborn: — Thank you.

The Chair: — Mr. Krawetz.

Mr. Krawetz: — Thank you, Mr. Chair. Two or three different areas I'd like to explore this morning. And the first question is to actually Mr. Paton from the comptroller's office. On page 289 of the auditor's report, at the end of the first paragraph the auditor's report indicates that:

The Department of Finance told us that Treasury Board approved the format of those financial statements.

Is that all connected to the interpretation of recording the costs and the assets in the different years? Is this the question that we hope will be dealt with by the Institute of Chartered Accountants? And are you . . . as the comptroller's office, are you involved in what Ms. Ferguson indicated is the possible public exposure guide that we'll see later this year? Is there consultation with your office as well?

Mr. Paton: — Mr. Chair, simple answer to that is yes, we are involved with this. And the issue does all revolve around the proper recording of transfers in the appropriate accounting period.

It is an issue that's being dealt with by the Public Sector Accounting Board. Our office is involved with that, as are all comptrollers' offices across Canada as well as all auditors' offices. It's a fairly broad issue that is challenging the accounting profession right now.

The auditor's office pointed out that what they call an exposure draft will be released fairly soon by the Public Sector Accounting Board. That process is likely to take a fair amount of time still. It's not a clear-cut issue. There isn't a lot of consensus as to where this is going to go. I anticipate that when the final standard is resolved or published by the Accounting Standards Board, I think we'll still see some differences of opinion on how those rules get applied.

That's the situation we have today. There is a set of rules and the various accounting professionals — the auditor's office, the appointed auditor of these funds, and our office — tend to disagree on how those standards should be applied. From what I've seen so far as the new standard's being developed, I think there still will be some professional judgment and interpretation being used in the future.

Mr. Krawetz: — In light of that answer might we see the same comment in the next report from the auditor's office regarding the Department of Finance's position on Treasury Board — from Treasury Board?

Mr. Wendel: — I think we'll continue with our view until there are new standards at which point we'll assess whether or not our view is correct. And at the moment we think we're correct.

Mr. Krawetz: — Okay. The next area to the deputy minister. You made reference in your remarks to page 288 of the auditor's report where you said that there were reliable accounting firms who had done their audit. And the agencies that are responsible, or I guess the boards of those agencies that are responsible, are doing their job. I take it that that is in response to the first paragraph where the auditor has indicated that the financial statements about the trust fund and the initiatives fund are not reliable. Is that correct? And how do you see ensuring that the Public Accounts Committee does not see a statement from the auditor's office that says that the financial statements are not reliable?

Ms. MacLean: — Yes, my comment was in relation to that first paragraph. We have a very good working relationship with our third parties, and there was a lot of concern expressed around the statement in terms of questioning the credibility and the reliability of their financial statements. We've attempted to persuade the Provincial Auditor's office to temper their remarks and speak more generically around the difference of opinions on the accounting differences; however not terribly successful on that. And we would hope that over the next year or so we can be a little more persuasive because the organizations that are identified here take their stewardship role, as I mentioned, very seriously. And they've got grave concerns about having it identified in a public document that their financial statements are not reliable.

Mr. Krawetz: — My question to Ms. Ferguson is that do you . . . Is the conflict regarding the reliability of the statements, is that due to the accounting procedure? Or is there something more critical than an interpretation of whether the auditor's position currently being taken is accurate, or whether it's the position of the treasury as to being the accurate one? What is the issue that is described here as showing that financial statements are not reliable?

Mr. Wendel: — An issue is, as Mr. Paton had discussed, it's a difference of opinion here as to where you should be, what year you should record grants and should it be recorded in say 2004 as opposed to 2005. So it's trying to get the expense in the right period. Our view is it's not in the right period the way they've recorded it, and Finance's view and the department's view is it is in the right period. And they're both using the same accounting standards to come to that judgment.

Mr. Krawetz: — Okay. So then as we look forward to the process that will come forward from the Institute of Chartered Accountants — and I think Mr. Paton has already indicated that there still may be differences of opinions — are you working with the department in trying to ensure that a greater degree of reliability is met?

Mr. Wendel: — We've had conversations with the department but we're working probably more closely with the CICA [Canadian Institute of Chartered Accountants] itself, putting our positions forward as the Department of Finance will put their position forward and trying to come to a consensus across Canada.

This is not just peculiar to Saskatchewan. The Auditor General of Canada is having the same problem. You've probably heard all the comments she's got about foundations and getting the expenses in the right periods for foundations. So they're also facing the same problems.

Mr. Krawetz: — Good. Thank you for that explanation. To the auditor's office then regarding your recommendation, when you indicate that certain agencies require a written process to ensure that it is followed, could you identify the agencies that you are referring to here? Is it globally all of them or are some of them currently following a written process, and you're just asking for written processes to be put in place for all of the agencies?

Ms. Ferguson: — What we're referring to is for the department actually to put the written process into place and the process would address its relationship and the procedures that it needs to follow for all of the agencies for which it is responsible. And those are the ones that are listed on 283 — on page 283.

So you know, as indicated earlier, we recognize that they are a number of different sizes, and they have different lines of business in essence, so the processes that they're currently using do vary. And so the description of that would take into account the variances.

Mr. Krawetz: — And to the deputy minister, does the department have any problem with the recommendation that is put forward on page 286?

Ms. MacLean: — Not at all. We concur with the recommendation and we've initiated work on that.

Mr. Krawetz: — You have initiated. How far advanced are you in initiating these written processes?

Ms. MacLean: — Well we've initiated the discussions with the organizations themselves and beginning to frame out and articulate those processes in writing.

Mr. Krawetz: — Okay. Thank you. And my final question, on page 287 of the auditor's report it indicates that lottery sales, comparing 2004 to 2003, have dropped \$1 million. Is there anything in terms of assessing that from the department's point of view as to what caused a loss of \$1 million worth of lottery sales plus a loss of \$1 million in net profit?

Ms. MacLean: — I'll ask Dylan Jones to respond to that, Mr. Chair.

Mr. Jones: — Mr. Chair, essentially over the last couple of years, there have adjustments in the national market for lottery products. And the two common features are a tendency to need higher prize amounts to attract attention as well as of course a proliferation of products, right — a broader range of products. We're also looking at Internet gaming down the road. I mean there's a lot more volatility in the market.

So essentially, you know, for the most part the projections or the down curve in lottery revenues is . . . well in fact it is entirely consistent with national trends.

Mr. Krawetz: — Do you then . . . My final question, Mr.

Chair, is then what is your projection for 2005? Is that continuing and will we see a further loss of \$1 million worth in net profit?

Mr. Jones: — In 2005 . . . I don't have the exact projection figure with me for 2005. But there is a lift, okay, over the '03-04 revenue numbers in sort of the . . . in certain product areas, okay, that were traditionally problematic. So Lotto 6/49 is up, etc., etc.

We've introduced marketing practice that has sort of driven up in some of the traditional areas. But the key challenge in this fiscal year is the NHL [National Hockey League] strike. And the resolution of that, you know, will sort of determine what the next year looks like.

Mr. Krawetz: — So are you . . . again I know you don't have the exact number. Are you suggesting then that 2005 is going to continue on the national trend and that we'll indeed have a further reduction and net profit?

Ms. MacLean: — Perhaps I'll answer that, Mr. Chair.

The Chair: — Sure.

Ms. MacLean: — The discussions that we've had with the lotteries people and the projections they're making is maintaining a revenue base that could see about a 3 per cent increase, but those are estimates that they're projecting at this time. And as Dylan had mentioned, in terms of the implications of an ongoing NHL lockout, could have significant impact as it did in this past year.

But the projections are looking at a very conservative estimate of about 3 per cent increase over and above.

Mr. Krawetz: — Thank you.

Ms. MacLean: — Yes.

The Chair: — Thank you, Mr. Krawetz. We'll go to Mr. Yates, and then I'll sneak in with two or three questions myself. Mr. Yates.

Mr. Yates: — Thank you, Mr. Chair. I'd just like to revisit the issue of the differences in accounting practices. Ken and I probably are the only ones who were on the committee when we had dealt with this issue in the committee. But I have some concern in that the committee has dealt with the issue, and we have determined that on this issue of accounting practice that we would reserve our position on these issues until we have an outcome from the institute.

And I have some sensitivity to reactions from organizations that are caught in between this. And this is an issue that's really one of process and accounting. And in the meantime, we continue to have reports come back that could leave organizations that are really caught in this fight looking not as positive as they could.

If I were as a member of one of the organizations that had statements coming back saying that their funds were not reliable, that can be viewed by very, very . . . in a number of ways by the general public who have no idea that the issue that

we're really in dispute over is simply an accounting practice issue.

So in future I would hope that we would be able to exercise some sensitivity in how it's worded by perhaps in that type of statement indicating why — because there's a disagreement in accounting practices or something so the general public who may see this document have some understanding as to why. Because if I just simply read that, it can leave me with the impression that perhaps money is missing that shouldn't be missing or a number of other potential situations that don't necessarily reflect on, you know, why we actually have the problem we have.

And we took a position on this issue as a committee to let the institute bring down its decision and then deal with it. And I hope that we could find some way in our documents to ensure that we respect and support the fact that there may be a number of agencies caught in the middle of this, which may take a couple or three years yet to resolve. I don't know. So that's my only comments.

The Chair: — Mr. Wendel, did you care to respond?

Mr. Wendel: — Well I'm in a position of having to provide my opinion to you on each and every one of these agencies, so I provide that. But I can certainly take your comments under consideration and consider how I might report this in the future.

The Chair: — Just a few questions and I'll perhaps start in where Mr. Yates left off, which is starting at the back of the report and going to the front if that's all right. And perhaps this should actually go to the comptroller's office in Finance rather than the deputy minister. But either of you or both of you can get answer.

The conference that we attended in Fredericton last year — the Canadian Council on Public Accounts, I believe it was called — indicated that there's a significant trend. It's moving toward generally accepted accounting principles. That is becoming the norm, and governments are moving in that direction.

Why wouldn't the Government of Saskatchewan, why wouldn't the Department of Finance, why wouldn't individual departments within this government get out in front of the parade rather than waiting to see what the report of the institute is? I would think that there would be no harm done in moving to generally accepted accounting principles as the auditor has recommended — following his recommendation rather than waiting to see it. Now is there some horrendous cost in changing to generally accepted accounting principles? Or is there, you know, is it the feeling of the Department of Finance that this would be more misleading or inaccurate? I don't follow and understand the reasoning for the hesitation. Mr. Paton.

Mr. Paton: — Yes, Mr. Chair, I'll attempt to answer that. First of all I agree with you; governments are moving towards generally accepted accounting principles. I think the auditor would support us in stating that the province of Saskatchewan does follow generally accepted accounting principles. And we've endorsed it completely, and you can read that in our financial statements.

What you have here is simply a difference of opinion as to what that principle means. The standard is very clearly laid out in Public Sector Accounting Board standards. There's three criteria that we believe has to be met. We believe that the grants have to be authorized; that if there's any eligibility criteria, that those criteria have to be met; and that a reasonable amount of the estimate could be made, a reasonable estimate of the amount could be made. And ourselves and the department believe that those criteria are being met and the auditor has a different opinion.

We're using the same standards, so we believe we're following generally accepted accounting principles, and as I stated I think the auditor agrees we do. The difference here is what that standard means and what the interpretation of the standard is. But I don't think there's any difference of opinion as to whether or not we follow the standards.

The Chair: — So if I can paraphrase you, then you're saying that both you and the auditor think you are following GAAC . . . P, I mean, [generally accepted accounting principles] and you're just sitting in abeyance waiting for the interpretation to be delivered by the institute.

Mr. Paton: — Yes, that's correct. As I said, our statements clearly state that we follow generally accepted accounting principles. If you read the auditor's report, he states that we follow generally accepted accounting principles.

I'd like to caution the committee a little bit on this. This issue has been before the committee in the past. As I said, the Public Sector Accounting Board is coming out with a revised standard. I don't know how different it will be from the current one, but as I said I think there will be some interpretation still required. And I think the committee should be prepared to look at this issue in some detail in terms of what their opinion might be as to how these standards can apply.

The issue that the auditor's citing the department for today I believe is one that the department's been following for a long time. It's not a change in their procedures. They've always provided the grants I believe in this fashion. They provide them to the third parties. They expense them when they provide them to the third parties. And it's kind of a standard operating procedure for themselves.

So it's something that the auditor is currently taking exception to, but I don't believe it's a change in practice for the department. And I don't believe it's a change in practice as to how we've applied the standard for a number of years.

The Chair: — Mr. Paton, would it to be fair to say that there would be no difference in cost, you know, doing the accounting either way?

Mr. Paton: — I'm not sure if . . . The various departments would have to speak to that specifically. As Mr. Wendel pointed out, the main issue here is the timing or the recognition of when the grant is expensed. Generally departments are expensing them before the auditor believes it's appropriate.

What the auditor's suggesting, I believe in this case, is that the department should monitor when the third party recipients

actually spend the money on their activities and then expense it at that time. I believe that monitoring activity on an ongoing basis would require some administrative effort. While there's a reporting activity in most cases as to when the funds are finally being spent back to the department so they can determine whether or not they've met the purpose of the grant, monitoring it on an ongoing basis might involve more expense.

The Chair: — Okay. Thank you for that explanation. And I would ask Mr. Wendel, do you see any dangers in the current practice over what you recommend? Because is there a reason more than semantics or definitions why departments should follow your recommendations as to what you believe general accounting principles are in this case versus what is currently practised?

Mr. Wendel: — Well as accountants we're trying to measure. What we spend our time measuring is when do you record the expense, what period do you record the expense. And we think a better matching of expenses would be when the money is spent for the intended purpose. What we're talking about in these particular cases is these are monies for the next year's operations for the people that are receiving the grants, as opposed to previous years. So the expense is being recorded in 2004, but it's really for 2005 expenses. So we think it would get a better reporting of the expenses if you were to move to the practice . . . That's how we interpret generally accepted accounting principles, and as Mr. Paton says, they interpret it a different way.

The Chair: — But I guess what I'm driving at is getting beyond the definitions that you'll . . . Are we opening up loopholes for misappropriation or ineffective spending of tax dollars?

Mr. Wendel: — Well you could have pre-flows of money before it's necessary to flow the money to organizations, and that's what you allow by not recording it in the period in which it belongs.

The Chair: — Okay. Thank you for that. Then moving on to your actual recommendation on page 286 where you suggest that the written processes are needed to adequately oversee the agencies. What are the dangers that exist if these written procedures are not in place? You know, what are you as an auditor looking for, and what should we as a Public Accounts Committee be looking for as the potential pitfalls or problems of not having these written procedures in place? Ms. Ferguson.

Ms. Ferguson: — Thank you, Chair. Basically what we find in . . . we always encourage documentation because what documentation really does is it ensures people understand what they need to do, when they need to do it, and why. As the deputy minister indicated, often when you start to write things down, it often will set out more clearly the assignment of responsibilities too so that if there is any lack of understanding it becomes more apparent when you start writing things down too.

So it helps delineate and assign responsibilities also. So if you don't have things well documented, the risk is that people don't do what they're expected to do and they may misunderstand their accountabilities and in turn you may not hold them

appropriately accountable for what they need to be held accountable for.

The Chair: — Thank you. Ms. MacLean, you say that the department fully accepts the recommendation. When can you suggest to the committee that the recommendation will be fully implemented?

Ms. MacLean: — I would hope at the end of this fiscal year we'll have laid out the parameters and the processes for each of the respective organizations that are identified.

The Chair: — All right. Thank you. And then a final question on page 284, again on the original estimates over the actual. I noticed quite a variance on the line, accommodation and central services, which was estimated to be \$1.2 million but turned out to be \$2.9 million, almost two and a half times greater than forecast. Can you explain to me why the variance in those numbers?

Ms. MacLean: — The accommodation costs for the MacKenzie Art Gallery, the Centre of the Arts, and the historic places initiative had been charged, were originally charged in a different . . . they were budgeted in a different . . . in culture and heritage. And they were removed from those and then put into accommodation and central services where it made more sense to actually include them. So they're really related to the accommodation costs of the organizations. So they were better placed within the accommodation and central services line versus the culture and heritage lines.

The Chair: — All right. Well that explanation solves the problem then for accommodation and central services, but then it begs the question: why did culture go from an estimate of \$12.2 million to \$14.5 million when you took the other, some of the costs out of there and put them into accommodation and central services?

Ms. MacLean: — The bulk of that increase is directly related to the film employment tax credit. So the preliminary estimate for that program ended up being in excess of \$3 million than what was originally anticipated in terms of film activity in the province. So for the most part that's attributable to that as well as the \$500,000 increase to the Arts Board.

The Chair: — How many films then would qualify for the film tax credit? I'm curious.

Ms. MacLean: — I'll ask Dawn Martin to respond to that.

Ms. Martin: — Annually it's in the range of approximately 20 films a year.

The Chair: — And so what was it in this reporting period?

Ms. Martin: — I'm sorry I don't have the list. We can provide that to you later.

The Chair: — And what would be the average — and maybe this isn't a fair question — but would you have any idea what the average amount would be per film?

Ms. Martin: — I could provide that to you.

The Chair: — Okay. And what would the trend be over the last, you know, two or three years? Is it quite a steep incline?

Ms. Martin: — It's actually grown quite dramatically in the last couple of years. In the year prior to 2003-2004, the year that we're looking at, I believe it was in the range of \$5 million. This year that we're looking at, the total cost would have been in excess of \$7 million. And the year that we've proposed an estimate, this year, of \$8.9 million. So it's increasing quite dramatically. Film production volumes have almost doubled in the last two or three years.

The Chair: — So are you changing your forecasting procedures then to try to more accurately hit this number than you have in the past?

Ms. Martin: — Yes and that's evidenced by the number that we've proposed in our estimates for this year.

The Chair: — How much of the . . . You know we noticed what, a million and a half, a little more than that, of shortfall in our overexpenditure in accommodation and central services. Would most of that have come from the culture line or is there a significant amount from the heritage line as well?

Ms. Martin: — Virtually all of it is actually from the culture line.

The Chair: — So in other words the heritage number isn't that far off of the estimate.

Ms. Martin: — Yes. There was a bit, 50 to 60 in the heritage line . . .

The Chair: — Thousands, you're talking thousands?

Ms. Martin: — 50 to 60,000, thank you, in the heritage line that was attributable to the historic places initiative which we received revenue back to counter from the federal government.

The Chair: — Okay. And just one more question back on the . . . I'm asking more questions than I thought I would because of some of your answers which are quite intriguing. But has the department calculated the net benefit of the additional film activity in Saskatchewan? I mean there is a cost in the film tax credit. Obviously there should be a benefit in jobs, more income tax, you know, more business in the province of Saskatchewan. Has your department done a cost-benefit analysis to find out, say, how many dollars are put into the economy or generated in other tax revenues from \$1 of film tax credit?

Ms. Martin: — We're just in the process of finalizing exactly that research.

The Chair: — So we might expect that fairly soon. Okay thank you. Mr. Dearborn, did you have some more questions?

Mr. Dearborn: — I did for the auditor. Thank you, Mr. Chair. Your explanation around the difference in accounting practices, I . . . The first question I'd have when it became clear exactly what you were outlining for me, is this happening right across — this discrepancy — is this happening right across the entire budget for the provincial government for almost all . . . or is it

just very isolated cases like we're seeing here with these third party funds?

The Chair: — Mr. Wendel.

Mr. Wendel: — I'm trying to figure out how to respond to this. But what we bring to your attention is the cases where the financial statements have not got the expenses in the correct period. So if there's individual financial statements prepared, we do then report where we have a difference of opinion.

Some government organizations don't prepare financial statements as yet which are departments themselves. So if they're also doing pre-flows, that doesn't come to your attention.

Mr. Dearborn: — Does that mean then in essence it would be possible for — I'm going to use a rough number of \$7 billion of budget — that the expenses could all be put upfront and yet they're expended over a 12-month period and there could be really, because the number is so large, quite great discrepancies?

Mr. Wendel: — Without doing a great deal of research, I don't know if we could comment on that. I'm just saying that the potential exists that there could be pre-flows in the departments now. I haven't done a lot of look at that.

Now if we were to find a material amount in say the General Revenue Fund, we would be commenting on the General Revenue Fund financial statements. But that's a fairly significant amount, material amount for the General Revenue Fund. If we were to find it, we would comment.

Mr. Dearborn: — Thank you. The last set of questions I'd have have to do with the, and this is for the auditor as well, just around the individuals working in the particular Department of Culture, Youth and Recreation. I had a number of questions come back, written questions asked in the House around the pension liabilities of these employees. And the government's response were that there was no unfunded pension liability. And I was just wondering . . . I was surprised by this answer.

And for the pensions that people are paying in to — and we have a great number of persons ready to retire, I think it's about 60 per cent of the Public Service Commission by 2012 — I don't know where all that, the money for those pensions to be 100 per cent funded is sitting. And I was wondering, is it your opinion that the pensions for these employees that are working are completely funded today or is there in fact an unfunded pension liability that the government would hold for this particular department and indeed others? And if so, how would I be able to identify that?

The Chair: — If the Chair could interject and I will permit Mr. Wendel to provide a brief answer. We are getting somewhat off topic here this morning and I want to try to stay fairly close to the subject matter at hand. But if you have a brief response to that, Mr. Wendel, you're welcome to do so. Otherwise I'd suggest you and the auditor maybe perhaps would discuss this outside of this particular meeting.

Mr. Dearborn: — Thank you, Mr. Chair.

Mr. Wendel: — I'm not familiar with the questions and answers that you put forward to the government but there is an unfunded pension liability that the government has for people that are in the old public service plan and that's disclosed in the financial statements of the General Revenue Fund and the summary financial statements. I'm just trying to recall the amount. I think it's close to 1 billion. \$1 billion, \$1.6 billion — that's the unfunded pension liability on the old plan.

Now insofar as the new plan, there is no unfunded liability because that's paid as you go. The government matches contributions. It's put away in a fund and your pension is based on the money that's set aside for you in the fund.

So I don't know if that helps you with your question. Now at the moment I don't think that the government has . . . I'm not sure, they may have this information themselves. I'm not aware as to whether they've got a liability for each particular department set up. They may just have it in total for the whole government.

Mr. Dearborn: — Thank you. That's a sufficient answer.

The Chair: — Are there any other questions? Seeing none we have one recommendation to deal with. It's on page 286. The recommendation reads:

We recommend that the Department of Culture, Youth and Recreation set out written processes to adequately oversee its agencies.

Is there a motion? Mr. Yates.

Mr. Yates: — Yes. I move we concur and note progress.

The Chair: — Okay, the motion is to concur and note progress. Is there any discussion on the motion?

Mr. Krawetz: — Question.

The Chair: — Call for the question. All in favour? Any opposed? That is carried.

Ladies and gentlemen, about this time of the year we bring a motion forward to the Public Accounts Committee regarding an annual convention that we send delegates to. If you're prepared to deal with that motion this morning we can do so. It's not a controversial motion; it's a practice of the committee to send the Chair, Vice-Chair, one government member, and one opposition member to the annual meeting of the Canadian Council of Public Accounts Committees.

This year the conference is held on Niagara-on-the-Lake, Ontario, August 21 to 23. I have a motion written here and I will read the motion to the members. And if it's agreeable I would accept a mover and a seconder to the motion. It reads:

That the Standing Committee on Public Accounts authorize the attendance of the Chair, the Vice-Chair, one government member of the committee, and one opposition member of the committee at the 26th annual meeting of the Canadian Council of Public Accounts Committees to be held at Niagara-on-the-Lake, Ontario, August 21 to 23,

2005, and further that if the Chair or Vice-Chair cannot attend, they be authorized to designate another committee member to attend in their place.

Do I have a mover? Mr. Borgerson.

Mr. Borgerson: — I will so move.

The Chair: — Do we have a seconder? Mr. Dearborn. Is there any discussion on this motion? I just see smiles. We will then present the question. All in favour? Any opposed? It is carried unanimously. Thank you very much.

I cannot definitely indicate when the next . . . By the way, thank you, Ms. MacLean. I see you're leaving. I was about to say thank you and to your officials — it must be lunchtime — for being with us and for answering the questions the committee members had. We appreciate it very much.

And to committee members and officials from the comptroller's office, the Provincial Auditor's office, we will be in discussion about when the next meeting of the committee will occur. It's not quite certain at the current time, but you will be notified.

I declare the meeting adjourned.

[The committee adjourned at 11:43.]