

STANDING COMMITTEE ON PUBLIC ACCOUNTS

June 15, 1989

Mr. Chairman: — The item for consideration this morning is the Agricultural Development Corporation of Saskatchewan, and we have the Crown Investments Corporation on stand-by.

Just before we get into the agenda, I want to advise members that I received copies of the report and proceedings of the Standing Committee on Public Accounts for the Northwest Territories Legislative Assembly. If anyone is interested in perusing these documents, I will table them with the committee Clerk, and you may wish to contact him in that regard.

Before we get to the agricultural development corporation, are there any questions of the auditor? Does the auditor have any comments to make?

Mr. Lutz: — Thank you, Mr. Chairman. I wish to make a statement before we begin, and the statement concerns the roles of auditors.

Since the appointed auditors are to appear here as witnesses, I believe it is necessary for the committee to have a clear understanding of our respective roles.

I am advised by my legal counsel, concurred in by the Legislative Counsel and Law Clerk, that as a matter of law:

- 1) I am the officer of the Legislative Assembly responsible for the audit of all public money.
- 2) Unless I am able to rely on an appointed auditor, there is no appointed auditor who has the responsibility to provide an audit for the Legislative Assembly.

I am further advised by the Legislative Counsel and Law Clerk that the relationship of an appointed auditor to the Provincial Auditor is one contemplating the Provincial Auditor as being the final authority in the resolution of any differences between them on a professional basis.

The examination and reporting standards provided in The Provincial Auditor Act are statutory direction to the appointed auditors. This statutory direction requires the appointed auditor to perform his examination in such a manner that the Provincial Auditor should be able to rely on his work and reports. While the appointed auditor is permitted to make a report to the Legislative Assembly, the appointed auditor's report is that of a secondary auditor and carries no weight unless I rely on it.

To enable me to report to the Legislative Assembly, I must form audit opinions based upon sufficient appropriate audit evidence. The appointed auditor's work and report is part of the audit evidence I consider in forming my audit opinions. Where I have concerns regarding the work and report of an appointed auditor, I meet with him to ensure I have, to the best of my ability, all of the information relating to the matter before reaching a conclusion.

If I am unable to rely on the appointed auditor's work and report, I must perform additional procedures to form my audit opinions. The law requires that when I cannot rely on the work and reports of the appointed auditors, I must

report this fact and the reasons to the Legislative Assembly.

On the other hand, the appointed auditor does not have any responsibility under law to report to the Legislative Assembly on my opinions. When the appointed auditor appears as a witness before this Committee, he does not substitute for me in forming audit opinions for the Legislative Assembly.

If the Committee requires the appointed auditors through its questioning to criticize the opinions I have reported to the Legislative Assembly, this will indeed be unfortunate. Professionals may hold different opinions. My colleagues are aware that The Institute of Chartered Accountants of Saskatchewan provides a mechanism through its Professional Conduct Committee for the resolution of these differences of opinion.

I, however, welcome the Committee's review of the process whereby I have formed the audit opinions reported to the Legislative Assembly . . . But, I repeat, the appointed auditor can not form my audit opinions for me. Under generally accepted auditing standards, a primary auditor must form his own opinions which The Provincial Auditor Act also requires.

Thank you, Mr. Chairman. I have 25 copies of this.

Mr. Chairman: — Thank you, Mr. Lutz. Are there any questions of Mr. Lutz?

Mr. Neudorf: — Having come in just on the tail-end of what the — and I apologize for my tardiness this morning — just coming in at the tail-end of what the auditor was reading, could we have a moment just to reread this?

Mr. Chairman: — Yes, no, no, go ahead. My understanding is committee members are going to do that, to take a few minutes to read the statement before putting any questions to the auditors.

I have Mr. Lyons. Is there anyone else that has comments or questions?

Mr. Rolfes: — Mr. Chairman, I have a few questions I want to direct to the Provincial Auditor. Mr. Lutz, a few days ago — and I can't divorce this from the statement that you've made here today — a few days ago you received a memorandum from the Premier of the province in regards to a directive issued to departments and agencies. Is that memorandum a public document?

Mr. Lutz: — Mr. Chairman, the memorandum, as far as I am concerned, was not a public document because I did not lay it on the table here, but what becomes of the Premier's memo is really not something upon which I can comment.

I did report to this committee my reaction to the memo as very favourable and hopeful, and that's the best I can tell you regarding that memorandum. I have not made it public, if that's what you're asking me.

Mr. Rolfes: — No, that's not what I was asking, I was

asking whether you consider that document a public document since you've commented on it. My question, of course, would be that I want to know whether you would be prepared to make that document available to this committee, because . . . the reason I'm asking that is because you have made available to us your reaction to a memo, and I would like to study in detail — not that I'm questioning your reaction to it, because that's your personal prerogative, but what I am asking is, I'd like to see the memo to see exactly how that memo affects this committee's work, because I have some questions about that memo.

Mr. Lutz: — Mr. Chairman, if I am directed by the committee to lay that document on the Table, I will do so.

Mr. Rolfes: — Thank you. Mr. Lutz, in your response to the Premier's memo — and I want to refer very specifically to two words, "all departments" and "agencies" — would you mind explaining to the committee what you have been given to understand by . . . departments I can understand, but by agencies?

Mr. Lutz: — Mr. Chairman, my interpretation of the memo, it includes Crown corporations and agencies, if that's the word we use here.

Mr. Rolfes: — All right. Was it specifically mentioned in the memo, Crown corporations? You don't mention them in your response.

Mr. Lutz: — Mr. Chairman, if they mention agencies, I think that includes all agencies of the Crown of whatever form. But now if I describe to you what the memo says, am I making it public without direction of the committee? I have a problem here, Mr. Chairman. I'm not sure . . . it did say Crown corporations, I can give you that.

Mr. Rolfes: — Well, okay. That's what I really wanted to know.

The reason I'm asking that question, because in the media it appeared very clearly, all Crown corporations were directed. And I was wondering where the media got that from, whereas we did not have that Crown corporations were also directed, and I had a concern there because that leaves out a large portion of public expenditures. So later on I will move a motion that I hope the committee will support, that that memorandum be tabled for this committee.

I want to return now to your statement of today, and I think, Mr. Lutz, that was part of our argument the other day when we moved a motion that we direct our attention immediately to the auditor's comments in the first 21 pages of your annual report. And that is, we consider you as the primary authority to the Legislative Assembly as far as auditing the books of the provincial government and all agencies are concerned. And we do not think, from this side of the table, that we should get into a turf war between the private auditors, or the appointed auditors and the Provincial Auditor, because you do have a mandate from the Legislative Assembly to report on all expenditures, and therefore we should spend some time in questioning you on some of the allegations that have been made and some of the statements that you have

made of interference by departments, by officials, by the Executive Council, in not being able to perform your function as the primary auditor in the final authority in making your report available to the Legislative Assembly.

And I think you have clearly indicated, at least I seem to get that direction in from your memo today, what is going to happen here in this Public Accounts Committee is that the elected people are going to be receiving secondary relevance in the committee, and we are going to end up, and maybe that's what Some members want in this committee, of an argument between private auditors and the Provincial Auditor in auditing procedures. And that is not our function.

And I totally agree with you that . . . I, as an elected member, rely on your statement to the Legislative Assembly on government misappropriation of funds, or the lack of authority of expenditures, or the interference, or the mismanagement, or whatever it may be. I have to rely on you in your report in order to do my duty and my job as a member of this Public Accounts Committee.

Therefore I was somewhat taken aback, I must admit, when the members opposite did not support our motion to go into detail in your report in the first 21 pages, which I don't think we can do under the decision that has been made by this committee. There is no way that one can go back to pages 21 and 22 in any detail when you are going through, for example, Agricultural Development Corporation of Saskatchewan.

I know I'll be ruled out of order and members opposite will say so — the member is out of order because it doesn't apply to that. And consequently we have no opportunity to study those first 21 pages which are paramount, I think, in this committee being able to function and carry out its duties.

So I am somewhat relieved this morning in getting this statement from you, because I have the concerns, as I think you have the concerns, that it seems like we're ending up in a turf war between the private auditors and the Provincial Auditor. And to me that is not our function and that's not our purpose of this committee.

And I would hope that the committee would accept your statement here as you being the final authority in the resolution of any differences between the private auditor and the Provincial Auditor. Therefore I welcome your statement.

But my question to you, Mr. Lutz, is this: do you have a fear that your position will be undermined by having the private auditors here as witnesses to this committee? Or will your role be changed because the private auditors are here as witnesses before this committee?

Mr. Lutz: — Mr. Chairman, I don't know the precise definition of a turf war; I think I understand the term. As far as I am concerned, there has never been one. We've had co-operation from almost all of the firms. If my professional colleagues appear at the other end of the table, I welcome the appearance there. I think it will be a clarification process, and I don't think you will observe a turf war. I would certainly hope not.

The fact that two professionals have a different opinion on the same matter does not indicate that it is a turf war. You may have differing opinions. There is a forum at which they may be settled. I have no problem with this process. As I said last week when this was suggested, by all means have them in as witnesses. I don't have a problem.

Mr. Rolfes: — Okay. I have no further questions at this time.

Mr. Chairman: — Before we go to another speaker, Mr. Rolfes, I listened to your remarks and there was a point that I felt that you were beginning to criticize, question, or reflect on decisions already taken by the committee. The rules of order would hold that we do not do that because it would tend to renew debate on matters that have already been decided.

Therefore, I would caution members that while questions are certainly in order of the statement before us by the auditor, we should not seek to reflect on decisions already made or seek to reopen debate unless it's by proper motion.

Anyone else have any questions?

Mr. Lyons: — I have a number of questions regarding the . . . first of all, Mr. Lutz, the statement presented today. I wonder if you could give us an interpretation of . . . or how you see the phrase "rely on" operating in regards to the appointed auditors. I notice throughout the statement that, for example, on point number two:

Unless I am able to rely on the appointed auditor, there is no appointed auditor who has the responsibility to provide an audit for the Legislative Assembly.

What does "rely on" mean in your judgement?

Mr. Hopfner: — Mr. Chairman, before we do proceed . . . I'm not trying to prevent the member from asking the questions, but I'd just like to know if we're going to follow the agenda.

This has been presented, but there has been really no basic motion to deal with whether we should deal with this particular letter or not, and if we should get on with the agenda, so . . . I know this was presented by the Provincial Auditor for a point of information prior to us getting into the departments. Are we going to get into the departments, or are we going to just discuss the letter now?

Mr. Chairman: — Well, no, the . . .

Mr. Lyons: — . . . (inaudible) . . . ask questions of the Provincial Auditor.

Mr. Hopfner: — It's just a point of clarification, that's all.

Mr. Lyons: — We're going to ask questions of the Provincial Auditor.

Mr. Chairman: — My ruling would be is that the

committee has set an agenda, and the first item on the agenda is the agricultural development corporation. The auditor wished to make comments, and we invariably extend to our auditor the courtesy of offering advice and making comments. And it seems to me appropriate for members to ask questions, or to ask the auditor to clarify his comments before proceeding with the department. But I'm mindful of the fact that we should be asking the auditor to clarify on the topic that he raises and that we should not be . . .

Mr. Hopfner: — So this would be relevant to the agenda then, is what I'm saying.

Mr. Chairman: — I think so.

Mr. Hopfner: — The agenda hasn't changed then, is what I'm saying.

Mr. Chairman: — No. I think so. The auditor is raising some comments with respect to people who will be appearing before us with each of the departments, and I think it's legitimate for members to ask questions to clarify this point.

Mr. Hopfner: — Okay. So we're not backing up into the auditor's . . .

Mr. Chairman: — No, and I think I made that clear when I commented on Mr. Rolfes's questions and statements this morning.

Mr. Hopfner: — That's fine.

Mr. Lutz: — Mr. Chairman, I think there's still a question before me, am I correct?

Mr. Chairman: — Yes.

Mr. Lutz: — When we talk reliance, it's a matter of gathering audit evidence, reviewing the audit evidence that the appointed auditor has accumulated in order that I may form the opinions required to be formed under section 11 (1) of The Provincial Auditor Act. If I do not do any additional audit work, I have relied on that appointed auditor so that I can render my opinion.

Mr. Lyons: — Has there be any instances where you've been unable to rely on an appointed auditor and have had to go beyond the work of that appointed auditor in the notion of relying on, contained in your statement?

Mr. Lutz: — Mr. Chairman, the cases where this occurred are noted in my report to the Legislative Assembly.

Mr. Lyons: — So basically, based on your statement, when the appointed auditor comes . . . appointed auditors appear, it would probably in those instances where you have been unable to rely on the Provincial Auditor . . . or on the appointed auditors. And when I say rely on, and I'm trying to get this concept clear, does that mean that you're not able to rely on the appointed auditors because of the nature of the work they've carried out? Or is it because there has been a lack of sufficient detail in evidence and information presented either to yourself or to the appointed auditor?

Mr. Lutz: — Mr. Chairman, there are probably two elements to the answer. It may be an honest professional difference of opinion in a particular case, or it may be a lack of appropriate audit evidence in the auditor's working papers which precludes me from forming the same opinion he formed.

I guess there's three parts to this. It could also happen that if there is some element of interference from outside, I may not be able to get the additional audit evidence which I think is needed to form my opinion, and in that event I cannot rely.

Mr. Lyons: — Okay, in those instances in the report where it's noted that you haven't been able to rely on the appointed auditor, have all the three reasons that you just elaborated played a part in that not being able to rely on the appointed auditors, or has it been the inability to obtain evidence from, or for the appointed auditor to obtain information from, the appropriate agency that has caused you not to rely on that appointed auditor?

Mr. Lutz: — Mr. Chairman, each case is an individual case and is described as such in my report. I can't pin-point a case of non-reliance and relate it to the three elements we're talking about here. I can relate to a difference of opinion; I can relate to a lack of appropriate evidential matters in the working paper file, and do relate to interference of some type from another source. But I can't really say that, yes, this is a case for all three. I describe them in my report, I believe, adequately to tell the members why I'm not relying on them.

Mr. Lyons: — Okay, fine. No further questions for Mr. Lutz at this time.

Mr. Anguish: — Mr. Lutz, when was the last time you tried to get minutes or to inspect the records of Crown investment corporation?

A Member: — Point of order, Mr. Chairman.

Mr. Chairman: — Point of order.

Mr. Wolfe: — I believe that that's to follow later in the agenda today, and I want to repeat, later on the agenda today — today — if we ever get there.

Mr. Chairman: — I would share with you the concern that members shouldn't try and get through the back door what they can't get through the front door.

A Member: — Both are locked anyway with this government so it won't make any difference.

Mr. Anguish: — I'll explain what I'm asking . . .

Mr. Chairman: — But I want to give Mr. Anguish an opportunity to explain why he's asking the question.

Mr. Anguish: — Well there's this issue that Mr. Lutz, he gives us a statement today in terms of the role. And last meeting, I guess, he gave us this memo that says:

On June 8, 1989, I received a copy of

a memorandum from the Premier to all cabinet ministers, directing that all departments and agencies provide the Provincial Auditor with all the necessary co-operation to permit him to fulfil his duties and to advise their appointed auditors of the directive.

And it continues on from there. Well I want to know how much confidence the auditor can have in that, because I look back to last year's public accounts, or the Provincial Auditor's report, I should say, year ending March 31, 1987, he had a cabinet minister, in this case, intervene on his problems he was having with Crown investments corporation. And the cabinet minister at that time did intervene.

And then last year's report was left that:

On April 12, 1988, officials of CIC (Crown investment corporation) again refused my representatives access to the minutes.

He's referring to the Crown investment corporation minutes. So my question is very simply following on this. It's an example that was drawn last year. I can't help it that CIC is the example that was used in the auditor's report, but the auditor explains he has had problems there. A member of Executive Council intervened, and there continued to be problems. I'm wondering if there's still problems at this point in time, this day, with Crown investment corporation.

Even though it happens to be on later on today, the topic is now, because it deals with the auditor's report and him getting access to information to do his audit reports. That's all I asked, Mr. Chairman.

Mr. Lutz: — Mr. Chairman, I was advised by CIC . . .

Mr. Chairman: — Point of order. Mr. Anguish, if the question were, at this point, generally put, I think I might accept it. But if the questioning is specifically related to Crown investments corporation, then I have difficulty, and I would have to rule it out of order, especially given the very specific direction of the committee at the last meeting that it wanted to pursue a certain line . . . (inaudible interjection) . . . No, no, the committee. The committee wanted to pursue a certain line of questioning, or wanted to pursue the agenda in a certain fashion.

So at this point I would rule your question out of order, but again, if you have general inquiries, general comments about the auditor's statement, we would certainly welcome those.

Mr. Wolfe: — I'd just like to bring to your attention, just relevant to that that, I would hope that the member opposite remembers that it was the members opposite that turned down the opportunity to . . .

A Member: — Point of order.

Mr. Chairman: — The member still has the floor, Mr. Wolfe, but if you have a point of order feel free to raise it, but I don't need you to reflect on my rulings.

Mr. Hopfner: — Excuse me, Mr. Chairman, on a point of order there . . .

Mr. Chairman: — Point of order.

Mr. Hopfner: — . . . you were just getting clarification for his point of order that he had called.

Mr. Chairman: — No, Mr. Wolfe raised the point of order. I ruled on that; I don't need him to further reflect on my point of order.

Mr. Anguish: — You put me in a difficult position, Mr. Chairman, because that's what the specific reference is in last year's Provincial Auditor's report. I suppose, put another way, if you look at page 13 of the report that's under review now, 2.55, the Provincial Auditor talks about:

In addition to my inability to get information from C.I.C., S.P.C., SPMC, SaskTel and P.C.S., I was refused access to the accounts of a crown controlled corporation, Westbridge Computer Corporation.

So I suppose what I'm asking you, Mr. Lutz, is: since this June 8 memo, have any of your officials approached any of those Crowns for information? Have any of your officials approached any of those Crowns referenced at 2.55 of your audit report, have they approached those Crowns, and have they received information, or have they been denied access to information?

Mr. Lutz: — Mr. Chairman, I wonder if the member would repeat his question please. I'm not sure I've got all of the ramifications here.

Mr. Anguish: — Mr. Lutz, the Premier apparently sent around a memorandum to all cabinet ministers, and you received a copy of it on June 8.

Mr. Lutz: — Yes.

Mr. Anguish: — I don't know the date of the Premier's memorandum. All I know is that you received it on June 8. Is that correct?

Mr. Lutz: — Yes, that's what I said in my report to this committee. That is correct.

Mr. Anguish: — Since June 8, to date, have any of your officials, or yourself, contacted any of the Crowns referenced at 2.55 of your current report. In particular it says:

In addition to my inability to get information from C.I.C., S.P.C., SPMC, SaskTel, and P.C.S, I was refused access to the accounts of a crown controlled corporation, Westbridge Computer Corporation.

Mr. Chairman: — I want to comment on the member's question. The statement before us from the auditor of this morning deals with the auditor's need to clarify for the committee the relationship between appointed auditors and his office in various roles, duties, and responsibilities.

And it's entirely in order that members should seek to get clarification of that. And in doing that, in getting clarification, it's recognized that one may move away from the direct statement. But in this particular case, the member is, in my opinion, seeking to shift the questioning away from the respective roles and responsibilities to one of inability to get information from various Crown corporations, and refusal of access.

Mr. Anguish: — Well how can he fulfil his role?

Mr. Chairman: — And to me, the question is not directly relevant to the statement that's before us. And I appreciate that it may be frustrating at times, but I would I have to hold that the question is not directly relevant, and I certainly encourage you, Mr. Anguish, to take another line and . . .

Mr. Rolfes: — Mr. Chairman, a point of order.

Mr. Chairman: — Point of order.

Mr. Rolfes: — On the point of order, I think it's . . . On page 1 the auditor indicates:

To enable me to report to the Legislative Assembly, I must form audit opinions based upon sufficient appropriate audit evidence.

How can there be sufficient appropriate audit evidence if, in the auditor's opinion, he did not have access to sufficient information and was denied access to information?

That's exactly what he is saying here, and I think we have a right to pursue that line of questioning because he's the one that brought it up in his statement, and we need clarification on whether or not there has been sufficient evidence applied so that appropriate auditing could be done, and that's exactly what he's doing . . . (inaudible interjection) . . . Look, we'll conduct the process. Don't tell us how to do it. You just keep your little niche there as the Premier directed you.

Mr. Chairman: — Mr. Rolfes, I always appreciate your comments . . .

Mr. Rolfes: — I know you do.

Mr. Chairman: — . . . but again, looking at the statement of the auditor, the auditor puts forward a supposition in support of his general statement about roles and responsibilities. He puts forward the supposition that if he is unable . . .

(If) I am unable to rely on appointed auditor's work and report, I must perform additional procedures. The law requires that when I can not rely on the works and reports of the appointed auditors, I must report this fact . . . to the Legislative Assembly.

Mr. Rolfes: — And we are pursuing that.

Mr. Chairman: — I would encourage members to pursue the central thesis, the points that the auditor is trying to

make, as opposed to trying to get side-tracked back into the consideration of chapters in the auditor's report which the committee very clearly ruled last time it wished to bypass and wanted to go directly to the agriculture development corporation.

Mr. Lyons: — Point of order. Point of order, Mr. Chairman.

Mr. Chairman: — Point of order, Mr. Lyons.

Mr. Lyons: — Mr. Chairman, the ruling that I think you were attempting to make in this — and I want you to reflect on it before making it — is that somehow you see, or somebody . . . the members . . . particularly members opposite see the first 20 pages of the report as somehow standing alone, in isolation from the rest of the report.

As a matter of reality, those first 20 pages, plus this statement today, plus the Premier's memorandum, all relate to, all relate to the actual accounting of real live departments and agencies and the problems occurring therein in developing that function.

It is quite appropriate, it would seem to me, Mr. Chairman, to pursue a line of questioning which says, first of all, have those problems in fact been cleared up by the memorandum of the Premier? That's quite an appropriate question to ask, because the criticism contained therein applied to certain departments and agencies, including Crown investments corporation.

And if in fact there has been a change in operation, then the examination of — starting with Agdevco, the agricultural development corporation — there's a whole line of questioning which can then become totally superfluous or extraneous, based on the answers that Mr. Anguish is asking in regards to both the auditor's statement here and the Premier's memorandum.

And it's a perfectly logical line of questioning to take. And let me put it this way. If Mr. Anguish were to ask, for example, as a result of the Premier's memo that the auditor received on June 8, has there been a change in the accounting practices as it relates to Agdevco, or as it relates to CIC . . . Right? To include . . .

Mr. Chairman: — When we get to those . . .

Mr. Lyons: — Well to include . . . but to include Agdevco in the list is perfectly logical. But also what's perfectly logical to ask is: has this memo had any effect? Because that's what Mr. Anguish's question asks. Has it had any effect?

Mr. Chairman: — Again, the item before us this morning is the auditor's statement this morning. The item for consideration before us is not necessarily any statements by the auditor in the last meeting.

The committee has made certain decisions. I can only take the decisions that the committee has made. I can only take the decisions that the committee has made and try to interpret proceedings in that light. The committee has made a decision that it

wishes to move to certain departments. The committee has made a decision that it did not want to get into a general discussion of the current issues of importance, that it wanted to get to departments.

If members have questions in the context of a particular department, any questions about a current issue of importance in which that department might be implicated, then it's fair to ask those questions at that time. And so it's certainly legitimate to ask the Agdevco people, when they're here, whether or not the Premiers memorandum applies to them. If there's other items in here that are raised that might apply to them, then it's fair and legitimate to do so. But I see members wanting to take the statement this morning and to try and open up a debate that did take place last time. Whatever one's feelings might be about the wisdom of that decision, the decision has been made by the committee and we have to respect that.

Mr. Rolfes: — Mr. Chairman, a point of order. If you want points of order, we'll give you points of order . . . (inaudible interjection) . . . Mr. Chairman, will you ask the member from Assiniboia-Gravelbourg to just keep quiet for a minute. You always — when I make a statement, you ask me to be quiet, but when he makes a statement, then he's allowed to continue.

Mr. Chairman: — This is a point that I think all members of the committee should take careful note of.

Mr. Rolfes: — Mr. Chairman, on a point of order. It is not the people on this side of the table that have raised the points this morning. It was the Provincial Auditor.

In the past it has always been the practice, before departments and agencies come in, that we are allowed to question the Provincial Auditor on statements as they pertain to the Provincial Auditor's report. And I think you are changing the way we . . . the process of the past by limiting us to specific departments now.

The Provincial Auditor — again, I want to refer you to it — he says, I meet with the private auditors to ensure that I have, to the best of my ability, all of the information relating to the matter before reaching a conclusion. He has brought that before us. I think, therefore, I have the right to question him this morning of incidents where he may not have received sufficient information. He is the one that has related that to us this morning. Therefore, I want to ask him this morning, where are the incidents where he has not had sufficient information? And I think I'm quite in order to ask that.

Mr. Chairman: — In response to Mr. Rolfes's point of order, I would simply state that if you have questions for the auditor and want the auditor to elaborate, to substantiate the comments that he makes, that you're certainly free to do that.

If on the other hand you're going to specifics in the auditor's report and want to get into a discussion on specific items in that report, that, to me, appears to be simply a way of getting back into a discussion, in this case of chapter two of the auditor's report, then I would have some difficulty. But again I would ask you to . . . it's fair ball to ask the auditor to elaborate and to substantiate the things that he says.

That, though, should not be interpreted that if the auditor says that I'm generally satisfied with things or I have some problems, that should then not be taken as an opportunity to jump on specifics and again to get into discussion that is contained in chapter 2 of the report.

Again you have an opportunity under individual departments to ask those kinds of questions of detail and follow-up.

A Member: — You know that result.

Mr. Chairman: — Well, Mr. Rolfes, that's my ruling. Again, I want to respect the decision that the committee made last time.

Mr. Lyons: — Mr. Chairman, thank you. Mr. Lutz, a question to you, sir. In regards to the Agricultural Development Corporation of Saskatchewan, are there any . . . (inaudible interjection) . . . I would ask you to bring this laughing hyena over there to order, you know . . . yes, exactly what I mean.

I wonder, Mr. Lutz, in regards to the Agricultural Development Corporation of Saskatchewan, and in particular on the Appendix II of your report, first of all, the question I have: is there anything in the first three chapters of your report, outside Appendix II, that applies to the Agricultural Development Corporation of Saskatchewan?

And secondly, in regards to the Agricultural Development Corporation of Saskatchewan, is there anything in your statement of the day that would cause you not to rely on the audit of the Agricultural Development Corporation of Saskatchewan by the appointed auditors, Price Waterhouse?

Mr. Chairman: — Mr. Lyons, that's an excellent question, but it's a question that can be put to the auditor immediately prior to us calling in Agdevco. And I take your question then to mean, and I want to put this to the committee then also, are you finished with any general questions you might have of the statement that was made this morning.

Mr. Lyons: — You missed the second part of the question, Mr. Chairman.

Mr. Chairman: — No, I didn't miss it. I listened very carefully. And again, it's the kind of thing that I caution members not to get into until you get to the specific department. That's an excellent question to put to the auditor at the point that we're ready to proceed to deal with the chapter on the agricultural development corporation. It's an excellent question and it's a fair question and a legitimate question at that time. But at this point we have a statement by the auditor.

Am I to take then from your question that we're generally finished with statements, general questions on the statement?

Mr. Lyons: — Excuse me, Mr. Chairman, but this is directly related to the statement of the auditor and the part

(b), if you like, of the question. It also relates to the auditor's statement in regards to last day's question, or to the last day's statement.

And I'm relating this, if you like, I'm relating this to the agricultural development corporation, considering that everybody over there is saying, let's get on to agricultural development corporation. Right? I'm relating this, but I'm also relating to the general statement that the auditor has made.

Mr. Chairman: — Well, if that question is in order at this point, then equally any question, if you substituted WESTBRIDGE or Crown investments corporation, would equally be in order, Mr. Lyons. And the point that I'm making that, yes, those questions will be in order at the time that we deal with those specific departments.

It's a good question; it's an excellent question. And I would just ask you to hang on to the question until such a time as the committee is ready to proceed to the Agricultural Development Corporation of Saskatchewan officials. And I might remind committee members that these people were here at 8:30 and are waiting for us still.

So at this point, I would ask you to hold . . .

Mr. Lyons: — I want to ask that question prior to the officials being here and the appointed auditors being here because I've got questions around the appointed auditors and I don't particularly want them here while I'm asking the questions.

Mr. Chairman: — That's fair ball. But then I want to ask committee members, are you ready to move to that point?

Mr. Anguish: — Why don't we take a break. It's 9:30.

Mr. Chairman: — That's a good, excellent suggestion. I suggest we take a break for five minutes.

The committee recessed briefly.

Mr. Chairman: — I call the committee back to order.

Are there any further questions of the auditor as to the statement he has before us, or are members ready to proceed to the Agdevco.

I can assume then that we're ready to proceed to Agdevco and, if there are any questions of the auditor prior to the Agdevco officials being called in, I would ask members to let me know if they have such questions.

Mr. Lyons: — My question just before the break still stands to Mr. Lutz in regards to Agdevco.

Mr. Chairman: — That's entirely in order, but you may want to, given that there's been an interim, you may want to repeat it for the committee and for Mr. Lutz.

Mr. Lyons: — Well basically I was asking: are there anything in the first three chapters of his report that relate to Agdevco outside that which is contained in the Appendix II in regards to Price Waterhouse and its role? And I'll have a number of questions concerning that

before we call in the Agdevco people.

Mr. Lutz: — Mr. Chairman, there is nothing specific other than what is on page 22, but I do have for the committee a paper I prepared which I would like to read into the record before the commencement of the Agdevco hearings. Because my report deals generally with observations about Crown agencies and not appointed auditors, I feel it necessary to make a statement about my experience with this appointed auditor.

This statement is prepared so that all members have additional facts as they relate to my audit of Agricultural Development Corporation of Saskatchewan and the co-operation I received from Price Waterhouse and company. I want to say that I received full co-operation from Price Waterhouse on this audit. While there were initial professional disagreements, these disagreements were mutually resolved. Because of the full co-operation of Price Waterhouse, I was able to rely on their work and report. In this case, I was able to carry out my duties and the Assembly was served in the most cost-effective manner because I did not have to duplicate audit work and conduct my own audit procedures at the corporation.

Mr. Lyons: — I just want to say to the statement, thank you, Mr. Lutz, because that basically concerns the questions that I was going to raise with regards to Price Waterhouse. You were able to rely on them and that they carried out their job in a cost-effective manner.

I notice in Appendix II that Price Waterhouse identified documentation and management supervisory control problems by not . . .

The Corporation does not maintain either accounting or computer procedures manuals nor a job description manual

I'm wondering, have you checked with Price Waterhouse or have you checked with the agricultural development corporation to see whether or not controls have been instituted in this regard?

Mr. Lutz: — We have not looked in the subsequent year.

Mr. Lyons: — Okay. Who would one ask, in your opinion? Would one have to ask the . . . Would you ask Price Waterhouse, or would you ask the agricultural development corporation whether or not those management controls have been put in place?

Mr. Lutz: — I would think the committee members would ask the officials.

Mr. Lyons: — Well what I'm trying to get at, Mr. Lutz, is in terms of follow-up.

Mr. Lutz: — We will be asking shortly, I would think, in the future.

Mr. Lyons: — No, that's fine. Who will you be asking, I guess is the report, Price Waterhouse or Agdevco?

Mr. Lutz: — We will start with Price Waterhouse and I expect full co-operation from them, as we've always had,

and if necessary we will also check with Agdevco if we feel it's necessary. But we will start with Price Waterhouse.

Mr. Lyons: — Why would you start with Price Waterhouse?

Mr. Lutz: — Because I have relied on their work and report in the past. I can't see a reason why I wouldn't.

Mr. Lyons: — But if Price Waterhouse is, as you say, the secondary auditor, has identified problems in one of the corporations, Agdevco, you, as the primary auditor, isn't it your role . . . or you don't think it's your role as the person responsible to the provincial legislature that it is your responsibility to ensure that the corporation, as opposed to the appointed auditor, is the one that has to fix the management controls?

Mr. Lutz: — If Price Waterhouse follows the audit directions contained in the Act, they will have documented in their working papers the results of their examinations relative to these audit requirements. I have the additional option of going to the corporation and looking at it myself if, for some unforeseen reason, I thought maybe I could not rely on Price Waterhouse. But once these matters have been reported, I would presume Price Waterhouse will pursue it diligently as I would pursue it diligently, and it'll get done.

Mr. Lyons: — I respect your confidence in Price Waterhouse. The question I have now then is that in going to Price Waterhouse to check to see that they have done their work diligently, as you say, is there an extra cost involved to the people of the province, or is Price Waterhouse on some kind of retainer or some kind of permanent . . . does it become a permanent fixture at the public treasury? In other words, if you go to Price Waterhouse and ask them to check up on Agdevco, are they going to submit a bill to the people of the province or to your department?

Mr. Lutz: — Mr. Chairman, I don't pay them.

Mr. Lyons: — Who does? Who does for that kind of checking? If you say we want a . . . if you go to them as say, have they done this and that and that other work, I presume somebody gets charged for a consultation fee, or someone gets charged for a fee of some type.

Mr. Lutz: — I would think you're right.

Mr. Lyons: — Have you got any idea who would?

Mr. Lutz: — I would think probably the corporation, if they're going to be paid for their services. But again I think it's best you ask the officials.

Mr. Lyons: — Okay, no problem.

Mr. Rolfes: — Mr. Chairman, just to follow up on that. Mr. Lutz, do you charge them or have you submitted a bill to Price Waterhouse when you do any further work as far as your auditing is concerned on any department, but here now, for example, agricultural development corporation?

Mr. Lutz: — Mr. Chairman, the bill for my services to the Legislative Assembly is represented by my appropriation.

Mr. Rolfes: — So what you're saying then is that the bill that is submitted by Price Waterhouse on the auditing that they have done on the agricultural development corporation is not the total bill. Because, I mean, if you are doing further work, somebody has to pay your bill and that is . . . (inaudible) . . .

Mr. Lutz: — Yes, that is out of my appropriation. That's right.

Mr. Rolfes: — To get the true price then for the auditing, we would have to add your costs onto Price Waterhouse costs in order to get the total price of the auditing for agricultural development corporation. Isn't that correct?. Cost to the people.

Mr. Lutz: — Mr. Chairman, I think I can say that's correct, yes.

Mr. Rolfes: — Is there any way that we could find out what the extra costs would be, or do you not keep detailed count on the costs that you incur on each agency?

Mr. Lutz: — Mr. Chairman, we wouldn't have at this time the amount of the billing by Price Waterhouse to the corporation, if that is your question. Or are you asking about the element of my vote?

Mr. Rolfes: — Yes.

Mr. Lutz: — We can price that out. We can cost it for you based on the number of hours and the category of people who go and do this work. They can cost out our efforts in this regard, but I don't have that with me today.

Mr. Rolfes: — No, Mr. Lutz, I didn't expect you to have that. I will be asking that question on each one of the agencies where there have been private auditors to find out what the real cost is to the people of Saskatchewan.

Mr. Neudorf: — That will cost the office more than . . . (inaudible) . . .

Mr. Rolfes: — It may well be, but I'm entitled to that information. Okay?

Mr. Chairman: — Are we ready to have the officials come in?

Public Hearing: Agricultural Credit Corporation of Saskatchewan

Mr. Chairman: — Good morning, Mr. Hanson. I want to welcome you here today. I wonder if you might introduce the people here with you.

Mr. Hanson: — Okay, I'm Bruce Hanson, president of Agdevco. On my immediate left is Mr. Barry Ambrosia, vice-president, corporate, for Agdevco. On my immediate right is Mr. Brian Drayton of the auditing company Price Waterhouse. And on his right is Mr. Lyle

Pittman, also of Price Waterhouse.

Mr. Chairman: — Thank you very much. I want to welcome you here. I want to make you aware that when you're appearing as a witness before a legislative committee, your testimony is privileged in the sense that it cannot be the subject of a libel action, or any criminal proceedings against you. However, what you do say is published in the minutes and verbatim report of this committee, and therefore is freely available as a public document.

You are required to answer questions put to you by the committee. Where the committee requests written information of your department, I ask that 20 copies be submitted to the committee Clerk who will distribute the document and record it as a tabled document. Are there any questions of Mr. Hanson and his officials?

Mr. Martens: — Yes, Mr. Chairman, I have a couple of questions. It talks here about a couple of things, and I guess I would like to ask the gentleman from Price Waterhouse. On the statements that you made in your letter and concurred in with the Provincial Auditor, on those matters, 4.01 to 4.04 . . . well, 4.03, in your dealing with them, what were your recommendations made, if any, to the Agdevco that would tend to eliminate the problems that you saw there? Did you suggest some to them, or were there things that you saw there that should be changed?

Mr. Drayton: — Well I guess a recommendation to them was that these policies and procedures manuals should be prepared and updated. The policies and procedure manuals represent just a formal documentation of those policies and procedures, that there are compensating controls in terms of detailed management review, regular reporting to directors and that sort of thing, that do monitor the things that these policies and procedures manuals address. But the manuals provide the formal documentation of what those responsibilities are.

Mr. Martens: — Okay. There were manuals there but they weren't current and up to date, is that what I take it?

Mr. Drayton: — No, there were no manuals.

Mr. Martens: — There were no manuals. Okay, I guess I'd ask Mr. Hanson then, are you setting a process to adopt some of those suggestions made by the Price Waterhouse in relation to that?

Mr. Hanson: — Yes we are, and we have been since the time that these comments were made. Now formal policies and procedures, our manual at this particular point in time is about 90 per cent complete, and it will be finally reviewed by our board at their next meeting in about a month's time.

Mr. Chairman: — Mr. Hanson, I'm having some difficulty hearing you. I ask you to address your remarks to the whole committee, even if it's being put by a specific member.

Mr. Hanson: — Okay, can everyone hear me? The question was whether we were responding to the

suggestions that had been made in 1987. And in fact we have been preparing a formal policies and procedures manual to cover all aspects, as suggested, and that manual is now 90 per cent complete. It's gone through a series of drafts and the final form will be ready for review by our board of directors in their next meeting.

Mr. Martens: — Are you having your staff prepare that?

Mr. Hanson: — Yes, it involves participation by a number of people.

Mr. Martens: — Are you going to allow the auditor to take a look at it to see whether the manual complies with what their problems were identified with?

Mr. Hanson: — I think in some of the outlines that have already been prepared the auditor has already had a cursory look at them.

Mr. Martens: — I have no further questions.

Mr. Anguish: — Mr. Hanson, on page 61 of volume 3 of *Public Accounts*, I have some questions I would like to ask of you. Do you have that document with you?

Mr. Hanson: — No, I don't. On page 61 that's just been handed to me it refers to the agricultural development fund, I think — a different organization.

Mr. Anguish: — You're not responsible . . . sorry, I thought you were responsible for that, and you're not?

Mr. Hanson: — No, we're not.

Mr. Anguish: — Is there any reference in the *Public Accounts* that fall in the year under review?

Mr. Kraus: — No, there wouldn't be, Mr. Chairman. They'd be tabled separately in the House, a separate set of financial statements and annual report.

Mr. Anguish: — So I have to assume that the only thing we'd have the ability to question on, Mr. Chairman, would be page 22 of the Provincial Auditor's Report. Is that correct?

Mr. Chairman: — Yes.

Mr. Anguish: — And the appendix and the auditor's statement. That's the only reference to this committee concerning the Agricultural Development Corporation of Saskatchewan, is that right?

Mr. Chairman: — And any other questions you may have related to their spending for the year and their expenditure of public moneys for the year, like the financial statements or annual reports for that year, the year under review.

Mr. Anguish: — I find it very interesting that the government was anxious enough to want to call ag development forward and overlook the tradition of this committee dealing with issues of current importance, and there's no reference to this committee to deal with anything with them. And I think it just shows again your

lack of respect for the purpose of this committee.

Mr. Chairman: — Well the committee has made its decision. We have the officials here to ask questions.

Mr. Lyons: — Mr. Hanson, I've got a couple of questions regarding the work of Agdevco and some of the agencies I've been sort of keeping an eye on, because I think that — it's unusual for an opposition member to say that — but I think that Agdevco has had some successes in its operations on a world-wide basis.

I wonder, would you care to outline to the committee what you yourself see as some of the successes of the organization and maybe some of the problems in regards to the future work of the organization.

Mr. Hanson: — As far as the period that's in review in particular, the '87 year, we had continued to have success, particularly on our international projects operations whereby we implement a number of agricultural projects overseas and employ Saskatchewan people in resources and procure equipment here to go on to those projects. That's one of the sort of successes that you're, I think, referring to.

We've also over the years been exporting livestock from Saskatchewan into markets that they wouldn't otherwise be penetrating. The other thing is, in regard to — '87 in particular was a year that we were instrumental in developing the Marubeni counter-trade arrangement which has been very beneficial in terms of increased exports from Saskatchewan through that agreement. And that has been quite a significant yield.

Mr. Chairman: — Mr. Hanson, members are still having difficulty hearing you. I just want to tell you that this microphone will not amplify. It's simply being used to record your voice. So it's not an amplification measure, and therefore I again ask you to speak up. We are having some difficulty.

Mr. Hanson: — Okay, my comments, just to summarize. We have been undertaking a number of international projects, implementing them. These are agricultural projects where we supply personnel and equipment and resources from our Saskatchewan base, principally. And also we have been doing livestock sales over the years.

In particular in the year in question, we were also instrumental in developing the Marubeni counter-trade agreement which has brought significant benefits to the province in the form of increased exports by that company.

Mr. Lyons: — Would that be pork exports, or what exports . . .

Mr. Hanson: — What do you mean — port exports?

Mr. Lyons: — Pork.

Mr. Hanson: — Pork exports. No, actually Marubeni is a Japanese . . .

Mr. Lyons: — I understand we're . . . (inaudible) . . . Hitachi, right?

Mr. Hanson: — Right. It doesn't involve pork; it involves a number of traditional exports that have been increased and one or two non-traditional exports.

Mr. Lyons: — Okay. In that development of overseas trade, have you had any opportunities to develop links with the People's Republic of China?

Mr. Hanson: — One of our projects is in China, and so we have used that as a vehicle to demonstrate some western agricultural systems. Too early to tell whether that's going to yield any commercial spin-offs. China is a complex and difficult market. We've also been involved in the various initiatives with Jilin province and have been attempting to commercialize some of those benefits.

Mr. Lyons: — Have the contacts between the Government of Saskatchewan, through Agdevco and the People's Republic of China, have they been suspended in regards to the operations of Agdevco in China as a result of the recent problems?

Mr. Chairman: — The question is not related to the year under review, so I would have to rule that it's out of order.

Mr. Lyons: — They're ongoing projects.

Mr. Chairman: — Well, ask about it when it comes up. I don't apologize for the rules that we labour under, but those are the rules, and the questions should be restricted to the year under review. The committee is always free to say that we want to depart from that too, but those are the rules.

Mr. Lyons: — Thank you, Mr. Chairman. Maybe, Mr. Hanson, given that there was — and I'll try to rephrase it in a manner that's acceptable to the rules . . . Perhaps the initiatives that were taken in the People's Republic of China had some future implications as to their development in the year under review. I'm wondering, have subsequent events been disruptive of those things that you started in the year under review?

Mr. Chairman: — Boy, there's the thinnest thread there, but if Mr. Hanson can't find it, I don't blame him.

Mr. Lyons: — Okay, then I'll drop that particular line of questioning, other than to say that, how many people are involved, and do we have any people on the ground in China as representatives of Agdevco in the year under review? And how many people would that be, if there were any?

Mr. Hanson: — Our project in China — from memory — was just getting started in that particular year. It involved up to six Canadian agricultural specialists who spent up to a month to six weeks at a time on site on the project site in China. The site of the project is a very isolated site in north-eastern China and was regarded as not an appropriate place that expatriates could stay for a long time. So they're merely specialists who would come and go on a short-term basis.

Mr. Lyons: — Okay, what was the nature of the program?

Mr. Hanson: — The nature of that project was, and still is, to develop a commercial dairy operation with attendant feed production forage systems on a state farm in Heilungkiang province in China, and obviously to give immediate benefits to the people involved in that area through that project. But also, it acted as a very, and still acts as a very effective demonstration unit for western livestock, equipment, and seeds, for example, and also technical expertise.

Mr. Lyons: — Does that involve either the introduction of livestock that came from Saskatchewan, or was it the technology that's used by the dairy producers here in the province, for example in the . . . If I may just elaborate on that for one minute. Was it the introduction of the actual processing technology that's used, for example, in the dairy plants that we find in the province? Is that part of the . . .

Mr. Hanson: — No, processing is not part of the mandate of the project. It takes it through to the stage where the . . . of milk production out of the dairy herd itself, and stops there.

Mr. Lyons: — Thank you.

Mr. Neudorf: — Thank you, Mr. Chairman. I suppose one could say unfortunately this committee tends to deal with a lot of negativism, and that's partly, I suppose, because of the mandate and the role that this committee has. And I want to begin by giving a positive note to the proceedings, and I direct my remarks to the gentlemen from Price Waterhouse.

We just received a special report from the Provincial Auditor to the Standing Committee on Public Accounts, and I'd like to read the last two paragraphs of that statement, and I quote:

I want to say that I have received full co-operation from Price Waterhouse on this audit. While there were initial professional disagreements, these disagreements were mutually resolved.

Because of the full co-operation of Price Waterhouse, I was able to rely on their work and report. In this case I was able to carry out my duties and the Legislative Assembly was served in the most cost effective manner because I did not have to duplicate audit work and conduct my own audit procedures at the Corporation.

So I think that all members on this committee would probably want to join with the auditor in lauding your efforts, and the co-operation that indeed the people of Saskatchewan have received from this particular firm.

Now, having said that I want to just ask you a few general questions in terms of procedures and so on, that you incorporated within your audit that had such a positive result. I guess what I'm asking is: what are your standards? I'd like you if you could just give me an idea, because I'm certainly not a chartered accountant, and I rely very heavily on a different fellow to do that work for me in my

own personal life. So I want to get some enlightenment in terms of standards that you might follow, the kinds of things that you might have done in your auditing of this corporation.

Maybe I should start by doing it this way. Do you have a set standard, or an outline, or a guide, or is there some form of standard procedure that you follow that is standard?

Mr. Pittman: — Well certainly when we start the audit examination, we plan the examination. In other words, we decide how the audit approach should be determined. And when we're involved with the Provincial Auditor, we take into consideration any special procedures that have to be carried out for the Provincial Auditor, so that's sort of the starting process.

Our audit procedures are based upon the generally accepted auditing standards which are set forth by the Canadian Institute of Chartered Accountants.

Mr. Neudorf: — If I could just interrupt at that stage. We've heard that term a lot, "generally accepted auditing procedures", and so on. Would it be difficult for us to get a copy of that, or is that readily available, or is that beyond the scope of an average, normal human being that's not involved in accounting?

Mr. Pittman: — I don't think it's beyond the scope. Certainly the standards are set forth in the CICA (Canadian Institute of Chartered Accountants) handbook, and those are readily available.

Mr. Neudorf: — And then this is what you mean by this standard readily acceptable?

Mr. Pittman: — That's correct. And then in complying with those standards, we would prepare a detailed audit program which would set forth the procedures that we would carry out on that particular organization. And that would vary from organization to organization, depending upon the requirements of the audit and the business that they're involved in. One of the criteria that you use is understanding the business so that you can design your audit approach to audit that business.

And as I mentioned before, when we're doing the audit and reporting through the Provincial Auditor, then we also carry out some certain additional procedures that are required by the Provincial Auditor.

Mr. Neudorf: — To accommodate his concerns.

Mr. Pittman: — To accommodate his needs and requirements.

Mr. Neudorf: — Would another group coming in come up with the same . . . I guess it's a judgement call is what you're saying as to how you set it up. And if Clarkson Gordon might come in, they would — excuse me for using that term here in front of you that casually — but they would come up with perhaps a different procedure to wind up with the same result.

Mr. Pittman: — They could do. But particularly in

Agdevco's situation, Clarkson have reviewed our working papers, for example.

Mr. Neudorf: — Why would they have done that?

Mr. Pittman: — Because they're also relying upon our report on the Crown Management Board.

Mr. Drayton: — Crown investments corporation, I believe he said.

Mr. Pittman: — Pardon me. CIC. Right. So they're relying on our report also. So they've also been in to review our working papers and to review our audit procedures and programs and the approach to the audit. And to the best of my knowledge, they have found that to be satisfactory.

Mr. Neudorf: — Perhaps I could direct my next question to the Provincial Auditor. Do you become involved in this process at the tail-end, as it were? When Price Waterhouse has done this on Agdevco, then Clarkson Gordon will take a look at it from the CIC perspective. At what stage would you become involved here?

Mr. Lutz: — Mr. Chairman, as soon as Price Waterhouse was appointed to do this audit, very early on I sent them a letter advising them of what my needs would be as primary auditor relative to what the Act required them to do as secondary auditor so that I could discharge my obligations, my responsibilities to the Assembly. Very early on, I think probably the day after they were appointed, I would guess that's how quick the letter was out.

And then subsequent to the audit, we do come up and review the working papers as well to make sure that the evidential matters they have in their files will enable us to rely upon their work and report.

Mr. Neudorf: — I'm trying to establish in my mind the sequence of, perhaps, of authority. We consider you to be our primary auditor. Would Price Waterhouse then be the secondary? And where would Clarkson Gordon come in — as a tertiary auditor? What is the relationship?

Mr. Lutz: — On this . . . yes, this is a problem. Clarkson Gordon is a primary auditor as it relates to CIC. Clarkson Gordon is a secondary auditor as it relates to me, and Price Waterhouse is a secondary auditor as the consolidation relates to this element of the consolidation, and Price . . .

Mr. Neudorf: — As it relates to Clarkson Gordon?

Mr. Lutz: — Yes, because they're the primary auditor on CIC, but they're also secondary auditor to me as to how they discharge the requirements of the Act in the three areas the Act describes. It gets a little convoluted, Mr. Neudorf.

Mr. Neudorf: — Well, Mr. Chairman, I'm glad now that I'm perfectly clear on the situation, and I'll just pause in my question and come in at a later date after I have digested this information.

Mr. Rolfes: — Yes, I'd like to direct a question to the

auditors of Price Waterhouse. Could you tell me who is your client?

Mr. Pittman: — Our report is addressed to the Legislative Assembly.

Mr. Rolfes: — Now who . . . that's okay. It's not what I asked. Who hired you?

Mr. Pittman: — Well we're hired by Agdevco.

Mr. Rolfes: — Agdevco?

A Member: — Agdevco.

Mr. Rolfes: — Yes, Agdevco. I know, A-g-d-e-v-c-o — Agdevco. What's the price you settled on?

Mr. Pittman: — On the fee for last year?

Mr. Rolfes: — Yes.

Mr. Pittman: — For 1987 accounts?

Mr. Rolfes: — This account that we're considering right now.

Mr. Pittman: — Our audit fees were \$12,600.

Mr. Rolfes: — How did you arrive at that price?

Mr. Pittman: — Actually that was a price based on a proposal that we had made to Agdevco at the time that those corporations had put out for audit proposals.

Mr. Rolfes: — And so your contract was with Agdevco?

Mr. Pittman: — That's correct.

Mr. Rolfes: — Okay. And you say that this was by tender?

Mr. Pittman: — That's correct.

Mr. Rolfes: — My question now is to Mr. Hanson. Could you tell me, was this the lowest bid?

Mr. Hanson: — Yes, it was the lowest bid.

Mr. Rolfes: — And could you tell me how many others had tendered for the . . .

Mr. Hanson: — There were two other similar companies that we sought proposals from, and we evaluated all three proposals and chose this one based on price. Also the fact that it was an international company that . . .

Mr. Rolfes: — Who were the other two companies?

Mr. Hanson: — One of them was Peat Marwick. We just have to go back and look at our records and just check the other one. Sorry, Peat Marwick was one of the other companies that we sought a proposal from and we just can't remember the other one, but we can dig that information up for you.

Mr. Rolfes: — Mr. Hanson, why did you not make it an

open tender? Why was it just a . . . asked for? Why didn't you make it an open tender?

Mr. Hanson: — In our particular business, which is basically international business, and with projects and what not overseas, we wanted . . . thought it was important that an international accounting company do our audit because that would be much easier for them to do. There was international aspects — perhaps use their international affiliates or whatever, if necessary. So for that reason we narrowed it down to the international companies, and from those . . . it was a relatively small number and we just chose a sample of them and went that way. That way seemed to us to be an effective way of getting the right people at the right price.

Mr. Rolfes: — I have no objection to that except that there must be more than three international companies. Why did you not ask all international companies to submit a bid?

Mr. Hanson: — Well there are possibly more than three. One reason that one wasn't added to the list was in the case of Deloitte Haskins & Sells, for example. They have an operation that competes directly with us in some of our international business, so obviously we couldn't have them as an auditor. So when you look at it, there's a relatively small number of truly international companies, and we chose ones that weren't in competition to us and represented a sample of those ones.

Mr. Rolfes: — Yes. I guess my question simply is: why by invitation? Why not simply make it open, and then you still pick the best one? I mean, you can still pick the best one. It might still have been Price Waterhouse, probably would have been Price Waterhouse. I guess I just want the . . . why the policy of invitation, by invitation, rather than an wide open tender and let the best auditing firm win?

Mr. Hanson: — I guess we felt this was an effective way and fairly efficient way of getting the best people into position for us, and we had no problem with our process at all. It was a fairly clear-cut case.

Mr. Rolfes: — Well, no, I'm not doubting the quality of the work of Price Waterhouse. I'm just simply saying, from your . . . I can't see from your point of view why you wouldn't have just made it an open tender and say, look, let the best person win, or best firm win, and we'll take it from there, and ruling out those that were in conflict, I mean, that's a given, eh?

But anyway, you've answered it, and I'm not supposed to badger you, so I won't. Okay. I have . . . No, somebody will object from the other side so . . .

Mr. Chairman: — I have Mr. Wolfe, Mr. Anguish, Mr. Hopfner, and then Mr. Martin.

Mr. Wolfe: — Thank you, Mr. Chairman. Just one question, possibly a second one. I'm curious if you could suggest to the committee, areas where the relationship that you have with the Provincial Auditor might be bettered. If you have any concerns, just address them, and if there are any suggestions of how you can make it better so that we could pass it on to other auditors, I'd appreciate

hearing them.

Mr. Pittman: — Well I think our relationship as a firm has been, I think, satisfactory with the Provincial Auditor. The only areas that have been, I think, somewhat difficult for us has been that there are certain times where there are procedures that are set forth by the Provincial Auditor as the way that he would like us to approach a particular review or a particular section which may be different from what we might ordinarily do.

And so it means that in that case we might have to alter our standard procedures in order to do the work in a fashion that would be in accordance with the Provincial Auditor's requirements. But that is the really only area, and I suppose in some cases it's that we might do additional work in order to satisfy his requirements as opposed to it from our standard audit.

We would carry out additional procedures for the Provincial Auditor, and of course that means that you have to pass these . . . our fees are based on time spent, and any time you have to spend additional time to satisfy additional requirements means an increase in fees. And that, since we're dealing directly with the client, which is Agdevco, the fees then become a matter of discussion with the client.

But I wouldn't say that they're necessarily problems. I think that those are things that we have to consider when we're doing the planning for the engagement.

Mr. Wolfe: — As I understand it, this is the first time that you've appeared before this committee. Is that correct?

Mr. Pittman: — That's correct.

Mr. Wolfe: — I'd just like to thank you very, very much for the work that you've done, and the co-operation that you've shown with the Provincial Auditor. And I'd also like to give you the opportunity to lay before us those procedural changes that you would like to see, so that you could probably lessen any possibility of conflict or concern just so that your relationship could be enhanced in the future?

Possibly we could have the Provincial Auditor address any concerns that he might have about that.

Mr. Lutz: — Thank you, Mr. Chairman, I guess our relationship must go back 10 years at least, I think, with your firm. I am more familiar with the senior partner, but that's fine.

I would point out one little inaccuracy. Your firm has indeed appeared here before. You perhaps weren't aware of it, but they have.

Mr. Pittman: — Okay, I think Bill MacKenzie from our firm has appeared before this committee.

Mr. Lutz: — I gather you were answering this question as an individual then, so . . .

Mr. Pittman: — That's right.

Mr. Lutz: — Yes, right. I should point out to you that the examination standards which we ask the firms to do are represented as legislative standards, not mine. They're delineated in legislation. They do not have to do them. If the firm decides that they don't want to do that, that's fine.

I just won't rely on them. And I think we both understand how that works.

It is not me who is demanding they do this, it's in the Act.

Mr. Wolfe: — Well I understand that it's just . . .

Mr. Lutz: — I've had a tremendous relationship with Price Waterhouse for at least 10 years now.

Mr. Wolfe: — No, I appreciate that and I'm sorry if there was any misunderstanding. I guess I would appreciate just the suggestions of Price Waterhouse as to changes in legislation that might facilitate co-operation between the private and Provincial Auditor.

Mr. Pittman: — I don't think that I have any specific suggestions for changes in the legislation at the present time to enhance our arrangements with the Provincial Auditor. There's nothing that comes to my mind offhand that there should be changed in the legislation.

We operate and work with many other firms of auditors, and basically the relationships between auditors . . . there is a section in the Canadian Institute of Chartered Accountants handbook which provides for reliance of one auditor upon another, and we use that section, professionally, on which to do our work, in which to work with other auditors. And that's the way we try to work with the Provincial Auditor as well, and so far that has been successful for our firms.

Mr. Wolfe: — So the procedural differences, or the procedures that you'd suggested previously, are matters of detail?

Mr. Pittman: — That's correct.

Mr. Wolfe: — Could you give us examples of those?

Mr. Drayton: — I guess in one of the reports, that it's required under the Act is to . . . whether or not there's been any loss to the Crown for any reason. I guess our interpretation of that is somewhat less — I don't know if the word is restrictive — but in my mind that we would not report incidental items like NSF cheques in minor amounts and that type of thing. I think some of those things are open to some interpretation, and we've had some discussions as to what represents a reportable item and what doesn't. As I say, I think we have worked out a mutually agreeable interpretation and have proceeded on that basis.

Mr. Pittman: — But those areas really boil down to professional judgement. And it's not just the Provincial Auditor, but we had that same sort of discussions with other CA (chartered accountant) firms as well. I think, as you know, there's quite a bit of latitude when it comes to professional judgement.

Mr. Wolfe: — So it's a subjective decision?

Mr. Pittman: — Yes.

Mr. Wolfe: — Thank you very much.

Mr. Chairman: — I have Mr. Anguish next. But we also have three minutes; do you want to go today or do you want to go another day?

Mr. Anguish: — Go another day.

Mr. Chairman: — At this point then we should adjourn and ask the officials to be with us again next Tuesday morning at 8:30 a.m., and have the Crown investments corporation on stand-by again.

Mr. Wolfe: — For the benefit of the committee, possibly and finish the . . . (inaudible) . . . for next day. I'm curious if the Provincial Auditor could have an estimate of what it costs to do Agdevco from the department of the Provincial Auditor for the year '85-86 and the year '86-87 for the next meeting.

Mr. Chairman: — For the year under review?

Mr. Wolfe: — What his estimate would be for the year under review, based on the previous costs.

Mr. Lutz: — Mr. Chairman, if it is at the direction of the committee, certainly we will try to get you something. I'm at the wish of the committee.

Mr. Chairman: — Is it the committee's wish that the information be provided? Any disagreement?

Mr. Wolfe: — Thank you, Mr. Chairman.

Mr. Chairman: — Thank you. The meeting stands adjourned.

The committee adjourned at 10:28 a.m.