

**STANDING COMMITTEE ON PUBLIC ACCOUNTS**  
**June 20, 1989**

**Mr. Chairman:** — Last day we were questioning officials from the Agricultural Development Corporation of Saskatchewan. Before we call the officials back in, I believe that Mr. Lutz wanted to answer a question regarding audit costs, and also he had a further statement to make concerning information that came to light at the last meeting.

**Mr. Lutz:** — Mr. Chairman, I think we just tabled the thing. I hadn't intended to make a statement on either of those. If you'd just like to pass them out, if you would, please.

**Mr. Chairman:** — Okay. Well we can distribute them, and if later on, once we get through with the officials from the corporation . . .

**Mr. Rolfes:** — Could we have a look?

**Mr. Chairman:** — Yes, maybe it would be appropriate to take time now to look at them and we can deal with it.  
Do the members have any questions, any comments on the statements? Do you need more time?

**A Member:** — Yes.

**Mr. Chairman:** — I just want to say that this is the quietest meeting we've had in a long time and really appreciate your co-operation. If you're ready, we are. Is there anyone that has any questions or comments related to the statements by the auditor? If not, shall we ask the officials from Agdevco . . .

**Mr. Lyons:** — I'm a little bit — and I say emphasize the little bit — in the dark on this Report by the Provincial Auditor to the Standing Committee on Public Accounts, Additional Information on Roles of Auditors.

**Mr. Chairman:** — Can you speak up, Bob.

**Mr. Lyons:** — . . . the additional information on roles of auditors. I wonder, Mr. Lutz, if you would perhaps enlighten us with the intent of the statement. I find a point being made; I just can't grasp the point being made in it and maybe it's because I'm not an auditor.

**Mr. Lutz:** — Mr. Chairman, The Provincial Auditor Act requires that the Provincial Auditor and appointed auditors follow generally accepted auditing standards. The CICA (Canadian Institute of Chartered Accountants) handbook or, if you will, our standards of professional conduct, contain all of the relevant provisions whereby auditors deal with each other, whether they're primary, secondary, or whatever.

And this arose from a question which was asked as to how can certain things be enhanced in the future. The point I make here is that all of the machinery necessary to permit auditors to co-exist, if you will, is already in place, and I'm not having a problem with the appointed auditors. This is the point I make.

**Mr. Lyons:** — Okay, does this arise from Mr. Wolfe's question on page 397 and Mr. Pittman's answer on 398 of

the *Hansard*?

**Mr. Lutz:** — Yes, I begin my comments here by repeating that question as it came out of *Hansard*. I believe, and it did cause me some concern. The point I make is that all of the machinery is presently in place and has been for many years so that auditors, primary and secondary or whatever, have direction as to how they conduct their professional affairs between each other.

**Mr. Lyons:** — Okay, on page 398 of *Hansard*, Mr. Pittman, the second paragraph:

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 . . .

And so on. Here he's referring to that handbook of, or the relationships . . . it sets out the relationship as opposed to legislation. Would that be a fair comment to make?

**Mr. Lutz:** — I think to answer you, Mr. Chairman, to answer that, I will go back to page two in my annual report where I describe an audit under The Provincial Auditor Act.

We are required to review "the adequacy of the control systems . . . to safeguard and control public money", to ensure "compliance with the law with regard to its spending, revenue raising, borrowing and lending activities," and to render "an audit opinion on the financial statements prepared by . . . (the) agency."

Now when an appointed auditor is engaged — well let's take Agdevco. When the appointed auditor was engaged to conduct the audit at Agdevco, professional standards require me, as the primary auditor, to inform him of the reports I will need from him as secondary auditor when he does that audit.

Now if he is engaged to do nothing more than the attest audit, which is your normal commercial audit, then what he has to do, according to the rules, is write to me and say: I'm sorry, I've only been engaged to do the normal commercial audit. That gives me warning that I will have to go in and do some work myself for the control of public money and for compliance with legislation. All of these rules are presently in place in what we call our handbook.

Have I answered the question on this particular concern? I think that's the answer you wanted there, Mr. Lyons. If he has been appointed only to do the normal commercial audit, all he has to do is tell me, this is all I have been appointed to do, and then I know that I'm going to have to go in there and do the audit for control of public money and the audit for compliance with the law.

**A Member:** — He has one other option. He could ask . . . (inaudible) . . .

**Mr. Lutz:** — Yes. Sorry. He has one other option. He can ask his client if they wish to engage him to do the additional work. And if they wish to engage him to do the additional work, then he can write back and say, yes, I can provide you with your reports.

**Mr. Lyons:** — Okay. And there hasn't been, judging from Mr. Pittman's comment then . . . That relates directly then to the question I asked regarding Mr. Pittman's comments on page 398 of the Hansard. That's the second alternative. He can ask and . . .

**Mr. Lutz:** — He can ask to be engaged to do the additional things or he can write back and say, no, I'm sorry, I can't give you those reports. He has two options.

**Mr. Lyons:** — Okay. Right. Okay.

**Mr. Wolfe:** — Mr. Chairman, I have a question for Mr. Lutz on the word "rely on" again. I think the question was asked a previous day, and I think a comment was made that there were three things that basically gave you the assurance that you could rely on an auditor. Could you just review those for us again?

**Mr. Lutz:** — Mr. Chairman, I'm not sure I know what these three things were you're raising now.

**Mr. Wolfe:** — I think it was a question that Mr. Lyons . . . I think it was two or three things that you'd commented that you based your decision on whether or not you could rely on an appointed auditor's work.

**Mr. Lutz:** — And reports. Those things go together.

**Mr. Wolfe:** — And reports, yes.

**Mr. Lutz:** — Mr. Chairman, I repeat, I can't tell you what these three things are we're talking about, but I can give you a summary of what we do.

When the auditor is engaged to do the audit, I will communicate with him very early on, telling him what my needs are to cover off the legislative audit as required by law. When he has accepted my letter and has looked at his engagement with his client and he finds out that it is only to do an attest audit, he may go to the client and say, can you engage me to do these additional, and if you can't, then that other person is going to be in here. Maybe the client says, yes, I can.

If he engages to do the other things, the systems work, the compliance work, when he is finished I will go review his working papers. I will have discussion with him on matters contained therein so that each of us knows what we're doing and what we're talking about. If I think he has covered off the matters that need to be covered off with documentary evidence, audit evidence, then I guess at that point I can rely on him and I wouldn't dispute his opinion.

There are cases where I might be familiar with an auditee from a prior year's report, which happened in this Agdevco case, and perhaps he has put out a report with which I do not agree. Then we will go ahead and get into that and discuss it and settle our problem, or else I'll do my own work.

**Mr. Wolfe:** — That's the type of thing that you refer to when you talk about procedural differences, or whatever.

**Mr. Lutz:** — That's right.

**Mr. Wolfe:** — So if they're settled, then you feel comfortable that you could . . .

**Mr. Lutz:** — In the case of Agdevco, there was a difference of opinion. Those are not procedural differences, these are professional opinions where we may differ, and then we have to thrash those out. And if he says, no, I can't change my opinion, then I do not rely on him, and I have to issue my own opinion.

Perhaps you're concerned with the different methods of doing audits. Is this what we're talking about here, Mr. Wolfe . . . Mr. Chairman, I'm sorry.

**Mr. Wolfe:** — I was just basically trying to sort out the reliance thing, because it's so important to this whole process and what we're talking about.

**Mr. Lutz:** — Mr. Chairman, there's very few audit firms, I think, who would use the same methods of conducting their audits. They have their own methodology, they have their own way of doing things. But it doesn't matter how the auditor does his audit, it doesn't matter what his methodology is or how he arrives at his opinion, it's the opinion arrived at that matters.

And we have no problem dealing with Price's system or Clarkson's system or Deloitte's system; they're not a mystery. It's a case of work your way through how they do it to come down to their documentation of audit evidence. That's not a problem.

**Mr. Wolfe:** — So if they've explained their system to you and you feel comfortable with it, then you could use that as one of the bases that you would use to rely on the work that they do.

**Mr. Lutz:** — Oh yes, we've been working with almost all of these firms for many years. There's nothing in their systems that's a mystery to my staff, and neither is there anything in Price's system, Price Waterhouse, that would be a mystery to Clarkson when they do CIC (Crown investments corporation of Saskatchewan). You just get to know how they operate and you get to know how they gather evidence. You get to know how they document their findings. And, you know, there's no big mysteries about it, they just do things in a slightly different manner.

**Mr. Wolfe:** — One of the reasons that I raised that question is actually because of a comment on the second page of your report to us this morning, after your costing figures, 1985, '86, '87, '88. Just below that there's a comment:

This amount is not a fee but represents the approximate cost to form my opinion for the Legislative Assembly.

The following comment is the one that I would just like clarified.

The amount is larger than I anticipate for the future because of the time needed to resolve our initial professional disagreements.

**Mr. Lutz:** — Yes, we had a problem with the internal control opinion on Agdevco. Price Waterhouse put up their opinion, but we happened to have available to us some knowledge we had accumulated from '86 when we did their audit ourselves. And as we heard the other day, these things have not all been solved. We pointed this out to Mr. MacKenzie — I think it was Mr. MacKenzie at Price Waterhouse. And after some back and forth and go around — it takes a while — we resolved the thing and he did issue us a new opinion. So this takes a while.

**Mr. Wolfe:** — These were the comments that were related to a procedures manual?

**Mr. Lutz:** — No, no, these were . . . Oh, the internal control systems of the client, Agdevco, yes.

**Mr. Wolfe:** — So that's what they were related to.

**Mr. Lutz:** — That's right.

**Mr. Wolfe:** — And so the additional costs in that case were approximately 50 per cent of the cost for doing that year's audit?

**Mr. Lutz:** — Mr. Chairman, we anticipate that next year when we do our review of Price Waterhouse work on this client of his, the cost will be between 4,000 and \$5,000, or 4,500. The additional on this thing was approximately \$1,500 cost to go back and forth on this subject.

**Mr. Wolfe:** — Oh, okay. This is over and above the . . .

**Mr. Lutz:** — Yes.

**Mr. Wolfe:** — So this would be over and above, let's say, your standard estimate of the amount in work or time? Could you just briefly explain to us what that portion, that costing of \$4,500, what that would amount to . . . like, what kind of work is involved in that in your role as Provincial Auditor, or the kind of work that your department does?

**Mr. Lutz:** — Mr. Chairman, when we embark on one of these reliance procedures things, if you will, we document in our files, much the same as the other auditor has done, evidential matters which we need in our files. There are discussions with the partner, with the audit manager. There may be discussions with the people who did the actual audit work. It's not a fast process; you can't rush it. And our documentation and our files, according to generally accepted auditing standards, must be just as good as theirs, the people who did the audit. It takes time.

**Mr. Wolfe:** — No, I recognize that and there's no concern over, let's say, legitimizing exact dollar figures or things like that, just more an impression of what that cost is related to.

**Mr. Lutz:** — The professional literature acknowledges that where there is more than one auditor there will always be additional costs. I don't think you can avoid it. I can't see avoiding it.

**Mr. Wolfe:** — I'm curious . . . and this is an example, as I

understand it, of an audit that has been relied on in the past. The cost is a figure of about \$4,500. Now if the work done, let's say by a company like Price Waterhouse had cost, and it amounted to a cost of, let's say, four or five times that — let's say it was \$60,000 worth of audit work - is there a way that you could relate an estimate of your cost to reviewing their work to those kind of dollar figures? Or is that a sensible question to even ask?

**Mr. Lutz:** — Mr. Chairman, I think your question is if . . . I think what you're asking is if I had an audit fee of 16 from the auditor and 4 from me, would 36 get 9, would 60 get 15. You trying do to a *pro rata*?

**Mr. Wolfe:** — No, I'm just asking if there's any relation at all.

**Mr. Lutz:** — No, it becomes an individual case in each instance as to how much it's going to cost to review that other auditor's working papers in his documentation.

**Mr. Wolfe:** — Okay. Thank you.

**Mr. Lyons:** — Yes, Mr. Lutz, I was just wondering when I look at this report on the cost of auditing of Agdevco, that in '85 it was 14,000; in '88 it is 24 or 5 estimated; that the cost in '85 when it was done solely by the Provincial Auditor was 14,000, and when it's by Price Waterhouse it's \$6,000 more estimated for '88, but that there's seems to be a fairly significant jump between '87 when Price Waterhouse was doing it for 12,600, and '88 when they look like they're going to charge \$20,000. What was the estimated increase in cost there?

**Mr. Lutz:** — Mr. Chairman, we don't have that information with us and I can't answer your question, but it could be numerous factors which contribute to a jump in an audit fee. You would have to find out from maybe the auditor, but I can't tell you. We do list some of the reasons at the bottom of that page why an audit fee will change.

This is becoming a little bit of an involved audit because of the joint ventures they have with some of their transactions. If you read the financial statements and the notes thereto, they're into some different types of transactions which require more work than you would normally find. For the size of this company, there are quite a few involved transactions, and if you're going to sort those out and document how they should work, it takes time. But you would have to ask the auditor; I don't know.

**Mr. Lyons:** — Recognizing that under your comment regarding R. J. Anderson and that additional costs of easing out appointed auditors are deemed to be sort of necessary costs, or that it always costs more to use an appointed auditor, another way to put it, has your department undertaken a benefit cost analysis of the use of your department and auditors employed by the Provincial Auditor to carry out audits, versus an audit of the use of appointed auditors, and how much increased cost it is to the taxpayers to use appointed auditors? Has that ever been done? Do you know if anyone's done that?

**Mr. Lutz:** — In 1987 was the first year of the new regime

under the amended Act, and we have not done this kind of a cost analysis. We did one on the 1986 special report . . . In 1986 I did a special report where we had calculated a number, but that's rather dated now, and we have done nothing recently.

**Mr. Lyons:** — Do you have any plans to do that?

**Mr. Lutz:** — We can.

**Mr. Lyons:** — Well I know I myself feel it'll probably be beneficial at some point in the very near future, now that we've had the experience using the appointed auditors, it may be useful to do that, Mr. Chairman. I say that may be a matter for consideration in our report that we present to the legislature, that we ask the legislature to ensure the Provincial Auditor does that benefit-cost analysis.

**Mr. Neudorf:** — Mr. Chairman, I just wonder if I can maybe enlighten Mr. Lyons on that cost-benefit analysis by taking a look at 1985 where the Provincial Auditor charged . . . or at least assume that his cost was \$14,000 in 1985 to do the audit on Agdevco here, and then in 1986 it rose to \$17,760.

Now in rough calculation just in my mind, that's approximately a 25 per cent increase. And in 1987 Price Waterhouse, that was the first year that they did the audit as the appointed auditor and charged \$12,600. And the Provincial Auditor perhaps estimates his cost in doing that additional audit as the Provincial Auditor at 6,000. And he did indicate that that 6,000 was comprised of about \$1,500 additional expense because of the initial professional disagreements that they had.

And if you take a look at the total cost increase from '86 to '87, you'll find it goes from 17,760 to 18,600, which is approximately a 12 per cent increase. So what that has done there in that one year with the additional start-up costs, if you will, it has cut the annual increase in half by going to the appointed auditor route.

Having said that, I realize that in 1988 we have a \$20,000 increase from Price Waterhouse, from 12,600. I would be interested in asking those gentlemen as well what that incorporates.

**Mr. Rolfes:** — Mr. Chairman, I think the observations made by both members is very important. I think what scares me — I agree with Mr. Neudorf that the increase has been 25 per cent from '85 to '86, and then approximately 12 per cent from '86 to '87. What really scares me is the '87 to '88. I don't know, did someone ask Mr. Lutz where he got the 20,000 from?

**A Member:** — You're supposed to ask Price Waterhouse.

**Mr. Lutz:** — I inquired of Price Waterhouse what their 1988 estimate would be.

**Mr. Rolfes:** — Well then it really scares me. I thought it was your estimate.

**Mr. Lutz:** — Oh, no. No.

**Mr. Rolfes:** — Okay. That really scares me because that's

a 75 percent increase over '85. From 14,000 to 24,500 — I just calculated it — a 75 per cent increase. And I think that should really concern all of us. If those are the figures coming from Price Waterhouse, I think then what we see here is a real undercutting to make sure they got the contract in the first year, and then in the second year, well let's put it to them, the real costs . . . (inaudible interjection) . . . No, but I'm just simply saying that they want the contract. I don't blame them for that. I mean, if I was in that business I'd do the same thing. Goodness gracious, that's nothing unheard of.

**Mr. Muirhead:** — You raised the wages.

**Mr. Rolfes:** — I didn't raise the wages. You were the government; you raised the wages, so let's not get into that. I'll tell you exactly what happened.

But it seems to me that the 75 per cent increase in private auditors' fees, I think, really should concern all of us if that is the case, and I certainly want to direct that question to the accountants at Price Waterhouse when they come before us.

**Mr. Chairman:** — Just before Mr. Lutz — I think he wants to respond to Mr. Rolfes's comments — I might also ask you, to your knowledge are there other instances of where, subject to the changes in the Act, private auditors were engaged by Crown corporations and where there has been a significant jump in the fees between '87 and '88?

**Mr. Lutz:** — Mr. Chairman, we are aware of one other where the fee has gone up considerably, but I haven't gone out and looked per se. I did want to remark on that previous comment by Mr. Rolfes that there are many reasons why an audit fee can go up or down.

If the client happens to have some rather drastic change in management staff or in controllership staff or internal staff who might once have helped prepare your working papers and are no longer there, or a change in system — there are many reasons why an audit fee can go up or down, as the case may be. So it's not something that you can just simplify and say . . . There are a lot of factors which affect an audit fee.

**Mr. Neudorf:** — Would it be in order to call them in instead of second-guessing them?

**Mr. Chairman:** — Well it's up to the members. I still have Mr. Lyons who wants to ask a question, and then Mr. Wolfe .

**Mr. Lyons:** — Just a reply to what Mr. Neudorf said, Mr. Chairman. I'm not taking the benefit-cost analysis of one small department of the government as an indication of what's going on in reality out there regarding the cost of auditors, the Provincial Auditor versus appointed auditors.

But I think that in terms of doing the benefit-cost analysis, now that there's been some experience with it, that it may be instructive if we look at . . . the Provincial Auditor looks at all the departments that have used appointed auditors in all the agencies of the government and done that kind

of analysis, so that we have some guide-lines for the future. Otherwise we're like the famous story of the elephant and the three blind men. And this could be the tail, but there may be a trunk out there and a flank somewhere else, that's all.

**Mr. Neudorf:** — Would you enlighten me on that story? I'm not familiar with it.

**Mr. Lyons:** — You're not familiar with the story of the three blind men and the elephant?

**Mr. Chairman:** — I'm sure this is something that the two members can get together about after the meeting.

**Mr. Lyons:** — I understand that the members in the Conservative Party are somewhat lacking in education, but this seems to be one of those areas that . . .

**Mr. Wolfe:** — I guess a larger concern of mine is . . . the costs are very important to us all, but a larger concern is probably a comment like the one that's made at 2.12 of the annual report:

With the appointment of more private sector auditors the Provincial Auditor now sees about 50 per cent of the expenditures from the public purse.

In 1987 the Provincial Auditor saw about 90 per cent of the public purse.

**Mr. Chairman:** — Now, Mr. Wolfe . . .

**Mr. Wolfe:** — Just a comment, Mr. Chairman.

**Mr. Chairman:** — I know it's just a comment. Last time we had members taking a statement of the auditor, and I felt were somehow using that statement to get into consideration of Chapter 2 of the report after the committee had made it clear that it didn't want to do that. Now I see you doing that.

**Mr. Wolfe:** — No, the reason that comment is made is that the concern . . . (inaudible interjection) . . . No. No, no, no. The concern is one of reliance, and the comments made first addressing the committee by the Provincial Auditor comment on a reliance, and that's why I think it's important that we get on with dealing with Agdevco.

**Mr. Chairman:** — Wonderful recovery, Mr. Wolfe.

**Mr. Rolfes:** — Mr. Chairman, on your ruling on the point of order, I just want to say that I do completely endorse the statements by the member made from Assiniboia-Gravelbourg, and I think in order to understand the rest of the Provincial Auditor's report, we ought to go back — and I support his intention of going back to the original — so that we can understand what has followed. I wish you would reconsider your ruling.

**Mr. Chairman:** — I would simply take the point of view that a motion to reconsider a previous motion of the committee is always in order, Mr. Rolfes, but it's not in order for the chairman to reconsider when it's a very clear ruling of the committee. I have no such authority or power, notwithstanding the fact that some days I'd like to have that, but I don't, so it's up to the committee.

Now Mr. Wolfe alluded to Chapter 2. You say you wanted to talk about Chapter 2. Now does this mean that there's consensus on both sides to put aside the previous motion and to deal with Chapter 2?

**A Member:** — . . . (inaudible) . . . and then let us continue on.

**Mr. Chairman:** — Well I sense that there is no such consensus, so I would say that we would move on.

Can I suggest to members that just before we call in the Agdevco people we take a five minute break and then we call them and . . . We'll take a five minute break and then we'll call in the Agdevco people.

And I just wanted to let you know that the speaking order from last time that we have Mr. Hopfner, then Mr. Martin, Regina Wascana.

**A Member:** — . . . inaudible). . . before. Is he not here today?

**Mr. Chairman:** — No. Okay, we'll have a break here.

#### **Public Hearing: Agricultural Development Corporation (continued)**

**Mr. Chairman:** — If we could proceed with the questioning of the officials, and Mr. Hanson, and just a word of advice again that the mikes don't amplify, just simply record.

**Mr. Hanson:** — Compared to yesterday we have one change of person at the front here. I'd like to introduce Mr. Bill MacKenzie from Price Waterhouse who wasn't here on Thursday.

**Mr. Chairman:** — Good morning, Mr. MacKenzie.

**Mr. MacKenzie:** — Morning.

**Mr. Hopfner:** — Thank you, Mr. Chairman. I guess probably to begin my questioning, I would just like to ask . . . we've heard from the Provincial Auditor on occasions, and I back up to when the member from Saskatoon South had asked the question of Price Waterhouse, when they did the audit, who they did the audit for, and the first reaction was for the Legislative Assembly. Is that . . . when you did your audit on Agdevco, is that what you had in mind when you did your audit, was basically under the provincial law and for the Assembly, for members of the Assembly?

**Mr. MacKenzie:** — Yes, in law we would be reporting to the Assembly, I believe. The way we normally do an audit, we generally report to the shareholders or the board of directors. So in this case, I believe we addressed our audit report to the Assembly.

**Mr. Hopfner:** — So then basically you are bound by law to . . . you're not acting on behalf of the management of the company as per se, but the shareholders of the . . . which is the Assembly, which is the people of Saskatchewan.

**Mr. MacKenzie:** — Correct.

**Mr. Hopfner:** — Okay. Can you tell me, when you did your audit, was this a normal commercial type audit, or was it an audit basically done per se by the handbook and the rules and regulations of the Assembly?

Like, I'll tell you why I'm indicating this line of questioning to you is because basically there was some professional differences as to how to carry out this audit. Now was this audit done according to law? Were there some shortcomings in your decision on it?

**Mr. MacKenzie:** — I think I know what you're getting at. We did the audit in the normal commercial sense the way we would do any commercial audit. Under The Provincial Auditor Act we also report to the Assembly on the controls in effect throughout the year, and if we come across something that is contrary to the law, we would report on that. And in a normal commercial sense we may not have done those last two parts of the audit. And I think that that is the professional difference, but it isn't a difference between ourselves and the auditor, Provincial Auditor. Is that where you're coming . . .

**Mr. Hopfner:** — Yes, yes. Now where would that professional difference appear? What would . . . in your opinion, and then I'll ask Mr. Lutz in his opinion, I guess probably, so I can clarify in my mind where the difference in an audit is.

**Mr. MacKenzie:** — Well I don't think it's a difference in the audit between the professionals. It's something that the legislature requires is a report based on The Provincial Auditor Act. So that if this was an ordinary commercial company, we wouldn't do that work.

**Mr. Hopfner:** — Can I interject then. When you say that it's in difference with the Act, did you disagree with the Act? Did you disagree with what the Assembly was asking you to do?

**Mr. MacKenzie:** — No.

**Mr. Hopfner:** — Then I ask Mr. Lutz, where would the indifference . . . what were you asking then maybe of Price Waterhouse that they were not complying with, according to your office? I mean, I'm talking about the professional disagreements.

**Mr. Lutz:** — Mr. Chairman, perhaps I could respond relative to the professional disagreement, and thereafter I would like to make another comment, if I may.

The chronology went something like this. On page 20 of my 1987 annual report I reported that for the year ended December 31, 1986, Agricultural Development Corporation of Saskatchewan's management control systems to safeguard public money were deficient.

On August 5, 1988 I received a report from Price Waterhouse arising out of next year's audit of the corporation, addressed to the members of the Legislative Assembly. In this report Price Waterhouse reported that the corporation's management control systems to

safeguard and control public money were adequate. My officials subsequently reviewed the work of Price Waterhouse and determined that documentation indicated the corporation's management control systems to safeguard public money still contained one of the deficiencies I reported in 1987.

Price Waterhouse was advised if they did not change the report I would have to conduct my own audit procedure since I could not rely on their work and report.

On February 5, 1989, after a number of meetings to discuss this and other matters, Price Waterhouse reissued their report to the members of the Legislative Assembly. That report appears on pages 2 and 3 of Appendix II of my 1988 annual report. In this report Price Waterhouse concurred in my opinion and concluded that the corporation's management control systems to safeguard public money were deficient with respect to the matter in question.

I have a further . . .

**Mr. Hopfner:** — Can you answer then on that deficiency, what did that regard?

**Mr. Lyons:** — . . . (inaudible) . . . documentation and management supervisory controls. That's one part. And then it says there's more than a relatively low risk that errors or fraud may occur. That's on page 3.

**Mr. Hopfner:** — Oh, here I am. Okay, go ahead. Sorry for cutting you off.

**Mr. Lutz:** — Mr. Chairman, on June 15, 1989 I read into the record a statement regarding the roles of auditors. And the opinion I had given you, concurred in by the Law Clerk, the Legislative Counsel and Law Clerk, was that:

- 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 the appointed auditor, there is no appointed auditor who has the responsibility to provide an audit for the Legislative Assembly.

Now, Mr. Chairman, I have with me the legal opinion issued by the Legislative Counsel and Law Clerk that is, I guess you could describe him as parliament's lawyer. Possibly it might be beneficial to the members of this committee and to other interested parties if that gentleman were summonsed here to explain and discuss with the members his opinion, which he rendered to me last week.

I think I just heard Mr. Mackenzie now saying he was appointed to report to the Assembly, but I think I heard Mr. Pittman last week say his client was Agdevco. So obviously we still have some little difference of opinion here that should perhaps be clarified. And I would like to propose that the committee hear from the Legislative Counsel and Law Clerk relative to this matter.

**Mr. Hopfner:** — I guess probably we'll take that under consideration. But when I asked the question of Price

Waterhouse, I asked them who they felt they did the audit for. I guess probably that's why the answer came as it did from Price Waterhouse. So that was not the intent of my question, and I'm sure it was not . . . whether it was in his answer or not, I haven't any idea.

But you're talking then, Mr. Lutz, of the deficiency. In your mind then it was cleared on Agdevco, I take it, of that singular deficiency?

**Mr. Lutz:** — Mr. Chairman, in my mind, this deficiency in the control systems did exist, and I might add, Price Waterhouse also agreed with me. We did resolve this problem and we did discuss it and Price Waterhouse did issue a new report where indeed . . . and I believe the corporation people told us last week they were still getting their deficiencies out of the system and improving the system.

**Mr. Hopfner:** — Yes. So basically then when you do do an audit and there are changes to be made from time to time, from year to year, or month to month, with various different decisions of business and auditing, then I take it, though, your position — or I guess Price Waterhouse at the same — would be to advise them how to do this in a proper fashion for their audit when it does take place then. Is that correct?

**Mr. Lutz:** — When Price Waterhouse was appointed auditor of Agdevco, early on we advised Price Waterhouse of what our needs would be to discharge the Legislative Assembly's audit relative to Agdevco. Once Price Waterhouse receives that advice from me, they can do one of two things: they can write back and say yes, I can get you your reports; or two, no I can't.

Now if it happens that the corporation won't pay Price Waterhouse for this additional work, I think quite simply they write back and say no, I'm sorry, I can't do that. And that's fine. Now I am warned; I go and do my own. That's just 6930 of the handbook — professional standards.

**Mr. Hopfner:** — All right. So what you're saying is an audit is an audit, but you're preparing your audit for the Legislative Assembly, and they're doing a commercial audit. But at the same time, when I asked the question of Price Waterhouse — with that commercial audit, were they doing it for the client or were they doing it for the Legislative Assembly because they are the directors? — the answer was the directors and the Legislative Assembly.

So under that scenario they, although being paid by Agdevco, would actually be doing the work for the directors, the public, the people of Saskatchewan. And then you were indicating that you had other responsibilities over and above that. Could you tell me what those differences in the auditing procedures would be that you would ask that would maybe be not normal in a commercial audit then. Professionally, what did you ask Price Waterhouse to do for Agdevco?

**Mr. Lutz:** — I asked Price Waterhouse to form an opinion on the adequacy of the control systems used by Agdevco to safeguard and control public money, and I asked Price Waterhouse for an opinion on the agency's compliance

with the law regarding its spending, revenue raising, etc., etc., as required by the Act.

**Mr. Hopfner:** — Isn't that standard in all audits, though?

**Mr. Lutz:** — No, this is a legislative audit, Mr. Hopfner. Your normal audit, I think Mr. MacKenzie would agree, is what they call a commercial audit or an attest audit, where the corporation would prepare a set of financial statements, submit them to Mr. MacKenzie and say, audit them. That's a commercial audit or an attest audit.

The legislative audit is the one requiring these other things, and these requirements have been in place for many, many years. They were there in '65, they were there in '83, they were there in '87. They haven't changed forever, so these things are not new.

And they are required . . . I am required to form the opinions for the legislature on all three of these things — an opinion on the control systems, an opinion on the compliance with the law, and an opinion on the financial statements. Those opinions are my opinions.

The fact that Price Waterhouse has done the work is fine. If I agree with his opinion, if I concur in his opinion, that becomes my opinion. If I do not rely on his work and report and if I disagree with his opinion, then I say so, and his opinion is then nothing.

**Mr. Hopfner:** — Right, and that's the same with the people, I take it then, of your own department. If you don't agree with their particular work, then you would, I guess, make them go back and do what they would have to do until you agreed with their opinion. Is that right?

**Mr. Lutz:** — No, Mr. Chairman. If Price Waterhouse had said, we're finished, which would have been a perfectly acceptable answer, I would say, thank you, Mr. MacKenzie, and then I would have a crew of people in there doing my own examination.

**Mr. Hopfner:** — Okay, so you are entitled, over and above, to walk into Agdevco at any given time after Price Waterhouse said that they have fulfilled their commitment, and you would be able to walk in at Agdevco and continue on to get any answers to any questions that you might not have gotten through Price Waterhouse's audit. Is that correct?

**Mr. Lutz:** — At all reasonable hours, yes, if I want to. However, we found a way with Price Waterhouse not to, which I thought was preferable and more economical.

**Mr. Hopfner:** — Yes, yes, okay. But I just want to clarify one thing from Price Waterhouse. You did a normal commercial audit, right?

**Mr. MacKenzie:** — Correct.

**Mr. Hopfner:** — But you indicated you did this normal commercial audit following the legislative Act. Is that right?

**Mr. MacKenzie:** — We did the work the way we would normally do any audit. This particular audit required

three reports, two of which come directly out of The Provincial Auditor Act, so that virtually all of our procedures were the same as we would have used on a commercial company owned in the private sector, but we did try and comply with The Provincial Auditor Act as part of that audit. I don't know if that's clear or not.

**Mr. Hopfner:** — Thank you. All I wanted . . . Oh, go ahead.

**Mr. Drayton:** — I was going to say that the audit procedures applied in this case are more extensive than may otherwise be applied in a strictly commercial audit because of the legislative requirements of The Provincial Auditor Act.

**Mr. Hopfner:** — So you went through those extensive measures to comply with The (Provincial) Auditor Act?

**Mr. Drayton:** — Yes.

**Mr. Hopfner:** — Mr. Lutz, the question is then, you were satisfied, I guess, accordingly to your letter that you had given the committee, that . . .

**Mr. Lutz:** — I was satisfied with the end result, Mr. Chairman, and I certainly did get full co-operation from Price Waterhouse. We have always had full co-operation from Price, oh, lasting 10 or 12 years, I guess, now.

Mr. Chairman, I think I would like to read one paragraph from what we tabled this morning, and it says:

The statutory requirements for appointed auditors, described in the Act, were intended to provide the basis for my reliance on their work and reports. With other auditors involved in the audit of public money, the most cost-effective manner for the Provincial Auditor to complete his examination is for the Provincial Auditor to rely on the work and reports of the appointed auditors. The Act provides this cost-effective mechanism by allowing the Provincial Auditor the opportunity to rely on the work and reports of the appointed auditors to form his opinions.

But they do not substitute for me; they cannot substitute for me. There is only one officer of the Assembly responsible for the audit of all public money, and those opinions are mine. I must form those opinions. No one else can form them for me. So unless we can sort of get this thing straightened out in our heads, I'd like to suggest that you call the Legislative Counsel and Law Clerk to explain his opinion to you and perhaps I should get the Clerk to give them a copy of his opinion. We seem to have a little problem here getting around this one.

**Mr. Hopfner:** — I'll say this: I'm not questioning the fact that you're the Provincial Auditor, and I'm not questioning the fact that you're the main auditor and you have the final say in the report at all. I was just wanting to find out, because of the statement that you made that there was some professional differences, I just wanted to get it clarified whether those professional differences were still apparent or have they been worked out.

And then I wanted to know the differences between the audit — like an audit to the Assembly and a normal audit procedure. Is an audit final and binding of any department when it's completed? When you do an audit of a department for this year, and you're satisfied with this department, in your mind, is that audit then final and binding and any problems that might have been there that they've been clarified, you walk from that and they can close the books on that particular year? Or is an audit not final and binding then?

**Mr. Lutz:** — Mr. Chairman, the annual report of Agdevco, I believe, has been tabled in the legislature. That report contains the audited financial statements.

In my report to the legislature, I have not refuted the views expressed by Price Waterhouse, therefore, that's final. That audit is done. We had our problems with the other two aspects of the legislative audit, the compliance and the controls. Those things were resolved. As far as I'm concerned, the audit is done. Next year, I'm sure Mr. Mackenzie will want to look at those controls to see if the corporation has indeed corrected for them.

**Mr. Hopfner:** — As well as yourself.

**Mr. Lutz:** — That's right.

**Mr. Hopfner:** — The accounting and computer procedures would, I guess, probably, being that we're into a new era here of the computer age and everything else, I mean there's going to be probably new changes coming from year to year to year, so I would tend to think that you would be keeping a very close watch on these various changes and report to those people any tightening procedures that you feel would be proper. Is this not correct?

Isn't this your role as an auditor to tell them that, look you're doing it this way, but I would do it that way. Is that not the position that you as an auditor would take to point out to a company?

**Mr. Lutz:** — Mr. Chairman, yes, we would certainly review the auditee's systems, their internal control systems, including their computer systems, to make sure that assets were protected, etc., etc., and I'm quite convinced that Price Waterhouse would do exactly the same thing.

**Mr. Hopfner:** — Okay. So I'm going to move on . . . let you move on, Mr. Chairman. I thank you, Mr. Lutz.

**Mr. Martin:** — I have a couple of quick questions, and I'd like . . . either Mr. Mackenzie or Mr. Drayton can answer them. And these are just quick questions. Mr. Lutz has said that where he's had problems with the private sector auditors has involved one of three things — either professional difference of opinion; lack of audit evidence; or an element of interference; and I suppose in some cases maybe all three or a combination thereof. Does this relate to any work that you've done with them? At any time, have you noticed just a professional difference of opinion? Have you ever . . .

**Mr. MacKenzie:** — I think it depends on the level. We do



communicate with him during the audit . . . on some of the audits during the planning. If we think that there's an area that we'd like their input then we would talk to the fellow that . . . the representative from his office that looks after Agdevco for the Provincial Auditor's office. So that there might be differences that are resolved at an early stage before any final reports are written. So I don't think they're the same type of differences you're talking about that arise after we are finished.

**Mr. Martin:** — So that would eliminate then the lack of audit evidence or the element of interference. I'm not too sure what he means by that, and I'm not going to ask him, but whatever he defines as an element of interference is . . . I guess you could put that under a lot of categories, but you don't fit into any of those situations.

**Mr. Chairman:** — Mr. Martin, I wonder if you could direct your comments to the chair.

**Mr. Martin:** — I'm talking to these guys.

**Mr. Chairman:** — No, you're not. No, you're not. Direct your comments to the chair so that everyone in the room can hear your comments.

**Mr. Martin:** — So do you want me to start again then?

**Mr. Chairman:** — I think the last part. I was having great difficulty hearing you.

**Mr. Martin:** — I'll move on then to the next section because there wasn't anything substantial in the first group.

The member for Regina Centre, Mr. Shillington, said in the Legislative Assembly — and I'm addressing these questions again to Mr. MacKenzie or Mr. Drayton from Price Waterhouse — he said in the Legislative Assembly on June 14 that private sector auditors, one, refused to make information available; two, and this is just another way of saying the first one withheld information from the Provincial Auditor; that the private sector auditors protect cabinet and not the taxpayer; and fourthly, he said that there is no supervision of the private sector auditors.

Now I'd like to ask Mr. MacKenzie and Mr. Drayton, either one: first of all, has Price Waterhouse refused to make information available to the Provincial Auditor and the Legislative Assembly, who he represents in this case?

**Mr. MacKenzie:** — Mr. Chairman, I believe to the extent that we can, we provided all the information requested of us. At times we've had to go back to the client to obtain extra information, particularly with regard to minutes. This is an evolving process, and I think with Price Waterhouse there really haven't been problems in that regard at all.

**Mr. Martin:** — So that eliminates number two then, too, that you have not withheld information from the Provincial Auditor as Mr. Shillington has suggested.

So let me ask you number three then. Do you feel that in doing your audit as a private sector auditor for the Legislative Assembly and the Provincial Auditor, I

suppose, as he sees it, that you are protecting the cabinet and not the taxpayer, as Mr. Shillington suggests? Do you feel that way when you do the audit, that you're trying to protect the cabinet and not the taxpayer?

**Mr. MacKenzie:** — In reality I think the whole reason we have independent auditors is the independence aspect. I don't really feel that we're protecting anyone, other than the people that appoint us, which I think is the legislature, or the people of the province.

**Mr. Martin:** — Okay. And how do you feel then about Mr. Shillington's accusation or his suggestion that there is no supervision of the private sector auditors — no supervision of it — like there's nobody standing over your shoulder making sure that you do the job right? How do you feel about that?

**Mr. MacKenzie:** — I don't know about the definition . . .

**Mr. Martin:** — Do you find that insulting perhaps, by any chance?

**Mr. MacKenzie:** — I think that word . . . I have a little trouble with that word. There certainly is a peer aspect to the process, and I can say that the Provincial Auditor carries out a very careful review of our work.

**Mr. Martin:** — What do you mean, peer aspect to it?

**Mr. MacKenzie:** — Well we're . . . Not peer, I'm sorry. I meant professional colleagues. We know what they expect from us, and we conduct our audit accordingly. And we maybe have had a bit of an advantage having done Crown audits for the past 10 or 12 years, so from that regard it's not a new process to us.

**Mr. Martin:** — So from Price Waterhouse's point of view, you have no problems whatsoever with Mr. Shillington's accusations then that he made in the legislature on June 14 that you were refusing to make information available, that you protect the cabinet and not the taxpayer, and that there's no supervision of the private sector auditors. You're quite comfortable with the job that you do for the people of this province?

**Mr. MacKenzie:** — Yes.

**Mr. Martin:** — Thank you.

**Mr. Lutz:** — Thank you, Mr. Chairman. I think I'd like to stress here for the members that the difference of professional opinion which is not uncommon has nothing whatsoever to do with mutual co-operation. I don't think we should try to tie these two things together. Professionals can differ in their opinions at any time and co-operate 100 per cent, which is indeed what has happened with myself and Price Waterhouse. We have never had a problem co-operating.

**Mr. Rolfes:** — Mr. MacKenzie, I have a few questions I would like to direct to you. When the tender came out for the auditing of Agdevco, where did the tender come from?

**Mr. MacKenzie:** — I believe it came from Agdevco, the

corporation.

**Mr. Rolfes:** — Mr. Hanson, is it? All right. Mr. Hanson, can you tell me, the tender that you put out, how did you establish that tender, or the process?

**Mr. Hanson:** — It was actually a call for proposals that we put out. I think we covered a little bit of this in the last session.

But we first of all, within Agdevco management, thought that we should have international auditing companies. There's only a handful of them. We talked to almost all of them, which is about five. One of them had a conflict of interest with our business. Another one wasn't . . . didn't appear to be very interested in our small business, perhaps.

And we then sent out proposals to the other three, basically, and they responded to those proposals. We then selected what we thought was the best and made that recommendation to our board and it was ratified.

**Mr. Rolfes:** — How did you decide as to whether you would stay with the Provincial Auditor or whether you would have a private auditor?

**Mr. Hanson:** — That wasn't really our decision as such. It was indicated that we could have private auditors and . . .

**Mr. Rolfes:** — I can't hear you.

**Mr. Hanson:** — Sorry. That wasn't our decision as such. It was perhaps part of a government policy at that time.

**Mr. Rolfes:** — Did you receive any directive at all from anyone that you should have a private auditor rather than the Provincial Auditor?

**Mr. Hanson:** — We did, if I recall, get some information from the Crown Management Board that we could have private auditors.

**Mr. Rolfes:** — All right. You got some from . . . Who is Crown Management Board?

**Mr. Hanson:** — Oh, sorry. That's in effect the CIC, the . . .

**Mr. Rolfes:** — Who are the directors of CIC or Crown Management Board?

**Mr. Hanson:** — I believe they have a board of directors. Exactly . . . (inaudible interjection) . . . Yes. The exact membership of that board, you would have to ask them and get more details from them.

**Mr. Rolfes:** — But isn't it true that the directors are made up of cabinet ministers?

**Mr. Hanson:** — I believe there are some cabinet ministers on the board.

**Mr. Rolfes:** — So in effect you received a directive from CMB (Crown Management Board of Saskatchewan) or from CIC, not directly from the Legislative Assembly. Is that correct?

**Mr. Hanson:** — I think that's correct.

**Mr. Rolfes:** — Yes. So the tender came not, as it seems to be implied by some, from the Legislative Assembly, but came from the cabinet, or from the government. There is a difference between the government and the Legislative Assembly.

**Mr. Hanson:** — In our case it comes from the Crown Management Board, and that's who we respond to.

**Mr. Rolfes:** — Okay. Now, Mr. Mackenzie, I want to . . . I put down the words that you said a little earlier: "We protect the people that appoint us." Those were the exact words, and I've got them down here. We protect the people that appoint us.

**Mr. MacKenzie:** — Did I say the word "protect"?

**Mr. Rolfes:** — Yes. Yes, you did. We can verify that I wrote that down immediately when you said it.

The people that appointed you were Agdevco. Right? The people that appointed you to do the audit were the people from Agdevco. Right.

**Mr. MacKenzie:** — My perception is that we were reporting . . . we would be reporting to the owners of the corporation. If it was a commercial corporation, it would be the shareholders.

**Mr. Martin:** — Point of order.

**Mr. Chairman:** — Point of order, Mr. Martin.

**Mr. Martin:** — I think . . . Mr. Rolfes is right. I think Mr. Mackenzie did say that, but that was only half the answer. The other half of the answer was, if I remember correctly, was that . . .

**Mr. Chairman:** — That's not a point of order. That's not a point of order. Mr. Martin, I can certainly put you back on the speaking order, but that's not a point of order . . . (inaudible interjection) . . . Well he was starting to get into debate, and that's . . .

**Mr. Rolfes:** — Mr. Mackenzie, what I want to . . . Oh, go ahead, I don't want to interrupt.

**Mr. MacKenzie:** — Believe me, when we carry out our audit we try and form our own opinions based on the evidential matter that we are able to examine and the questions we ask of management. There's absolutely no way that I would want to be an auditor if I didn't operate that way.

**Mr. Rolfes:** — Mr. Mackenzie, I'm not questioning that at all — not questioning that at all. I simply want to establish as to who you are directly reporting to, whether you are reporting to the people that appoint you, and that's what I think you were implying when you said, protect those that appoint you.

Agdevco appoints you and they get their instructions from CMB, Crown Management Board. Therefore you are, in

my opinion, just logically, responsible to Agdevco, who are responsible to Crown Management Board, who then are responsible to the Legislative Assembly. So indirectly, yes, you, through those means, you report, through the Provincial Auditor, to the Legislative Assembly.

I want to ask one further question. Is this the only report that you issued, the one that you have directed to the members of the Legislative Assembly?

**Mr. MacKenzie:** — That's the control report?

**Mr. Rolfes:** — That's in the Appendix II.

**A Member:** — That's in the annual report, too.

**Mr. MacKenzie:** — No, we would have the . . .

**Mr. Rolfes:** — I'm asking Mr. MacKenzie. Okay? Your name isn't MacKenzie.

**Mr. MacKenzie:** — There would be three reports: the reports on the annual financial statements; the report that you referred to; and then a report indicating that the company was in substantial compliance with the law as it relates to Agdevco. So there are three reports.

**Mr. Rolfes:** — Okay. Did you submit . . . Who did you submit all those reports to?

**Mr. MacKenzie:** — The intent was that they were for the legislature, but they were actually submitted through the Provincial Auditor's office.

**Mr. Rolfes:** — Okay. So the Provincial Auditor has received those other reports, the other two reports, in addition to the one that we had a look at here. And there is one in the annual report of Agdevco.

**Mr. MacKenzie:** — Right.

**Mr. Rolfes:** — All right. Were there any discussions held between you and government officials on your annual report before it was submitted to the Provincial Auditor?

**Mr. MacKenzie:** — There were no discussions with government officials. There were discussions with management on the reports.

**Mr. Rolfes:** — Who in management? Who in management did you discuss your report with?

**Mr. MacKenzie:** — Primarily Mr. Ambrosia, and Mr. Hanson as well, but primarily Mr. Ambrosia.

**Mr. Rolfes:** — Of Agdevco?

**Mr. MacKenzie:** — Right.

**Mr. Rolfes:** — Okay. Were there any concerns expressed about the report at that time? Were there any changes made to the report after your consultations with Mr. Hanson and Mr. Ambrosia?

**Mr. MacKenzie:** — I don't recall that there were any substantial changes to the report. There may have been

some minor clarification of wording and that type of thing.

**Mr. Rolfes:** — Fair enough. But you felt that you should discuss it first with the officials of Agdevco rather than with the officer of the Legislative Assembly, Mr. Lutz.

**Mr. MacKenzie:** — Yes, but we . . . during all of this we knew that we were going to report through Mr. Lutz's office.

**Mr. Rolfes:** — No. That's fine. I have no difficulty. What I'm trying to establish is where you felt your responsibility lay, and that is, and rightly so, with the people that appointed you — with the people that appointed you. I have no argument with that, none at all.

**Mr. MacKenzie:** — The people being the legislature?

**Mr. Rolfes:** — No. You didn't discuss it first of all with us. You discussed it with the people that appointed you, and that's what you should be doing too, because that's the procedure — and I have no difficulties with that — and through them to the Provincial Auditor who then, if he's satisfied, reports it to the Legislative Assembly. And I have no difficulties with that at all. If that's what we decide to do, fine.

But what I have a difficulty with is for you and members opposite to say that you are directly reporting to us, because you're not. I didn't put out the tender as a member of the Legislative Assembly, neither did the legislature. In fact, I didn't even know what the price of the tender was. I don't know. And I have no difficulties with that, no difficulties at all.

I simply want to establish what the process is, and I think you've made it very clear. And I have no further questions. Thank you.

**Mr. Lyons:** — Mr. MacKenzie, I've got a few questions in regards . . . You can appreciate there is a difference of opinion, at least a perceived difference of opinion, between either the auditor, the Provincial Auditor and members of the cabinet, or the Provincial Auditor and yourself. And that perceived difference of opinion relates to this.

The Provincial Auditor is saying that in the final analysis he stands alone in determining what constitutes a proper audit of an agency or department of government. Do you concur with that view of the Provincial Auditor? Is that the position that Price Waterhouse takes?

**Mr. MacKenzie:** — The Provincial Auditor under the Act must come to his opinion as to the accuracy of the accounting in the presentation. So he has to do that job himself. It's his report; it's his Act.

**Mr. Lyons:** — Right.

**Mr. MacKenzie:** — That doesn't mean that we would do the same audit the same way.

**Mr. Lyons:** — I'm not trying to . . . different methodologies, different firms. That's clear. What I'm

trying to do quite clearly is establish what is the position of Price Waterhouse. You have stated, and I think in somewhat contradiction to Mr. Pittman's reply, by the way, but be that as it may . . . if I could get your firm's opinion in regards to, to whom do you report? Is it to the Provincial Auditor, or is it to the Legislative Assembly, or is it to those who hire you, which in this case happens to be Agdevco?

**Mr. MacKenzie:** — We know that our final report is for the Legislative Assembly. And throughout all of this, regardless of the timing, we know that that's where the reports end up.

**Mr. Lyons:** — Yes, I can appreciate that fact. If there is a difference of opinion — we'll go back to my first question — if there is a difference of opinion that is unresolvable, the Provincial Auditor then puts forward a notation that he is not able to rely on your report. In that case, what is the opinion of Price Waterhouse? Who is responsible ultimately to the Legislative Assembly as to the accuracy and the validity of that audit? Is it the Provincial Auditor, or is it the appointed auditor, in this case your firm?

**Mr. MacKenzie:** — I would think that if there was a disagreement of that magnitude, that in fact the Institute of Chartered Accountants of Saskatchewan's professional conduct committee might end up reviewing the matter. But in the final analysis I would think that the Provincial Auditor's report would be considered to be final. There are two processes there.

**Mr. Lyons:** — Right, I understand that, and I'm . . .

**Mr. MacKenzie:** — I think Mr. Lutz earlier said that our report would be worth nothing, but it would be our report and I would think we would want to defend it vigorously. And that, as far as I'm aware, is the forum that we would have to pursue it. In fact he might want to pursue it as an adversary . . .

**Mr. Lyons:** — Through the institute, you mean?

**Mr. MacKenzie:** — Yes. That would be up to him.

**Mr. Lyons:** — Right. But obviously you're aware of the laws of the province in that there can only be one person responsible ultimately to the legislature in regards to the audit, and that is contained in the law. You don't have any . . . Let's put it this way. Do you have any disagreement to the law as it now stands or in regards to who the final person responsible is for the auditing of public moneys?

**Mr. MacKenzie:** — No.

**Mr. Lyons:** — Okay, I'll leave that particular line of questioning. I want to pursue something that Mr. Rolfes began, a line of questioning, and that is in regards to the report of the auditor that we're presently considering. And a number of, as you can appreciate, some contentious issues have arisen around this particular report. Have you discussed with the Provincial Auditor's office the chapters or those sections of the Provincial Auditor's report that contained the contentious issues regarding accessibility, accountability, and so on and so forth? Have you had a discussion . . .

**A Member:** — Point of order.

**Mr. Lyons:** — Just let me finish my question — with the Provincial Auditor's department?

**Mr. Chairman:** — Point of order.

**Mr. Martens:** — Mr. Chairman, I believe that the point of order is this. I think the question is out of order for this simple reason: the auditor has stated prior to this that the accountants of Price Waterhouse were in compliance with the law in dealing with it. If there were an occasion when that wasn't the fact, and the auditor has said that, then ask those people where that compliance should or should not be.

Now that's why I think the question is out of order. If these people have complied with the auditor, you're asking them to make an assumption on something that they have no reference to. And if there are auditors that are out of compliance, then the Provincial Auditor will identify those and you can ask them that question, but not these people.

**Mr. Chairman:** — Well, Mr. Martens, these are interesting points you raise but I don't see them as being a point of order. I think Mr. Lyons' question was appropriate, and I would be inclined to let him pursue that at this point . . . (inaudible interjection) . . . I've just made my ruling at this point. Now I invite Mr. Lyons to restate his question again and we'll take it from there.

**Mr. Martens:** — Mr. Chairman, point of order. The question has relevance, but the relevance is not with these witnesses. You are asking these witnesses to make an assessment of other accounting firms in relation to their work here, and with the Provincial Auditor having said that, I think it's totally out of order.

**Mr. Chairman:** — Mr. Martens, I've made my ruling; I'm going to let . . . I want Mr. Lyons to restate his question. You know, I'm sure that there's questions put to witnesses that they don't feel that they can answer, aren't qualified to answer. They will also let the committee know that, and we're not expecting them to provide answers where they can't give them. So, Mr. Lyons, I encourage you to restate your question.

**Mr. Lyons:** — The question is very simply this — thank you, Mr. Chairman — the question is very simply this: as a result of the auditor's report as tabled, was there discussions between the Provincial Auditor's office and your office regarding the contents of the report?

**Mr. MacKenzie:** — Yes, there was.

**Mr. Lyons:** — Thank you. I wonder if you would elaborate with us precisely the nature of those discussions?

**Mr. MacKenzie:** — When we have finished our work, we invite the Provincial Auditor to review the work that we have done, and they come to our office and spend as much time as they like looking through the work that we have done on the client. Prior to attending our office, they

have some input into our planning. They're aware of how we are going to conduct that audit. So during that visit, all of the contentious issues are highlighted and talked about, and we have come to our opinion as to what we think their importance is prior to their arriving.

**Mr. Lyons:** — Okay, and earlier on you had said that this is part of an evolving and ongoing process. Have you seen this as sort of the part of that ongoing and evolving process when the auditor issues a report, that he discusses it with the firm, or you discuss it with the Provincial Auditor as to the issues that have arisen?

**Mr. MacKenzie:** — I think it's probably the best way for the relationship to exist.

**Mr. Lyons:** — Yes. Is that sort of generally accepted in the accounting or auditing areas, in terms of the procedures and handbooks?

**Mr. MacKenzie:** — Yes, it is.

**Mr. Lyons:** — Right. Okay, fine. I've got just one further question. In regards to the auditor's report and after the issues of the '88 auditor's report, was this auditor's report discussed between your firm, to your knowledge, between your firm and any member of the Crown Management Board?

**Mr. Drayton:** — No, it was not.

**Mr. Lyons:** — It was not. Who actually did the audit of Agdevco in your firm, the name of the person?

**Mr. MacKenzie:** — I am the partner on Agdevco. Brian is the manager on that job.

**Mr. Lyons:** — Okay, thank you.

**Mr. Chairman:** — I have Mr. Wolfe, then Mr. Neudorf, then Mr. Muirhead, then Mr. Hopfner.

**Mr. Wolfe:** — A question to the Provincial Auditor. If, as in this case, we have an accounting firm with very good credentials and of which you've had a long-standing, good working relationship with, if you rely on their work, and if you rely on their work and they report to the Legislative Assembly, are they, in effect, your eyes and ears for that amount of provincial government spending?

**Mr. Lyons:** — This must relate to the first 20 pages, the Chapters 1, 2 and 3 in regards to the question.

**Mr. Chairman:** — Well there's no problem in relating things in the first chapters . . .

**A Member:** — Well that's good.

**A Member:** — We want to deal with it; we want to deal with it.

**Mr. Lutz:** — Mr. Chairman, in the conduct of the audit at Agdevco, Mr. MacKenzie's people are indeed my eyes and ears to the same extent that my staff are my eyes and ears on any other jobs that we might do out of the office.

When it comes to forming the opinions on that audit, Mr. MacKenzie cannot substitute for me; I must form those opinions. Certainly if I can rely upon his work and report in forming my opinions, I will do so in the interest of cost-effectiveness.

**Mr. Wolfe:** — So as in this case, it was cost-effective; there was a good working relationship. You were satisfied with the work that they've done. You were satisfied with the work that they've done before, and because of that you've been able to rely . . . Your opinions are similar, so in effect they have done the work and they have satisfied your concerns and, as you see it, the concerns of the people that they report to.

**Mr. Lutz:** — Mr. Chairman, I'm most reluctant to, as they say, wash dirty linen in public, but Mr. MacKenzie and I did indeed have a difference of opinion on the internal control at Agdevco, and we did indeed thrash that out so that when his report finally came down everything was fine and I did rely on him.

Now I think, Mr. Chairman, I sense that around the table that there is still a problem with to whom does he report. With the indulgence . . .

**A Member:** — No, no.

**Mr. Lutz:** — Well that was part of the question I believe, Mr. Chairman.

**Mr. Wolfe:** — No. I just wanted to know . . . that there was some confusion earlier about reliance and the three things that you felt got in the way of your ability to rely on the work that somebody did. And that's why I just wanted to clarify that, and that you were satisfied with the work, and that the differences had been sorted out, and that they were allowed to report, and you've respected their opinion since you've got that sorted out. And that's the reason the question was asked.

But over and above that, I do want to ask one question to the Provincial Auditor, and that is that there was an earlier question asked to Price Waterhouse about who they report to if they do an audit of something like Agdevco. If you do the audit of Agdevco, who do you report to first? Do you go to Agdevco, or Crown Management Board, and then do you come with your report to the Legislative Assembly? Or do you come with your report to the Legislative Assembly first?

**Mr. Lutz:** — Mr. Chairman, back in . . . I guess it was '86 when we did this audit last, no report would go out unless we discussed it thoroughly with the management of Agdevco first. It would not go anywhere until we had discussed it with them, cleared the points that needed to be cleared, make sure it's factual, make sure it's accurate. And indeed we want concurrence from that group of management before we let it go anywhere, because we don't like surprises at this table. If everybody agrees . . . but when I do my report, I report to the Assembly. When I do my report on their financial statements, it's addressed to the Legislative Assembly.

**Mr. Wolfe:** — So that your responsibility is to the people of this province and to the Legislative Assembly, but your

responsibility first is to report and discuss your report to management and then prepare your final report to the Legislative Assembly? Is that correct?

**Mr. Lutz:** — No, Mr. Chairman, that's not quite correct. I have no responsibility to discuss my report with the management of Agdevco, but I do that because we don't like surprises. So we will check it out with them first. When we finish our audit at Agdevco, I do not have a legal responsibility to discuss it with them, but prudence dictates that before you go too far with your report on your findings, you do indeed discuss it with them so that everybody's in agreement that this report is factual.

But I do not discuss my report to the Legislative Assembly with them before it goes, because that report is nothing more than a gleaning from my management letter to those folks when we finish the audit.

**Mr. Wolfe:** — But as far as actual procedures, they're very similar to those carried out by Price Waterhouse. There would be discussions with management?

**Mr. Lutz:** — Oh, I would think so, yes. But then again . . .

**Mr. Wolfe:** — So they're very similar.

**Mr. Lutz:** — . . . you must remember that Price Waterhouse can, and may, and does indeed do their audit their way, which might not in all instances coincide with what I might have done, and that's not very important. The fact remains that they're entitled to do their thing their way.

**Mr. Wolfe:** — I recognize that. But the initial reporting and working relationship is with the board, similar to that in which the private accountant, Price Waterhouse, does their report and does their work.

**Mr. Lutz:** — I have no reporting relationship whatsoever with the board of directors of Agdevco. I will deal with their comptroller or VP (vice-president) finance, depending on what his title is, with my reports; I will deal with their president. But I don't see the board of directors unless of course they ask to discuss it with me, and then I would.

We have done that in the past with certain Crown corporations. If they wish it, we'll do it.

**Mr. Wolfe:** — But there's a similar working relationship there.

**Mr. Lutz:** — I would hope so, yes.

**Mr. Wolfe:** — Okay, that's just so we're clear.

**Mr. Lutz:** — Mr. Mackenzie cannot do that audit if he has not got trust in his client, and vice versa. No auditor can. So of course there's a good working relationship.

**Mr. Wolfe:** — So you have to have a similar trust or working relationship with the board.

**Mr. Lutz:** — No, with management. There's a difference there. I wouldn't know who's on the board of Agdevco,

but I know who's management. There is a difference there.

**Mr. Wolfe:** — Would Price Waterhouse know who's on the board of Agdevco?

**Mr. MacKenzie:** — We know who was on the board, but in the audit of Agdevco we worked primarily with management to finalize all the outstanding items and make sure there were no surprises.

**Mr. Wolfe:** — So it's a very similar relationship.

**Mr. MacKenzie:** — All of the Crowns are not different. Some boards are more active than others.

**Mr. Wolfe:** — There was an earlier question, and I think we should deal with it today while it's here before us. The question was related to estimates, and estimates for the cost for doing the audit for 1988. And there was an increase in the estimate, from the information provided by the Provincial Auditor prior to you being here today, that the estimate for 1988 would be \$20,000. The cost for 1987 was \$12,600, but the estimate for '88 was 20,000. Could you tell us, why the increase from '87 to '88?

**Mr. MacKenzie:** — Agdevco was involved in many projects, and the level of activity in the 1988 year would appear to us, at the time we made the quote, to be substantially higher than the level of activity in '87.

**Mr. Wolfe:** — Okay, so there's a substantial increase in the amount of work. I think Mr. Neudorf had one final question.

**Mr. Chairman:** — Could I just . . . it's almost 10:30 and there's other members that want to get on, so we're going to have to have the officials come back again. I had Mr. Neudorf, Mr. Muirhead, Mr. Hopfner, Mr. Rolfes, so I think we should make plans to have them come back the next day.

But I just want to make a couple of comments before we adjourn for the day. One is that the member for Assiniboia-Gravelbourg put a number of hypothetical questions to the Provincial Auditor, and I found them to be interesting and relevant and appropriate, point number one.

Point number two, in response to Mr. Lyons's questions, it seems to me that any and all issues that are raised in Chapter 2 of the auditor's report, if you think any of those issues might be appropriate to ask the officials here or to raise in the context of Agdevco, members should feel free to do that. That is my understanding of the way we are proceeding in this committee. And having said that, I don't think we're going to finish with . . .

**Mr. Neudorf:** — Mr. Chairman, I did have a brief question that will take one minute, since I was on the speaking order next . . . (inaudible interjection) . . . But I'm on the speaking order next. Mr. Chairman usurped his . . . or used his prerogative as chairman to cut me off.

**Mr. Chairman:** — I think we should save it for the next meeting unless there's agreement that we want to carry

on past 10:30. We'll be here again at 8:30 on Thursday morning.  
Thank you very much.

The committee adjourned at 10:30 a.m.