

STANDING COMMITTEE ON PUBLIC ACCOUNTS

June 22, 1989

Mr. Chairman: — Good morning, everyone. The department before us is the agricultural development corporation. Before we call the officials in, I have a report by the auditor that has been distributed to the committee.

Mr. Hopfner: — Regarding the particular issue, I do believe it would be only polite to invite the other people in. We've not dismissed them by any means, and we should have them in. If there's any new information that's given to the committee beforehand like this, I believe the others should be in on the conversation as well because it is regarding statements that have been picked up and made during the hearing. I think it would be impolite . . . the officials, I think they should be here. Yes, because it's taken under these comments of the auditor this morning here, if you'll read, is basically . . .

Mr. Lutz: — Mr. Chairman, rather than the usual 20 copies. I've brought 25 with the hope that the people at the other end would indeed receive a copy. I have no problem with that at all.

Mr. Hopfner: — Otherwise it looks like the Provincial Auditor is ganging up behind closed doors on . . . (inaudible) . . . and I wouldn't want that to be the case.

It's no big deal, it's just . . .

Mr. Rolfes: — You mean MacKenzie, not the officials . . . (inaudible interjection) . . . Oh, I don't care who you invite. I don't know why they want to be here, but I don't care. It doesn't make any difference to me.

Mr. Chairman: — Then we're all agreed. We'll bring the officials in. Bring in the officials. If the members want to take a few minutes to review the opinion.

Mr. Anguish: — Is the Legislative Counsel and Law Clerk going to be present during this?

Mr. Chairman: — He hasn't been invited to be present. Committee members could certainly invite him. You know, I haven't checked to see whether he's available, in his office, or you know . . .

Mr. Lyons: — Why don't you do that.

Mr. Anguish: — I think it's only fair, if everyone's here, we might as well have the Legislative Law Clerk present at the same time. It's his opinion and then we have the two officers of the Assembly here.

Mr. Chairman: — Yes, members want to put questions to him and that's legitimate.

In the speaking order with respect to the department, last time we were on I had Mr. Neudorf, then Mr. Muirhead, Mr. Hopfner, then Mr. Rolfes. And I'm quite prepared to stick to that order.

Mr. Neudorf: — Well, Mr. Chairman, perhaps we should follow through on the report of the auditor, and if there's anybody who wants to discuss it . . . (inaudible) . . .

Mr. Chairman: — Okay. I can set a new order on that

then. If there's any questions on the report by the auditor, any questions of either the officials that are with us or of Mr. Lutz or Mr. Cosman. I might introduce Mr. Cosman, Robert Cosman, who is the Legislative Counsel and Law Clerk.

So I'm prepared at this point to take questions, and maybe you folks don't have any questions, the committee members.

Mr. Rolfes: — Mr. Chairman, I think it's a good idea that we probably come to a definitive conclusion on what The Legislative Assembly Act has said as far as the Provincial Auditor is concerned and who reports to the Legislative Assembly. And I believe in the last meeting or two the Provincial Auditor has had some difficulties in trying to explain to members of this committee that he has the responsibility, the final responsibility, and the sole responsibility of reporting to the Legislative Assembly.

And time and time again members have brought up that, well the private auditors do report in the same process, and therefore they are reporting to the Legislative Assembly. And I think this was kind of brought out and some of us, I think, were somewhat taken aback by a statement made by Mr. MacKenzie when he said, "Yes, in law we would be reporting to the Assembly, I believe." And that kind of shook me a bit because I had not known that that existed in law that the appointed auditors directly appoint to the Legislative Assembly.

Because in my opinion it was always . . . I always felt it was the Provincial Auditor and he alone, or that person alone, reports to the Legislative Assembly on the expenditures of the provincial government and Crown corporations and agencies. And the appointed auditors do their audit and then the Provincial Auditor, if he can, forms his opinion from the audit that is being done by the private auditors, and then he files his final report.

My question, Mr. Cosman, is this, to you: is there anything that you have found in the legislation that does not make it absolutely clear that the Provincial Auditor alone is responsible for reporting to the Legislative Assembly.

Mr. Cosman: — My reading the Act, and it's my interpretation, I had no difficulty with saying the reporting function to the legislature being solely that of the appointed Provincial Auditor, Mr. Lutz. There was no ambiguity in my mind whatsoever.

Mr. Rolfes: — Okay, so what you're saying then, the primary responsibility and the primary auditor is the Provincial Auditor.

Mr. Cosman: — Yes.

Mr. Rolfes: — And there can only be one under the Act.

Mr. Cosman: — Yes.

Mr. Rolfes: — All right, thank you. I have no further questions.

Mr. Wolfe: — If a report is prepared by an appointed auditor, and that auditor's report and the work done by that auditor is relied upon by the Provincial Auditor, and if that report is included as an *amendum*, an appendix or compendium to the report, is that report being prepared for and to the Legislative Assembly?

Mr. Cosman: — By its inclusion in the Provincial Auditor's report, yes. It therefore then is part of the report to the Legislative Assembly.

Mr. Wolfe: — Then would it be correct to say that that report and that appointed auditor is reporting to the Legislative Assembly?

Mr. Cosman: — I believe the report, when it first . . . the appointed auditor's report, that is, when it is first made, would not be made with the intention that it is a direct reporting function to the Legislative Assembly, although it has to be in everybody's mind that ultimately that report may be included in the Provincial Auditor's report.

It's the submission of the Provincial Auditor's annual report that makes any of the additional appointed auditors' reports a report to the Legislative Assembly.

Mr. Wolfe: — So if the Provincial Auditor relies on the report — the work done, the examination, and the responsibilities carried out by that appointed auditor — then he can, if he relies on that work, use it as part of his report to the Legislative Assembly.

Mr. Cosman: — Yes.

Mr. Wolfe: — But in the work that they do and the report that's prepared by them, if it's included as a compendium, they are basically reporting to the Legislative Assembly through the Provincial Auditor.

Mr. Cosman: — Yes.

Mr. Wolfe: — But they are reporting to the Legislative Assembly.

Mr. Cosman: — But it's the *Report of the Provincial Auditor*, not the report directly of the appointed auditor to the Assembly. It's still the report of the Provincial Auditor because he has chosen to rely on that report, and it's attached or appended to his annual report.

Mr. Wolfe: — So the key to preparing that report and the work done is one of reliance.

Mr. Cosman: — Yes.

Mr. Wolfe: — If the reliance is in place, then the report is honoured, and that can be included and is included and additional audit work doesn't need to be done.

Mr. Cosman: — That's right.

Mr. Wolfe: — Then I guess my next question is to Mr. Lutz, and it goes back to the beginning of the 1988 report and the comments made about seeing only 50 per cent of the expenditures of government. And I'm curious why a comment such as that might be made.

Mr. Lutz: — Mr. Chairman, under generally accepted auditing standards, the auditor must seek evidence, examine evidence, and document audit evidence to form his opinion. When I do my audits, I use different levels of eyes and ears to do my audits. Less experienced eyes and ears will look after minor transactions; more experienced eyes and ears will look after more involved transactions; some audit evidence I must see myself.

Now when I say that the private sector auditor represents my eyes and ears, that means that I delegate to him certain of my examination and evidence-gathering powers. That does not mean he is my only eyes and ears. The comments I make in section 2.12 and 2.10 are related one to the other, and they in essence are telling the world that the executive government is endeavouring to decide which eyes and ears I may employ in gathering my audit evidence. The point I try to make is while the appointed auditor does in fact act as my eyes and ears, he is not my only eyes and ears, and I must decide which eyes and ears I will apply in the examination of audit evidence.

Mr. Wolfe: — I'm curious, though, that if you can rely on an appointed auditor, and an example of an appointed auditor which you've been able to rely on and had a very good working relationship with, one like Price Waterhouse, is in place, and they do their work in such a fashion that you are very comfortable with it and had a good long working relationship with them — you've used it as a compendium to the report — are they not in fact your eyes and ears in a case such as this?

Mr. Lutz: — Mr. Chairman, where I do indeed rely on an appointed auditor, and where I do include his report in the back of my report, where I rely upon him, his report becomes my report to the Legislative Assembly. It's not his report to the Assembly; it's mine through the fact that I relied upon his work and report.

Now perhaps when I relied on his work and report I had to do some additional work by myself — my eyes and ears, my staff's eyes and ears — but that does not mean I cannot rely upon him. But when his report comes into this book it becomes my report. When I do not rely upon him, I report to you that his report is faulty for whatever reason.

Mr. Wolfe: — But as it being part of your report — like you've relied on it and you've included it in your report — if it's part of your report, then they have acted as your eyes and ears in this case?

Mr. Lutz: — To whatever degree, yes.

Mr. Wolfe: — So my question is, why would a comment be made with regards to 50 per cent of the expenditures not being seen?

Mr. Lutz: — Because, Mr. Chairman, the executive has endeavoured to decide what eyes and ears I can employ in gathering and examining my audit evidence. And that is the point I try to make in this report. I must be able to decide for myself what eyes and ears I wish to employ in gathering audit evidence and compiling audit evidence, in documenting audit evidence. If I cannot do that, they do not have a Provincial Auditor because somebody else

is telling me what I can look at anywhere I can look at the material and how I can look at it.

Mr. Wolfe: — Are you suggesting or are you stating that you should be the one to select the appointed auditors?

Mr. Lutz: — No, Mr. Chairman, I tried for that in 1983 and it didn't fly too well, but that is the best arrangement if one can get it. I did indeed try to get that provision in my legislation in '83, in the same manner as Alberta got that power for their Auditor General. And it's a good arrangement.

Mr. Wolfe: — But is that . . . the comments that were made, 2.12, 50 per cent of the expenditures not being seen. How does that relate to your inability to select those appointed auditors? Those appointed auditors have, as I understand it, some very good credentials and a very good previous working relationship, and you've been able to rely on them, you've been able to include them in your report. And yet it's my understanding — and correct me if I'm wrong — that there's something lacking here and I'd just like to identify what that might be.

Mr. Lutz: — Mr. Chairman, paragraph 2.12 and 2.10 interrelate, and they in fact are at the nub of the problem which is the executive government is deciding which eyes and ears I can use and utilize in the seeking and examining audit evidence. That is the entire nub of the problem.

I can't go out and do what I want to do, when I want to do it, and where I want to do it. That is the problem.

Mr. Wolfe: — I have a further question. As I understand it, private auditors were first engaged prior to 1982. The potash corporation has used them for something like 10 years. If the problem first occurred then, why wasn't it . . . or if it was brought to everyone's attention, why wasn't it dealt with?

Mr. Lutz: — Mr. Chairman, prior to '83 that was a different regime. In the legislation prior to '83 . . . prior to '82 there were private sector auditors doing, I believe, the resource Crowns, and we worked as closely with them as we could.

But we had a concern then and we reported that concern to the legislature. And in the 1983 legislative amendments the problem was corrected in that I was given the authority to direct the other auditors in how they planned and conducted their audits. I was also directed to give them, if you will, a comfort letter when the audit was completed to everybody's satisfaction — I shouldn't say that — to my satisfaction. And that was corrected in the '83 report.

In '87 when the Act was amended, my ability to direct them was taken away. They were still left with direction in the Act on how they should do their audits but there was nothing compelling them to do those audits. I was left with the ability to go do my own procedures. But as long as the private sector auditor, the appointed auditor if you will, is out doing that work, okay, I must still be able to go and look at what I want to see, where I want to see it. I must have access to management. And this is the nub of

the problem. The executive government is deciding which eyes and ears I can use in getting audit evidence, seeking audit evidence, and examining audit evidence.

Mr. Wolfe: — Who selected the appointed auditors prior to 1982? Was it executive government, or was it you?

Mr. Lutz: — It was the executive government. I have never had the ability to appoint private sector auditors.

Mr. Wolfe: — Well then I have to wonder why the comments, and why the concern wasn't raised when it was first a problem, or first a concern of yours.

Mr. Lutz: — Mr. Chairman, is the question, why wasn't I concerned before? Is that the question?

Mr. Wolfe: — Why has it become an issue now? Why wasn't it an issue in 1980 or whenever the process was first initiated, if it's such a large concern of yours?

Mr. Lutz: — Mr. Chairman, if I may, there are two aspects to my response. I was concerned, I expressed a concern, and back in those earlier years the magnitude of the problem was small. There were I think only five or six resource Crowns where private sector auditors were in place, and that represented possibly 10 per cent of the public purse; that's my estimate now. And if it's 10 per cent out there instead of 50 per cent out there, my concerns are a lot less.

But it is getting bigger. The magnitude of the public purse being audited by outsiders is becoming larger. And I have no problem with appointed auditors. I don't see that as my problem at all. My problem is that the executive government is deciding which eyes and ears I can utilize in garnering, gathering, and examining audit evidence.

Mr. Wolfe: — But that process was carried out prior to 1982. Executive government, as I understand it from the information you've given to us, selected those private auditors prior to 1982. And it seems to me it's like the little boy in Holland with the finger in a dike. I'm just curious why it wasn't dealt with when it became a problem. And the problem arose, or the concern of yours, was initiated prior to 1982.

Mr. Rolfes: — Mr. Chairman, a point of order. The member is badgering the Provincial Auditor, and the Provincial Auditor has already answered him three or four times as to their reasons. I thought we weren't supposed to badger officials in this committee. I think we should move on to some other . . .

Mr. Chairman: — I don't interpret Mr. Wolfe's questions as badgering. He's asking legitimate questions. He's trying to gain some understanding. I might also point out that Mr. Wolfe is a new member. We don't expect him to be asking questions to everyone else, and the questions are legitimate; they're good ones.

At the point that I feel that he begins to badger anyone, I'll certainly . . .

Mr. Rolfes: — I wanted to wake you up, Mr. Chairman.

Mr. Lutz: — Mr. Chairman, prior to '82, we still had the ability to go into any one of the agencies that were being audited by an appointed auditor, and do whatever procedures we felt we had to do. In addition, the magnitude of the amount of the public purse out there being audited by private sector auditors was very small in relation to the total public purse, and our concerns were diminished accordingly.

Now in the last year it has increased in magnitude. There are more appointed auditors doing more public auditing, with which I have no problem. My problem is that the executive government is deciding whose eyes and ears I can use to gather and look at audit evidence. That is my problem.

Mr. Wolfe: — But if your concern is executive government's selection of the appointed auditors, if that is the concern, then I'm curious why a report wouldn't be made that, I cannot rely on any auditor that I haven't appointed or been part of the appointing process.

Mr. Lutz: — I'll try to speak to that subject. I have had tremendous co-operation from the appointed auditors. I believe the appointed auditors have had co-operation from me. If they feel they need some assistance with planning their audit, we have offered that up front. If they think they need some assistance during the audit, we have done that for them up front without charge. I have no problem with any appointed auditor being appointed. That is not the point here at all. I have a fine relationship with the appointed auditors. We can always talk; we can always negotiate; we can always settle things. I think Mr. MacKenzie will verify that. We did that indeed on Tuesday.

It is not the appointed auditors; I do not have a concern with the appointment of appointed auditors, and neither do I need to because that's not my problem. My problem is the fact that the executive government is deciding whose eyes and ears I can utilize in gathering my audit evidence and looking at things.

Mr. Wolfe: — What are the concerns with the eyes and ears? These appointed auditors, which you don't have a problem with, are your eyes and ears. So what is the problem?

Mr. Lutz: — Mr. Chairman, when I do one of my own audits, I have a variety of eyes and ears available to me. I will have not-so-experienced eyes and ears who I will put in charge of doing minor transactions. When I get to more involved transactions, things like contracts, joint ventures, I will put a more experienced set of eyes and ears to do that aspect of the audit. Where I feel I must see some evidence myself, I see that evidence.

Now when the appointed auditor becomes my eyes and ears — and I said this earlier — he is not my only eyes and ears. He cannot be my only eyes and ears because there are some things I must see, and we go out and try to do that.

The fact remains, they're limiting what I can see and where I can see it. The executive government cannot decide which eyes and ears I can use in doing my audits,

or that is a limitation in scope.

Mr. Wolfe: — Could you use specific examples, while we have the private auditors here, that dealt with Agdevco, as to how your eyes and ears were restricted or impeded in their ability to perform their duties in working for you and for the Legislative Assembly?

Mr. Lutz: — In the case of Agdevco, Mr. Chairman, I was able to look at what I had to look at to be able to rely upon Price Waterhouse.

Mr. Wolfe: — So you have no concern with this appointed auditor. You have no concern with the work that they've done — you've been able to rely on them. They were in effect your eyes and ears, as I understand it, and please correct me if I'm wrong.

Mr. Lutz: — Not quite in total, Mr. Chairman. There was the one problem of the report on . . . there was a change in a report. Also they were partly my eyes and ears because I did indeed personally look at the minutes of the corporation to see if there was anything in there that I should pursue myself. And our access to management, I think in almost all cases, will commence with an examination of the minutes. That's the first step in access to management. And the primary auditor must have access to management.

Mr. Wolfe: — How would your earlier comments about executive government selecting appointed auditors relate to the example of Agdevco and Price Waterhouse and how that might impede you in your ability to fully audit, to fully utilize your eyes and ears in this case?

Mr. Lutz: — Mr. Chairman, I don't understand that question. I'm sorry but I . . .

Mr. Wolfe: — Your major concern, as I understand it, was that executive government was limiting your ability to perform your work. How would you relate those comments to the incidents before us — Agdevco, Price Waterhouse, and your relationship?

Mr. Lutz: — Mr. Chairman, the first morning Agdevco and Price Waterhouse appeared here, I made a statement which I believe said I had total co-operation from Price Waterhouse, and I can tell you now, I had no problems with Agdevco. We saw what we wanted to see. We utilized the eyes and ears of the appointed auditor where it was appropriate. We did our own work where we felt we should. We did not have a problem with Agdevco.

Mr. Wolfe: — So as I understand it, as long as the working relationship is a good one and has been a good one, you don't have a problem with executive government appointing certain private sector auditors.

Mr. Lutz: — Mr. Chairman, I'm going to revert back to paragraph 2.12 and 2.10 which I state to be the nub of the problem, and I will endeavour to rephrase it: as long as I am not restricted in what I am allowed to see, as long as somebody else does not decide what I am allowed to see, then I don't have a problem with any appointed auditor.

Mr. Wolfe: — So you don't have a problem with not

being able to see 50 per cent of the expenditures of the government as long as it's done properly by private sector auditors.

Mr. Lutz: — Mr. Chairman, I believe I must have access to management, no matter how well I get along with that private sector auditor. I think I'll put that up front. Access to management, to me, the first step is being able to examine firsthand the minutes of the board of directors, and in the case of Agdevco, we had that ability and that was done, and our co-operation from Price Waterhouse was 100 per cent. I had no problem with that. I can't say any more, Mr. Chairman.

If the executive government does not decide whose eyes and ears I can use, I don't have a problem. It's when somebody says, no you can't see that or you can't have that or you can't look at that or you'll have to take his word for it, then I do have a limitation in scope.

Mr. Chairman: — Mr. Wolfe, I'm beginning to sense some repetition in both the questions and the answers, and I would encourage you to consider at this point that there are a half a dozen or so more people that want to ask questions, and we can always put you back on the order again.

Mr. Wolfe: — Okay, I'll pass for now. You can put my name at the bottom of the list, Mr. Chairman.

Mr. Lyons: — Mr. Lutz, you've several times alluded to — well, not alluded — you've stated that you've outlined the problems and 2.10 and 2.12 is summing up the nub.

The Provincial Auditor must conduct audit procedures to determine if reliance on an appointed auditor is justified. These procedures have not extended to a first hand audit of the books and records of any crown corporation except for the minutes of some of the Boards of Directors.

When you say that the executive branch of government is keeping you from looking at the books, are they keeping you from looking at the minutes of the books and records of the Crown corporations — of a number of Crown corporations? Is that where that statement arises from?

Mr. Lutz: — Mr. Chairman, the minutes of the board of directors are really not the point in this entire discussion. The point I'm trying to make is that I must not be restricted in what I choose to look at. If I choose to look at minutes, they must be available to me to peruse myself. If I choose to look at some other documentation, even though the appointed auditor has already looked at that documentation, then I must be allowed to look at that documentation if I am going to serve the Legislative Assembly.

I think perhaps if I could give you an idea of what this is about, we had a problem at SPMC (Saskatchewan Property Management Corporation). We were seeking certain information, and the answer I got was, if the information requested related to SPMC audit, I should ask SPMC auditor. If the information requested related to a department of government, I should ask that department. But whatever the case, they were not going to answer my

questions directly. And that is a limitation in scope.

Mr. Lyons: — Thank you, Mr. Lutz. That seems to be a quick way of resolving that particular issue that Mr. Wolfe has raised.

I wonder, Mr. Cosman, if I could turn to your legal opinion. On page 3 you say, and this is the first paragraph, underlined:

I am of the opinion that in no event can an appointed auditor be given the responsibility to provide an audit for the Legislative Assembly under any provisions of The Provincial Auditor Act.

Is another way of saying that, that in the final analysis Mr. Lutz is the person who is sole . . . or the Provincial Auditor is that officer of the Legislative Assembly who is solely responsible for determining whether or not the books of this province are in order?

Mr. Cosman: — Yes, that's substantiated in section 11(1). The Provincial Auditor is the auditor of the accounts of the Government of Saskatchewan and shall examine, etc.

This particular part of my opinion was addressing whether or not the appointed auditors had a direct relationship of reporting to the Legislative Assembly. And I can find nothing in the legislation that enabled appointed auditors to report directly to the Legislative Assembly without submitting the report first through the Provincial Auditor.

Mr. Lyons: — I'm interested to see that because on page 414 of June 20's minutes and verbatim report of this committee, there is an exchange between myself and Mr. MacKenzie. And Mr. MacKenzie says about half-way down the page:

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.

That's in terms of disagreements over a particular audit.

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.

Do you see two processes here, or is it clear in law that in the final analysis, that the Provincial Auditor's report would be considered final, and must be considered final by law?

Mr. Cosman: — As to that part, that is the single process. The Provincial Auditor's report would be the official and final report to the Legislative Assembly. I suspect the two processes that are being referred to means a process within the profession of chartered accountants, and then the process of reporting to the Legislative Assembly.

Mr. Lyons: — Okay. But even given those two processes that would be undertaken, in matters of determining who

or if in fact an appointed auditor has carried out an audit, that the final arbitrator of that in regards to the audit of public money must be the Provincial Auditor?

Mr. Cosman: — Yes.

Mr. Lyons: — Mr. Mackenzie, I want to ask you, sir, what would lead you to the opinion, if there is a difference of opinion, that in fact that somebody other than the Provincial Auditor may be the final authority in matters of . . .

Mr. Mackenzie: — What would you do . . . Mr. Chairman, I believe the question is, what would happen from the results of the professional conduct committee of the institute?

Mr. Lyons: — No. I'm saying that . . . You talked last time about the two processes, and you said that in fact that in the final analysis that Provincial Auditor's report would be considered to be final. And I must say that I agree with that. There's nothing that you've seen so far, or has anybody given you an indication that anybody other than the Provincial Auditor would be the final authority?

Mr. Mackenzie: — No. I have no quarrel with this opinion. If I could say, my comments on the 20th were to try and describe what we were preparing is a report for the Assembly. We cannot present the report, and Mr. Lutz does have to accept that report to present it. But what I said is . . . what I meant in that we know that the report is for the Assembly. Okay?

Mr. Lyons: — Good. I think you were being clear. I want to say that I think you were being clear on the 20th and that that was the opinion of Price Waterhouse; it's the opinion of the Legislative Counsel.

And, Mr. Chairman, I for the life of me cannot see why we have to go through this day after day of some members of the committee trying to develop a scenario that somehow the Provincial Auditor isn't the final arbitrator and that there is this turf war between auditors. And I'm wondering, Mr. Chairman, if there is some mechanism, if other members don't have any direct questions, whether in fact that we can accept Mr. Cosman's opinion, incorporate it in our report, and then try to move on to more fruitful areas of examination.

Mr. Chairman: — It's up to the committee, Mr. Lyons. To whom is that question directed?

Mr. Lyons: — Well I guess I'm throwing it to the other members of the committee, because I can't see how it can be made any clearer to any member of the committee that in fact that what the law says, and what the appointed auditors see to be true, can be challenged by any other member of the committee. I guess that's my statement.

Mr. Kraus: — Mr. Chairman, could I make a remark, please? I'm just wondering about this final authority on professional matters, because I know Mr. Lutz has a disagreement on several opinions expressed by other professional auditors and they are being referred to the institute of chartered accountants for a ruling. So I just wonder if this issue isn't a little more complicated than is

being discussed right now.

Mr. Lutz: — Do you want to comment for me, Mr. Kraus?

Mr. Kraus: — Well perhaps, because this is differences of opinion on a professional basis, and yet there is the institute who in fact is considering matters. So I would . . . I guess the point is that you aren't necessarily the final authority on those types of issues, because you have fact referred the matter to the institute. And there's different issues here, I guess, is the point I'm trying to make.

Mr. Lutz: — In the matter of reporting to the Assembly, I believe I am the final authority. Where the appendix in my report includes the opinion of an appointed auditor, if I do not dispute his opinion, that opinion becomes my opinion; I have not disputed it.

Where I do indeed disagree with his opinion, I am required by law to report that fact to the Assembly. I am required to tell them why I did it. I am not permitted to wait until some body of our profession adjudicates the matter because they don't give me that latitude, and therefore I believe what you have just said are two different things.

Whether I agree or disagree with the appointed auditor is a matter for me to decide in law and for me to report, as I must report, with reasons. Whether or not it goes to the professional body for adjudication is something else altogether. And, quite frankly, I don't . . . Past that point, I am not sure I understand your question.

Mr. Kraus: — Well I guess the thing is, I can see where the auditors are going to submit a report to you and as is required, and I haven't got the statute identified here completely, but I mean you . . . as it says, you will compile these reports, submit them . . . through you, they are being submitted to the House. And of course, if you have a difference of opinion or feel you can't rely on that work, as has been discussed here, you can do . . . you will do additional work and you'll report as well.

So as I see it, the Act really provides for the potential of two reports on the same issue. One is submitted by the appointed auditor and one by yourself. That's as I see it, because it does say here that:

. . . the provincial auditor shall compile reports submitted to him by appointed auditors pursuant to subsection (1.1) and shall submit them together with his (own) report.

So you can certainly see where there could be two reports on the same matter, as I understand, the way the legislation is drafted.

But the point I'm trying to make here is that, while Mr. Lutz, and rightly so, can certainly choose not to rely . . . and therefore he will make his own report on the matter, there are going to be situations where there are simply professional disagreements. And I think we have a couple of financial statements where that's occurred, and I didn't think that the law . . . and that's why I'm just questioning this thing about professional judgement.

I don't believe that this law necessarily, in any way, shape, or form, is indicating that Mr. Lutz would be the sole arbiter on whether an opinion on a financial statement was correct or not correct. And in fact, as I say, I think that's substantiated in part because Mr. Lutz has referred at least one, if not two, matters to the institute.

So there are . . . this thing can be sliced up a number of ways. It's just not one issue.

Mr. Lutz: — Mr. Kraus, perhaps since you're into legalities, Mr. Cosman may wish to speak to the subject. But I think what you have overlooked here, perhaps, is that I am required to form these opinions. And I have not necessarily said that the other auditor is incorrect; I just happen to have a different opinion and I report that opinion. That is an entirely different thing than having it referred to our profession and let that tribunal adjudicate the matter. There are such things as two different opinions on the same matter. I don't presume to try to bring that process into the legislation, which requires me to do certain things. Perhaps we are into a legal discussion here, and Mr. Cosman could speak to that.

Mr. Kraus: — That is exactly what I guess I'm getting at, is because where it says that the Provincial Auditor, or the . . . let's see:

I am further of the opinion 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.

And when you're talking about opinions on financial statements, I believe that could not be true because you are both entitled to make your own opinion. There's no doubt that the law contemplates that, and I believe that where you felt uncomfortable with that situation, you referred it to the institute, and I didn't know, or I don't believe it contemplates that you would be the final authority on that matter. In fact, I think you've left it open because in fact, if the ruling, if there is a ruling by the institute on the matter, and I think you would report it as they made it. From reading your report, that's the impression I get. So that's the particular sentence that I'm having difficulty with.

Mr. Cosman: — Mr. Chairman, if I might respond. I view The Provincial Auditor Act as requiring the Provincial Auditor to report to the Assembly. The inclusion of appointed auditor reports is certainly contemplated, but I believe from the full context of the Act that it is the Provincial Auditor whose opinion is the final authority, if you will, as to the state of the accounts of the Government of Saskatchewan and the Crown corporations. I admit that there can be professional differences that would have to be settled as between professionals, accountants, with your professional body, but for purposes of reporting to the legislature, I don't believe we could abdicate the responsibility of the Provincial Auditor to form his opinions, to rely or not rely upon other appointed auditor reports. I don't believe we could abdicate that responsibility to the professional body of chartered accountants.

Mr. Kraus: — I guess I see a difference between the right to report and the right to being the final authority. Certainly it's laid out here that Mr. Lutz, or the Provincial Auditor, is to report on all matters if he so chooses, but I think it's going one extra step to say that he would be always considered to be the final authority on professional differences. At least that's the way that . . . that's the point that . . .

Mr. Cosman: — Yes, I might say in a case where perhaps the . . . in talking in terms of final authorities, that it's the Legislative Assembly itself that may indeed be the final authority as to . . .

Mr. Lutz: — Mr. Kraus, are you skirting around the possibility that these matters where I have disagreed should be settled by our professional body before they are reported?

Mr. Kraus: — No.

Mr. Lutz: — I'm not sure this is what you're saying.

Mr. Kraus: — No, I'm not. I can see situations . . . There's several kinds of issues here. There is going to be the reviews for internal control, and those kinds of matters are one thing. And as I say, I could see situations where the appointed auditors may very well issue a report to you to be submitted in the House that you don't feel comfortable with, and you'll do additional work and submit another report. That's possible, but . . .

And there, I guess, there's two opinions, and again, as somebody's just said, that it may be that the legislature would have to decide whether they feel more comfortable with your report or the others. But when we're talking about financial statements in particular, and issuing opinions on those matters, it seems to me that this particular sentence cannot be correct. It's overriding . . .

Mr. Lutz: — Is that in the legal opinion?

Mr. Kraus: — Well I feel it is when it says it would be the final authority on differences between them of a professional basis. Now if it doesn't mean financial statements . . . Well the point is, as I see it, the law contemplates potentially two reports, and it would be up to the legislature to decide whether they're going to consider the appointed auditor's report as being the valid one, or perhaps your points are well taken and so on.

Mr. Lutz: — Mr. Chairman, for several years now — well, two years — I have been trying to explain to the committee what my role is. I put up a special report when the Act was amended in '87 and told them how I was going to administer it. The Act, as it stands, contemplates there will be disagreement. Disagreements don't necessarily have to be referred to our profession for adjudication. There are many disagreements where we just agree to disagree.

I don't quite understand what your concern is. My lawyer put up an opinion that said, yes, this is the way it is. But that didn't fly too well in here so I went and got another opinion, and I thought I would go to Parliament's lawyer

and see if I could get an opinion from him. And I did indeed get an opinion from him, and he said I am the final authority.

Now so far, I haven't argued with his decision because I like it. But I don't know why you're arguing with it.

Mr. Kraus: — Well, as I say, we see a difference between the authority or the responsibility to be, maybe, the final reporter, if you will.

Mr. Lutz: — Who's we?

Mr. Kraus: — We?

Mr. Lutz: — You said "we see."

Mr. Kraus: — Me. I see . . . As I read this Act then, Mr. Lutz, I see it that it's contemplated, the way it was written, that you always have the right as overall auditor to question, and you may accept it, you may not accept the work. And so . . .

But there's a difference between being able to form your own opinion and report on any matter as you see fit, and saying that you are the final authority on the resolution of any differences between them on a professional basis. I feel that is going beyond what I think the Act says. So that's what I would be challenging. The legal opinion — that's the part that I'm challenging.

Mr. Cosman: — Perhaps if I may, Mr. Chairman, since it's my statement that's in question here . . .

I based this statement, in part, on section 11.1 of The Provincial Auditor Act, and a key to that provision, subsection 1, is the reliance on the report and the satisfaction — the satisfaction — of the Provincial Auditor that the appointed auditor has carried out his responsibilities.

Those words, reliance and satisfaction, import to me that, were I the person to rely on someone and to be satisfied that someone's report was correct or what have you, it is myself, it is myself alone that can decide whether I'm satisfied or not. And therefore, in that sense, I am the final arbiter as to whether I might rely on that report and whether I'm satisfied with that report. That's when I say "the final authority in that regard" — that's what I'm referring to.

Mr. Chairman: — I wonder at this point if we might take a five minute break. Mr. Lyons is still on the paper and Mr. Neudorf is next. I wonder if we might just take a five minute recess at this point.

The committee took a short recess.

Mr. Chairman: — I'll call the meeting to order. During the break, Mr. Hanson of Agdevco said to me that he hopes that this never ends because he's having such a good time. I told him that we're always concerned about spending and so on, and that his time might be better spent elsewhere.

All kidding aside, the question I just want to ask the

committee before we resume is: do you feel a pressing necessity to have the officials from Agdevco and the auditors from Price Waterhouse here at this time?

Mr. Neudorf: — I'll have some questions for them.

Mr. Chairman: — Okay. That's fine. And Mr. Lyons, are you finished now? Can we go to Mr. Neudorf? You were finished?

Mr. Lyons: — I'm sorry. I hadn't started.

Mr. Anguish: — Have we resolved the . . . (inaudible) . . . discussion?

Mr. Chairman: — Pardon me?

Mr. Anguish: — Have we resolved the discussion between the two accountants?

Mr. Chairman: — I don't think there's ever any resolution on those things.

Mr. Anguish: — It was very interesting, very informative.

Mr. Chairman: — It certainly was. But anyway I have Mr. Neudorf next.

Mr. Lyons: — I'm sorry, I wasn't speaking . . .

Mr. Chairman: — You're not finished?

Mr. Lyons: — I hadn't started! Where have you been? I was . . . You see, Mr. Kraus and Mr. Cosman, Mr. Chairman, if you can get . . . Right? They were talking back and forth and then we had the break.

Mr. Chairman: — Mr. Lyons, you had an opportunity to ask some questions. You threw out something to the committee, and I appreciate that at that point it was interrupted, shall we say, but the question I have is: are you now finished and can we go to Mr. Neudorf, or do you have more?

Mr. Lyons: — No, I just had . . . I had one, based on Mr. Kraus's comments, just a question to Mr. Cosman. Is that.

Mr. Chairman: — Okay.

Mr. Lyons: — Okay. That maybe — Mr. Chairman, thank you — that maybe the problem is, is not determining who is the better auditor. I don't know if Mr. Kraus is sort of saying that that's the problem, is that somehow the law says that Mr. Lutz is a better auditor than Price Waterhouse or any other person who's a member of the institute.

But I think the way I interpret it — Mr. Cosman, maybe you can correct me; please do correct me if I'm wrong — is that in the context of the legislature and the context of the law, that even in matters of final opinion, Mr. Lutz must bear the responsibility for the opinions made as to the expenditures of public money, and therefore in law must be the final authority for that. Is that the . . .

Mr. Cosman: — That's correct, yes.

Mr. Lyons: — In other words to put it, is that we can't go after Mr. Kraus and say, Mr. Kraus, you've done blew it right here, but we can say that about Mr. Lutz.

Mr. Cosman: — He bears the responsibility.

Mr. Lyons: — Exactly, since he bears the responsibility. In terms of responsibility to us as the members of the committee and also to members of the Legislative Assembly, that there must be a final arbitrator or there must be the final authority. Okay, that's all I have to say.

Mr. Neudorf: — Thank you, Mr. Chairman. I've been waiting for this opportunity with a great deal of anticipation since I was not allowed to speak at the end of Tuesday's time period. I think that Mr. Lyons, I just want to respond to one of your comments. I found it very interesting that you spent your 10 minutes or whatever prior to the discussion with Mr. Kraus and Mr. Cosman, is it?

A Member: — Yes.

Mr. Neudorf: — That at the conclusion of his remarks he made the comment that let's go on to some more important things now, him having had his opportunity to have his say. And I suggest that you check the records and you'll find that I'm correct in what I'm saying here. I do appreciate this opportunity now, because what I want to do is go back to the original premise on which this meeting began, which was the statement made by Mr. MacKenzie on June 20 where he said: "Yes, in law we would be reporting to the Assembly, I believe." And this prompted the auditor then to hand in his report this morning which is the issue at hand.

I believe that there exists here a perceived ambiguity that has been propagated by the auditor's report. And I have to also confess that I fell victim to that perception because that is how I have been viewing it. And I just want to explain myself, what I'm getting at. Because if you take a look at the auditor's report and you take a look at Appendix II, you'll find that Price Waterhouse has done their audit report, and their auditor's report is entitled: "To the Members of the Legislative Assembly, Province of Saskatchewan." And you can flip through to — and I'm just picking at random here — Touche Ross on page 66 on SaskTel says: "To the Members of the Legislative Assembly, Province of Saskatchewan." Peat Marwick, page 80: "To The Members of the Legislative Assembly, Province of Saskatchewan." And there is one Peat Marwick on page 83, which says: "To W.G. Lutz, Provincial Auditor." I got that distinction. Furthermore, on page 85, Coopers & Lybrand auditor's report is entitled: "To: The Members of the Legislative Assembly, Province of Saskatchewan. Attention W.G. Lutz, Provincial Auditor."

So the question that I have then is, if the reports of the special auditors are according to the auditor's Act, as was suggested before, are to be made to the auditor, and yet they are being addressed to the members of the

Legislative Assembly, and that is not to whom the special auditors are responsible to, then why would these be compiled in this fashion? And I understand the fact that the auditor's responsibility is to take these appointed auditors' reports and compile them. But these are being addressed to the members of the Legislative Assembly and specifically not to the auditor, except the Coopers & Lybrand one which I drew to your attention.

And so what I would like then is the auditor to make a response to that, or, for that matter, Price Waterhouse.

Mr. Lutz: — Thank you, Mr. Chairman. I'm required by law to accumulate and compile these reports and include them with mine. I can't tell you why the private sector auditors addressed them the way they did. You'll have to ask them because I don't know. They sent them to me. I've included them in my report, and that's the end of it. I don't know why they've addressed them this way, or another way, or a different way. I had no input into that.

Mr. Neudorf: — Was that at that stage not a concern of yours that perhaps they felt that they were more responsible to the Legislative Assembly rather than to you directly? Or did this not kind of draw a flag to you that there must be a reason why they were addressing them the way they were. And that I think has been brought out by the very statement that Mr. MacKenzie made on Tuesday last when he did make that statement that they were addressing them and reporting to the Assembly.

Mr. Lutz: — Mr. Chairman, we asked the private sector auditors what reports they wanted to be included in this appendix, and they sent me the reports they wanted included in the appendix. I have no input into how they addressed them. I can't answer your question, Mr. Neudorf, because I don't know. I guess you'll have to ask the individual auditors as we go along.

Mr. Neudorf: — I will momentarily, but I guess that brings me to another question then, is do you not decide what is included in your report to the Assembly, this document that we have in front of us, or do you put in what they want you to put in? Is that what you're suggesting?

Mr. Lutz: — Mr. Chairman, the Act requires me to compile the reports submitted to me, which I have done. If I disagree with the opinions being expressed in those reports, I include in my report proper my disclaimer. If I have no problem with the opinions being expressed in these reports, I don't issue a disclaimer and they become my opinions.

But no, I can't say that I'm going to concern myself with how the private sector auditors wish to address their reports. Under the legislation, I know what my responsibilities are, and if they don't know what my responsibilities are, I can't really do much about that.

Mr. Neudorf: — So, Mr. Lutz, what you're telling us then is that what we see here in front of us, this 1988 auditor's report, and the Appendix II includes all of those final reports submitted to your office by all of the appointed auditors and what they wanted you to include. This is everything.

Mr. Lutz: — Mr. Chairman, these represent all of the reports that the private sector auditors wanted included. Did that answer the question?

Mr. Neudorf: — Yes, thank you very much. Then I would at this point like to ask Price Waterhouse representatives here, Mr. MacKenzie or whoever would prefer to answer — your report, sir, also says "To the Members of the Legislative Assembly, Province of Saskatchewan." It's done this way this year, and I'm assuming this is done that way the year previous to that.

What was your understanding, or what is your firm's understanding of why it would be done in this fashion?

Mr. MacKenzie: — Our understanding throughout this has been that we are reporting eventually, through Mr. Lutz, to the Assembly. Had we been hired by Mr. Lutz, we would have addressed our report to his office. But in fact we were hired indirectly by the Assembly through Agdevco. I think really, if we had been working for Mr. Lutz, the report would have been addressed to him. But in fact, we were working for the Assembly; the report is addressed to the Assembly. We have no quarrel with the fact that Mr. Lutz presents the report to the Assembly.

Mr. Lutz: — Mr. Chairman, I rather think, personally, that the appointed auditor should probably be reporting to the people who engaged him. But if they choose to report this way, and they asked me to include that report in this appendix, I will not quarrel with the way the appointed auditor addressed his report, but I will include it in my appendix. And if I agree in his opinions, then those opinions become mine because I don't refute them.

Mr. Neudorf: — All right. Is this going to be a problem in the future or do you think, Mr. MacKenzie, that this will be taken care of, because in The Provincial Auditor Act . . .

Mr. Chairman: — Can I, just on a point of order. . . Mr. Anguish and Mr. Wolfe, and to some extent Mr. Rolfes, I would certainly encourage you to pay close attention to Mr. Neudorf and his questions and give him every courtesy. Thank you.

Mr. Neudorf: — I appreciate your understanding of the depth and quality of my questions, Mr. Chairman. I certainly concur with your assessment.

Mr. Chairman: — Well I wouldn't want to comment on that, but . . .

Mr. Neudorf: — My interpretation, Mr. Chairman, of this problem is that it probably can be resolved in the future by doing on page 6 of the Appendix I what it says there under 12(1.1):

On completion of any examination of the accounts of a Crown agency or Crown-controlled corporation, an appointed auditor shall submit to the provincial auditor . . .

To me, I think really what we're having here is a case of semantics and a case of misunderstandings, and I think it

had to be drawn to everybody's attention as to what should be done.

Mr. Chairman: — Yes, maybe if I just might, from the chair, just take the opportunity to point out that if any appointed auditor tried to submit a report to the Legislative Assembly and the report was, as many of the reports are, addressed to the members of the Legislative Assembly, it would not be accepted by the Legislative Assembly because we have no mechanism to accept reports of private auditors, other than the one that audits the Provincial Auditor's department. We have no mechanism for accepting any of those reports unless they come as an appendix to a report by the Provincial Auditor, or they form part of an annual report to the Legislative Assembly. But they cannot directly themselves address anything to the Legislative Assembly.

Mr. Neudorf: — . . . (inaudible) . . . if I would have been allowed to make that point, Mr. Chairman. I was coming to that.

Mr. Chairman: — Good.

Mr. Neudorf: — Having said that, Mr. Lutz, perhaps you could tell me how many special or appointed auditors' reports are included in this report, approximately. I could count them — about a dozen?

Mr. Lutz: — Mr. Chairman, I don't know. There might be. I'm not going to say that because I don't know. I haven't counted them either.

Mr. Neudorf: — I thought you might know, Mr. Lutz . . .

Mr. Lutz: — No, I don't.

Mr. Neudorf: — . . . because I didn't want to take the time to count them. But let's assume that there are 12, there are 12 appointed auditors' reports in the 1988 report. Now the way I understand it, we also had appointed auditors in 1987. How many were included in your report for 1987?

Mr. Lutz: — Mr. Chairman, I believe this is the first year under the 1987 amendments where this has happened. I don't believe there were any in '87 because it was a different Act. I don't think there are any.

Mr. Neudorf: — So the Act was changed in '87 to force you to do this in '88.

Mr. Lutz: — Yes. Now, Mr. Chairman, I think . . . I believe that amongst my professional colleagues out there in the ranks of the appointed auditors, I think there is some confusion; I believe there is. We have tried to come to grips with this for quite a while.

The reason I put Mr. Cosman's opinion on this table today was so that it will become a public document. Now I propose to send a copy of it to each of my professional colleagues out there, and hopefully it will perhaps set to rest some of their — if there is — confusion. At least it should substantiate the position I have adopted, which I adopted in '87 when I wrote my special report on the legislation.

We told the legislature then what we thought it meant. We told the legislature how we would administer that Act. My lawyer has subsequently confirmed our views with his opinion. And recently I went and got a second opinion because it seemed that the confusion was still existing.

I propose to send a copy of this legal opinion to each private sector auditor who's doing public sector audits, for their information — I see Mr. MacKenzie has one and that's good. At least they will know what we think it means and how we are going to react.

Mr. Neudorf: — Well certainly if as a result of the discussions that we've had over the last couple of days this confusion can be eliminated, I think we've done a service to Saskatchewan then.

Mr. Lutz: — I sincerely hope we can do that, because it's no fun operating under two sets or three sets or four sets of presumed standards which may all be wrong or partially right or . . . And I will not argue law with my solicitor or with this gentleman because I can't. I went and got my second opinion and this is what he said it meant, and I am going to disseminate it to my colleagues.

Mr. Neudorf: — Sure. And if there are points of differences, then of course they also can be resolved.

Mr. Lutz: — Then I am sure we can dialogue, yes.

Mr. Neudorf: — Certainly. I just want to go to a slightly different vein here. And I hope you can understand my line of questioning here because as the saying goes, I'm from Missouri.

I believe last day you indicated that you got along very well with this particular firm of Price Waterhouse. And then I seem to recall that there were \$1,500 that you attributed as to being the cost for some professional differences that initially stood between you and Price Waterhouse in the carrying out of the audit. You made reference to those professional differences as being there initially but being resolved and then everything went smoothly.

I would like for you, just for a clarification in my own mind as to how these kinds of things work and just exactly what is involved when the professionals start talking about professional differences, I think it would be beneficial to the committee if you could supply to the committee the examples of those professional differences that existed between you and Price Waterhouse — what the problem was; what some of the interim steps were that you took to resolve them; and how finally, in the final analysis, the matter was overcome.

I don't want you to go so far as to divulge business secrets or anything like this that Agdevco may have had, but I do want to get enough of a grasp of what you meant by professional differences so that you can bring them forward to this committee in a chronological order, delineate the various steps in the progression from the initial stages to the final resolution of the problem which — and I stand to be corrected — in your own words of last Tuesday, cost this province about \$1,500, I believe.

Mr. Lutz: — Mr. Chairman, as a matter of courtesy, perhaps Mr. MacKenzie would rather answer your question, Mr. Neudorf, unless you wish me to answer.

Mr. Neudorf: — No, no, Mr. Lutz. What I plan to do is, I was asking you the question, then I was going to turn around and ask the same questions of the gentleman from Price Waterhouse.

Mr. Lutz: — I will go through the chronology. On page 20 of my 1987 annual report, I reported for the year ended December 31, '86, the Agricultural Development Corporation of Saskatchewan's management control system to safeguard public money were deficient.

On August 5, '88, I received a report from Price Waterhouse arising out of the next year's auditor 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 procedures since I could not rely on their work and report.

On February 5, '89, 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.

Mr. Neudorf: — I appreciate that, Mr. Lutz, but I guess what I'm going for is a little bit more detail, like these control systems and so on. I don't have any idea what you're talking about. And how would you and your opinion then differ from that, let's say, of Price Waterhouse? Like what are we talking about? — that's what I'm after. I want to be able to get my fingers on some of the details so I can peruse it.

Mr. Lutz: — Mr. Chairman, in the matter of Agdevco, if I can use the abbreviation, it was noted during the audit that the corporation's policies and procedures manuals were not current and complete.

As a result, changes in staff or staff duties could lead to a breakdown in . . . control.

Accordingly, errors or fraud may occur without ready detection by management personnel. I believe on Tuesday last, the president reported they were working on these matters.

We remembered this matter from our '86 report, and we

went to Mr. MacKenzie's people and we talked it over. We discussed it; we reviewed it; we looked at audit evidence; we looked at other aspects of this thing. And in essence, at the end of the day we could indeed agree that there were some weaknesses in their controls as to the corporation's policies and procedure manuals.

Mr. Neudorf: — Mr. MacKenzie, if I just . . . Would it impede your operation as a corporation if you were to divulge or show or provide a copy of those procedural manuals that the auditor just referred to? What I'm trying to do here is I want to use one example, and I think this is an appropriate time to do that, of an instance where there was a difference of opinion, professionally speaking, between two groups of auditors.

I'm not an auditor and I'm having a great deal of difficulty getting my mind around what do they mean when they talk about professional differences. And I've listened carefully to Mr. Lutz's explanation, and I think I got about 50 per cent of it. Like, being from Missouri, I want to get my hands on what you're talking about, if that's possible, and then see exactly what the concerns of the auditor were as opposed to what you were prepared to do initially and then what changes you made that would satisfy the auditor.

Now if I'm not asking for information that would be detrimental to the operation of Agdevco, this is the type of material that I'm after.

Mr. Drayton: — Mr. Chairman, if I might comment and refer you to page 3 of the Provincial Auditor's Appendix II, which is the copy of the report that we had finally submitted. And in the first paragraph on that page, the wording of the report, I guess, where the differences were, is open to some judgement.

Our study and evaluation disclosed the following conditions in the system of internal control of the Agricultural Development Corporation of Saskatchewan . . . which in our opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to the Corporation may occur and not be detected . . .

There are several points of subjectivity to that wording, "resulted in more than a relatively low risk."

First of all, what is the definition of a "relatively low risk that errors or fraud in amounts that would be material in relation to the Corporation" . . . "amounts that would be material . . . to the Corporation" is also somewhat subjective.

I believe, and I don't have a copy of it here, but I believe that the original report that we had drafted and sent to the Provincial Auditor's office for discussion, we had mentioned that there was a lack of segregation of duties at the corporation because of the limitation of their staff size. They do not have a large administrative staff.

Therefore, some staff are doing functions that, in a normal commercial operation where there was adequate staff, it may have been delegated between different staff

members. We had mentioned that, and I guess in the first draft of our report we did not comment on the lack of documentation of responsibilities and duties in that . . .

Mr. Neudorf: — If I could just interrupt. Is that what the Provincial Auditor picked up on then, and said that, look you're not doing that properly? Is this where the professional disagreement comes in?

Mr. Drayton: — The Provincial Auditor had made a similar comment the prior year to the one that we have made in this report, I believe.

Mr. Neudorf: — But that's not disagreement.

Mr. Drayton: — And I believe Mr. Lutz pointed out that in 1986, in the Provincial Auditor's opinion, the lack of documentation of these supervisory controls, both manual and computer controls, in his opinion did give rise to a more than a relatively low risk that a material error might occur and go undetected — if there was a breakdown in those controls — because there was nothing documented that staff could turn to to determine what their responsibilities were.

In our review, because of the other compensating controls — management review of monthly financial statements and documentation — I guess we had some question as to whether or not the lack of documented procedures manuals would give rise to more than a relatively low risk that a material error would occur and go undetected, because there were other procedures to compensate where management is constantly reviewing monthly information.

So we did not report the same lack of control, documented control that the Provincial Auditor had the previous year. We had discussed our position, and after that discussion to and fro on a number of occasions, I guess we were agreed with the Provincial Auditor that in certain circumstances, whatever they might be, that the lack of documentation could perhaps result in more than a relatively low risk that a material error may occur and go undetected.

So we concurred with his position that in some conceivable situation that might happen and, therefore, amended our report. But I believe that was the nature of the discussion that led to the amendment of the report.

Mr. Neudorf: — Mr. Lutz, were there any other concerns at this time that you meant by "professional disagreement?"

Mr. Lutz: — Mr. Chairman, I think that was the one matter we had to discuss and review and examine evidence, and we did so.

I would like to repeat what I said on Tuesday. The fact that there is a disagreement is not unusual. The fact that there is disagreement does not mean that there is not co-operation. We have always had tremendous co-operation with Price Waterhouse.

Mr. Neudorf: — No, I certainly wasn't suggesting that.

Mr. Lutz: — No, no, we had this one item to resolve with Price Waterhouse and it was resolved.

Mr. Neudorf: — I suppose from the layman's point of view, and I think all members here might even agree on that, it sounded quite simple to me as to what the disagreement was all about. For that to be \$1,500 seems like a hefty sum for a disagreement like that, but that's just a personal opinion stated in ignorance, I must confess.

Mr. Lutz: — Mr. Chairman, I think I want to add one additional thing. I said earlier the opinions expressed back here become my opinions up here if they are not refuted, and that is why we very carefully review these matters and examine more evidence and do whatever must be done. Because if indeed Price Waterhouse had issued an incorrect report, and if I don't refute it, it now becomes my opinion, and that's why we are very careful about these things.

Mr. Neudorf: — One more question to Mr. Lutz, and I don't know if he would be able to answer this today, or what. But earlier in some of your comments you suggested that Price Waterhouse had done an excellent job in their audit except for one area that you had not been satisfied with, and then you went in and did some extra work. I believe you made that statement earlier today.

Coming back to that Missouri statement, is there a possibility for you to show us, as a committee, what this is all about? I mean, what had they done? Would it be possible for you to bring in the original work that they did and what you did in order to run an audit check, or whatever it was, this extra work that you're talking about, to give me an example, and I'm sure other members of this committee, as to what exactly goes on when you're doing these kinds of things?

Mr. Lutz: — Mr. Chairman, I would like to maybe hesitate on the excellent work. I don't think I would tell any of my professional colleagues out there that when they did a normal audit, it was excellent work. Now I can't remember this term, and I'm not trying to quibble about semantics. But I'm not sure I understand. You want me to bring in what — evidence that we did extra work, or . . .

Mr. Neudorf: — I suppose you can construe it as meaning that, but my intention was for you . . . like you did do some extra work. Most of the work that Price Waterhouse had done was adequate. Let's change the terminology; I don't want to get involved in that either. But there had been a problem in a certain area. You suggested that you did go in and do extra work. That is what I want to have an example of.

Mr. Lutz: — Mr. Chairman, no, we did not go into Agdevco, as I recall. We did all of our work with Price Waterhouse staff — Mr. MacKenzie, I suppose at his level, maybe the audit manager, whoever had done that work. But no, in this case, I don't believe we visited the premises of Agdevco at all. We managed all of our proceedings with Price Waterhouse.

Mr. Neudorf: — Was my interpretation of your statement wrong then when I understood you to say that you had

done extra work on Agdevco because there were certain areas that you had not been totally satisfied with?

Mr. Lutz: — Oh no, I think that's correct. We would do extra work on Agdevco at the auditor's office if we can, and we could and we did.

Mr. Neudorf: — Well I don't care where the work was done, Mr. Lutz.

Mr. Lutz: — We did a little extra stuff on Agdevco and Mr. MacKenzie's documentation and Mr. MacKenzie's audit evidence, and back to our '86 report to make sure we were covering off this item which we were aware of from a prior year.

Mr. Neudorf: — Would it be possible for you to give us an example of that? I mean, what was the problem that you thought you had to do extra work on? I'd like those documents, is what I'm saying, if that's permissible within your confidentiality, and so on . . . (inaudible interjection) . . . Mr. Chairman, what Mr. Anguish says has no bearing on it, I know where it comes from.

Mr. Lutz: — Mr. Chairman, the extra work involved several meetings with Mr. MacKenzie and his people, an additional review of the working paper files to make sure all of this stuff was in fact as we thought it was — whatever it takes to do these things — and they are numerous and they are slow and they can drag. However, I would say to you, no, I probably won't give you my working paper documents because my working papers are exempt from tabling here by the Act.

Mr. MacKenzie can maybe give you a better answer on what we did, or I can get one of my people to come up and lead us through . . .

Mr. Neudorf: — Mr. Lutz, like I said, I don't want to get into the confidentiality stuff, but my curiosity has been aroused over the last couple of weeks, exactly what goes on. And I asked a question prior to this about your professional disagreements. Then you made the comment that you had done extra work for Agdevco, ostensibly because there was something, in your opinion, that was not quite up to snuff, as it were.

What I want to do is have you present to us, not your working papers then, but at least some kind of chronological or some kind of evidence so that we can understand what you mean when you say you go in and do extra work. That's all I'm asking for.

Mr. Lutz: — Mr. Chairman, we will get that for you.

Mr. Neudorf: — I appreciate that. Thank you very much.

Mr. Chairman: — Are there any further questions of the Agdevco officials at this point? I appreciate that . . . (inaudible interjection) . . . Mr. Anguish, can I . . .

Mr. Anguish: — Thank you.

Mr. Chairman: — No, no. You're not up. But can I just say that you're perfectly entitled to speak and to ask questions, and I've got your name on the list. You're also

entitled to raise points of order where there are points of order. Otherwise I would encourage you to, you know, observe some basic courtesies, and that is to listen and observe.

Can I just ask the committee at this point, can I just ask the committee: do you feel that there's a need at this point to keep the Agdevco officials here? It's now also 10:24 and I wonder if we might then continue this the next day.

I'd like to spend a couple of minutes with the committee on the agenda and just how we're proceeding here. I have Mr. Hopfner, Mr. Muirhead, Mr. Rolfes, Mr. Wolfe. I get the indication that you definitely need to have them back here the next day, unless you think this can be . . .

Mr. Hopfner: — If you want to let everybody go and you just want to meet between the committee, is that the off-record thing that we were discussing about . . .

Mr. Chairman: — No, this is just basically on the agenda what . . . like we have other departments that have been on stand-by, and I just don't know.

A Member: — Well, I'm not finished here, so we can carry on next day.

Mr. Chairman: — With the officials.

Mr. Hopfner: — Mr. Chairman, I was going to maybe bring a suggestion to you. And I don't know. I haven't discussed this with anyone, but I will throw it forward.

Maybe what we could do is, as a committee, and so we don't have other officials waiting outside and in abeyance and things like this, if and when . . . if next day we're finished with these people in half an hour, why don't we just recess for that particular day and then call the new people in prior, you know, instead of having them sit out here and . . .

Mr. Chairman: — I have Mr. Hopfner and Mr. Muirhead and Mr. Wolfe, and they're all indicating that they had questions of these people and that they . . .

A Member: — They didn't ask any, so . . .

Mr. Hopfner: — I'm just suggesting it, you know, like you have concern for our officials.

Mr. Chairman: — I appreciate it. But at this point we don't need the Agdevco people here this morning, right? They can go?

A Member: — Well, I guess we're finished, because by the time . . . (inaudible) . . . my line of questioning . . . (inaudible) . . .

Mr. Chairman: — All right. So it's agreed then . . . (inaudible interjection). . . That is my concern raised to me by Mr. Martin.

I'm going to take the position that we're not going to have CIC (Crown investments corporation of Saskatchewan) on the agenda for next time. Even if we finish with Agdevco in 15 minutes on Tuesday morning, we will then

find other work to do and have CIC on stand-by for the ensuing day. Is that . . .

Mr. Hopfner: — That's going to take longer for me.

Mr. Chairman: — It'll take longer than 15 minutes, but is that not agreed then that we deal within that . . . (inaudible) . . . Thank you.

At this point we should . . . unless there's any other comments on agenda, we should adjourn . . . Mr. Rolfes?

Mr. Rolfes: — Mr. Chairman, I just want to point out that if you peruse the minutes, members have been going all over pages 1 to 22, and I will spend considerable time next day and the day after probably on those pages 1 to 22. Therefore, I was going to suggest to you that maybe we don't need the officials here . . .

A Member: — As long as it's relevant to Price Waterhouse and Agdevco.

Mr. Rolfes: — I just want to say . . .

Mr. Chairman: — We seem to be having two or three conversations. We have Mr. Anguish who's addressing the chair, and we should let him do that.

Mr. Rolfes: — What I was simply saying is I don't think we need CIC (Crown investments corporation of Saskatchewan) people here next day. I don't think we need CIC people here next day, for the simple reason that the questions I have, I know, will take considerable time. But if you want to have them sitting in the hallway, fine. I have no objection to that.

All I'm saying is I wanted to alert the committee that I have a considerable number of questions and they will pertain to various things that other members have brought up — limitations on the Provincial Auditor, interference, and so on.

Mr. Martin: — Well Mr. Rolfes has a lot of questions to ask, and he should have opportunity, of course. Why don't we finish with these chaps first of all on Thursday and then we'll . . . because we're going to have a whole bunch of time after, and then we'll do you and the auditor. Would that make any sense?

Mr. Chairman: — At this point we're expecting Mr. Hanson and the auditors from Price Waterhouse back here on Tuesday morning at 8:30. Mr. Hanson, I could say a lot of things, and perhaps someone might say, let this be a lesson to you and never, never let us catch you without a procedures manual that's current and complete. We may want to make other comments, so we'll adjourn for the day.

The committee adjourned at 10:30 a.m.