



Second Session, 39th Parliament

REPORT OF PROCEEDINGS
(HANSARD)

SELECT STANDING COMMITTEE ON

PUBLIC ACCOUNTS

Victoria

Thursday, June 10, 2010

Issue No. 9

BRUCE RALSTON, MLA, CHAIR

ISSN 1499-4240

**SELECT STANDING COMMITTEE ON
PUBLIC ACCOUNTS**

Victoria
Thursday, June 10, 2010

- Chair:* * Bruce Ralston (Surrey-Whalley NDP)
- Deputy Chair:* * Douglas Horne (Coquitlam-Burke Mountain L)
- Members:*
- * Rob Howard (Richmond Centre L)
 - * Richard T. Lee (Burnaby North L)
 - * John Les (Chilliwack L)
 - * Norm Letnick (Kelowna-Lake Country L)
 - * Joan McIntyre (West Vancouver-Sea to Sky L)
 - * John Rustad (Nechako Lakes L)
 - Ralph Sultan (West Vancouver-Capilano L)
 - * Spencer Chandra Herbert (Vancouver-West End NDP)
 - * Kathy Corrigan (Burnaby-Deer Lake NDP)
 - * Guy Gentner (Delta North NDP)
 - * Lana Popham (Saanich South NDP)
 - Shane Simpson (Vancouver-Hastings NDP)
 - * Vicki Huntington (Delta South IND)

** denotes member present*

- Other MLAs:* John Horgan (Juan de Fuca NDP)
- Clerk:* Kate Ryan-Lloyd
- Committee Staff:* Josie Schofield (Manager, Committee Research Services)

-
- Witnesses:*
- John Doyle (Auditor General)
 - Alex Ferguson (Commissioner and CEO, B.C. Oil and Gas Commission)
 - Carl Fischer (Office of the Comptroller General)
 - Malcolm Gaston (Office of the Auditor General)
 - Lorna Pritchard (Ministry of Finance)
 - Devin Scheck (B.C. Oil and Gas Commission)
 - Randy Smith (B.C. Oil and Gas Commission)
 - Larry Swanston (Provincial Treasury)
 - Morris Sydor (Office of the Auditor General)
 - Tom Vincent (Vice-President, Public Sector Employers Council Secretariat)
 - Cheryl Wenezenki-Yolland (Comptroller General)

CONTENTS

Select Standing Committee on Public Accounts

Thursday, June 10, 2010

	Page
<i>Public Accounts Overview</i>	183
C. Wenezenki-Yolland	
J. Doyle	
<i>Auditor General Report: Public Sector Governance and How Are We Doing?</i>	193
J. Doyle	
M. Gaston	
C. Wenezenki-Yolland	
<i>Auditor General Report: British Columbia Crown Corporations Executive Compensation Arrangements — A Work in Progress</i>	199
J. Doyle	
M. Gaston	
T. Vincent	
<i>Auditor General Report: Making the Right Decisions: Information Use by the Boards of Public Sector Organizations</i>	208
J. Doyle	
M. Gaston	
C. Wenezenki-Yolland	
<i>Auditor General Report: Oil and Gas Site Contamination Risks: Improved Oversight Needed</i>	215
J. Doyle	
M. Sydor	
A. Ferguson	
D. Scheck	
R. Smith	

MINUTES

SELECT STANDING COMMITTEE ON PUBLIC ACCOUNTS



Thursday, June 10, 2010

9:30 a.m.

Douglas Fir Committee Room
Parliament Buildings, Victoria, B.C.

Present: Bruce Ralston, MLA (Chair); Douglas Horne, MLA (Deputy Chair); Spencer Chandra Herbert, MLA; Kathy Corrigan, MLA; Guy Gentner, MLA; Rob Howard, MLA; Vicki Huntington, MLA; Richard T. Lee, MLA; John Les, MLA; Norm Letnick, MLA; Joan McIntyre, MLA; Lana Popham, MLA; John Rustad, MLA

Unavoidably Absent: Shane Simpson, MLA; Ralph Sultan, MLA

Others Present: John Doyle, Auditor General; Cheryl Wenezenki-Yolland, Comptroller General; Josie Schofield, Manager, Committee Research Services

1. The Chair called the committee to order at 9:32 a.m.
2. The Committee continued their consideration of the Public Accounts of the Province of British Columbia

Witnesses

- Cheryl Wenezenki-Yolland, Comptroller General, Ministry of Finance
- Carl Fischer, Executive Director, Financial Reporting and Advisory Services, Ministry of Finance
- Larry Swanston, Senior Manager, Reporting and Analysis, Provincial Treasury

3. The Committee considered the Auditor General's Report, Report No. 13, 2008/09: *Public Sector Governance and How Are We Doing?*

Witnesses

- Malcolm Gaston, Assistant Auditor General, Governance and Accountability Portfolio, Office of the Auditor General
- Cheryl Wenezenki-Yolland, Comptroller General
- Lorna Pritchard, Director, Financial Governance, Financial Management Branch, Ministry of Finance

4. The Committee considered the Auditor General's Report, Report No. 4, 2009/10: *British Columbia Crown Corporations Executive Compensation Arrangements: A Work in Progress*

Witnesses

- Malcolm Gaston, Assistant Auditor General, Governance and Accountability Portfolio, Office of the Auditor General
- Tom Vincent, Vice-President, Public Sector Employers Council Secretariat

5. The Committee recessed from 12:33 to 12:50 p.m.

6. The Committee considered the Auditor General's Report, Report No. 6, 2009/10: *Making the Right Decisions: Information use by the boards of public sector organizations*

Witnesses

- Malcolm Gaston, Assistant Auditor General, Governance and Accountability Portfolio, Office of the Auditor General
- Cheryl Wenezenki-Yolland, Comptroller General
- Lorna Pritchard, Director, Financial Governance, Financial Management Branch, Ministry of Finance

7. The Committee considered the Auditor General's Report, Report No. 8, 2009/10: *Oil and Gas Site Contamination Risks: Improved oversight needed*

Witnesses

- Morris Sydor, Assistant Auditor General, Sustainability and Environment Portfolio, Office of the Auditor General
- BC Oil and Gas Commission:
- Alex Ferguson, Commissioner and Chief Executive Officer
 - Devin Scheck, Director, Waste Management and Reclamation
 - Randy Smith, Executive Financial Officer

8. The Committee adjourned at 2:32 p.m. to the call of the Chair.

Bruce Ralston, MLA
Chair

Kate Ryan-Lloyd
Clerk Assistant and
Acting Clerk of Committees

THURSDAY, JUNE 10, 2010

The committee met at 9:32 a.m.

[B. Ralston in the chair.]

B. Ralston (Chair): We're going to proceed with the agenda that's before you. The first item is continued questions on the public accounts of the last fiscal year.

The comptroller general, the executive director of financial reporting and advisory services and the senior manager of reporting analysis — that is, Cheryl Wenezenki-Yolland, Carl Fischer and Larry Swanston — are here. They've made their presentation at some length in previous meetings of the committee, so we're going to continue with questioning from members. I believe that, subject to anything else, the first questions will be to Kathy Corrigan.

Public Accounts Overview

K. Corrigan: Last time we met on the public accounts, I had started to ask some questions about public-private partnerships. I would like to continue on with those questions for the comptroller general and staff.

In August of 2009 Partnerships B.C. published a discussion document on its methodology, and in January of 2010 Partnerships B.C. published the revised and final version, I guess it would be, of something called the *Methodology for Quantitative Procurement Options Analysis* discussion paper. First of all, I guess I would ask the comptroller general if she's aware of this paper and has reviewed the paper.

C. Wenezenki-Yolland: Yes, we are aware of the paper and have reviewed the paper.

K. Corrigan: Great. Okay, thank you. One of the things that is in the paper, one of the things mentioned, is that the way bids are evaluated by Partnerships B.C. in deciding whether or not to go to a public-private partnership is to do a comparison between what would be seen as being the probable cost to do it privately as opposed to something called the public sector comparator — which, I'm sure, the comptroller general is fully aware of.

[0935]

Quoting from this discussion paper on their methodology, they say:

"To establish cash flow estimates, both the public sector comparator and shadow bid models typically consider the amount and timing of the following costs under each procurement method: capital costs, operating and maintenance costs, rehabilitation costs, financing costs, owner's costs and inflation.

"These costs are estimated and incorporated into the public sector comparator and shadow bid models as periodic cash flows."

So my question about the cash flows is.... Early on Partnerships B.C., in its value-for-money reports, provided

the comparative cash flows for a couple of projects — for the Sea to Sky Highway, and then later, I believe, in the Diamond Centre. I don't know if that was published or not. But anyway, I know we have copies of that.

My question for the comptroller general is whether or not this committee can be provided with that information that Partnerships B.C. says it produces in all of the public-private partnerships — whether those cash flows can be provided to this committee for the various P3s that have been undertaken in this province, if it's part of the methodology.

C. Wenezenki-Yolland: Just to be clear, you're asking about whether the cash flows that are part of the decision papers that would have gone to Treasury Board to make those decisions can be provided to this committee?

K. Corrigan: I'm not sure whether that modelling would have gone to Treasury Board. I don't know the level of detail. But what I'm asking about is, if this is part of the methodology — it's done, apparently, according to Partnerships B.C.'s own guidance — whether or not we can get a copy of that. I know that what has happened is that where the cash flows have been provided, it has provided data, upon which public commentators have analyzed and made comment on whether or not there is true value for money in public-private partnerships.

C. Wenezenki-Yolland: I think in the context of that, Partnerships B.C. would have to come and talk to the committee about the specifics of what is in those calculations as part of the public accounts and the review. That level of detail is certainly not provided in the public accounts. What is in the public accounts is the historical perspective after the contracts are agreed to and what has been entered into as a commitment for government. That is fully disclosed within the public accounts.

As to their modelling, I'm sure that somebody could come and take the committee through the modelling. As to the specifics of each deal and each arrangement, I do understand that there are some concerns around commercial sensitivity of data when they start to get into specific vendors. As to documents that may have gone to Treasury Board or cabinet as part of the decision process, then they would be subject to whatever restrictions there are in relation to cabinet documents.

So I would have to go and find out whether those were part of those decision documents before I could answer that question completely.

B. Ralston (Chair): Just so that we're clear, when you make reference to the detail in the public accounts, we're referring to note 25, which is "Contingencies and contractual obligations."

C. Wenezenki-Yolland: That's correct.

B. Ralston (Chair): It sets out \$52 billion in ongoing contractual obligations that the province owes. That's what we're referring to?

C. Wenezenki-Yolland: The Partnerships B.C. modelling that you referred to goes to the evaluation of the projects at the inception of the projects. What is actually reported in the public accounts is the ultimate contract that is negotiated after they've gone through the vendor process. So to the extent that there is information to support the numbers that are in the public accounts, we are able to provide that information. But as to the initial modelling and the decision, that would not be within the scope of the public accounts.

[0940]

K. Corrigan: We have \$10 billion worth of projects, I think, and \$52 billion worth of liabilities — sorry, contractual obligations — a large portion of which is to do with public-private partnerships. I'm new. I've been here for a year, but I know that I and several interested public organizations are trying to get at this information, because it has created obligations for us into the future.

I guess I'm trying to figure out how it is that we would get at that information, so I seek guidance from the comptroller general about the best way to do that. The suggestion is that perhaps to have Partnerships B.C. come and make a presentation to this committee would be an appropriate way to talk about that and find out about the modelling.

C. Wenezenki-Yolland: Well, one of the avenues that the committee has available to them is through the work of the Auditor General's office in reviewing public-private partnerships. To the extent that he did that and did a report, then those individuals would certainly come to the committee to respond to that report.

The other basis of getting at that information is through what is publicly disclosed in regard to the modelling on Partnerships B.C.'s website and to make appropriate requests for information through appropriate processes in order to access that information.

K. Corrigan: When you're talking about appropriate processes, are you talking about freedom-of-information requests?

C. Wenezenki-Yolland: In some cases that may be what is required. Some of the information would have to be severed for appropriate commercial sensitivity. There are other concerns.

K. Corrigan: Well, I do happen to know that some information — in fact, almost all the information in the requests — is severed due to things like, for example, cabinet secrecy. Apparently, now it's a cabinet

secret what the cash flows are in these projects, which I find disturbing.

So maybe I'll go back to an earlier response of the comptroller general which I found encouraging. What you said was that you, or your office, had reviewed the modelling. I'm wondering if you've got any comments on your review and what you found.

I recognize that you're looking at things in the past tense. But of course, in order to be effective and be sure that you, as well as the Auditor General, are making sure that we're doing things effectively and using taxpayers' money appropriately, I would assume that part of the work you do is to make sure, as well, that the methodology that's being used in this province is effective. What comments do you have about the methodology that Partnerships B.C. published?

C. Wenezenki-Yolland: I'm not sure what my commenting on Partnerships B.C.'s methodology has to do with the review of the public accounts. I have definitely reviewed the methodology. We do that to ensure that what is represented when we do the financial reporting is appropriate and is consistent with the substance of the arrangement and the deal, in this case, that has been signed and agreed to and that the information is presented accurately.

As to the specifics of the methodology, we have reviewed it, and we understand it. It is public, and it is available for people to look at and draw their own conclusions in regard to the methodology.

K. Corrigan: Perhaps, then, I could direct a question.... Is it appropriate at this time to direct a question at the Auditor General in this regard?

B. Ralston (Chair): Well, I think the comptroller general has invited, certainly posed that as one alternative — that the Auditor General may seek at some point to review some of these contracts as well. So I think so, yes.

[0945]

K. Corrigan: I certainly understand, Mr. Doyle, that the Auditor General doesn't talk about work that they're doing. I recall in a previous session that you mentioned you were looking, perhaps, at some public-private partnership projects, or the methodology, and so I understand that you won't tell us about the work that you're doing. But I'm wondering perhaps if.... Have you taken a look at the paper that Partnerships B.C. has produced?

J. Doyle: I've conducted a cursory overview of the paper to see whether it's logical and makes sense, and it does. The devil is always in the detail as to how it's applied. It is my intention as we go forward to look at a number of P3s, but they would be done under the previous methodology.

Although, as far as I can tell, there are not huge differences between the two.

It would be fair to say that the Public Accounts Committee will have available to it over the next few years a number of reports on particular P3s, the details of which, as you quite rightly point out, I'm not at liberty to discuss at this point in time. But I'm always prepared to receive suggestions from members of this committee as regards to the particular project they would like to be reviewed.

I also have restrictions in regard to the access to documentation. Sorry, I don't have restrictions. I have agreed-on protocols whereby I discuss with government before I publish the contents of any confidential documentation. That's an agreed-upon approach. It's not a signed protocol, but it's an agreed-upon approach that has been in place for many, many years. I wouldn't be using that information other than to analyze the claims regarding benefits and the effectiveness, efficiency and economy of operations in regard to any particular P3.

Now, at the moment my office is working on one P3, but we will be moving towards others as we step forward into 2011. It's the right time to do that because P3s have now been a feature within B.C. for some years. There's quite a detailed construct, and there are clear guidelines for projects to follow, and so it is timely that I now start looking at it in detail.

The previous work we did in regard to the methodology was of a review level. We concluded that there weren't any major concerns that we had with that methodology, but we never endorsed it.

B. Ralston (Chair): I just have a question from Joan McIntyre.

J. McIntyre: I want to refer to the member and the Auditor General, who's now just alluded to that, that as a committee we've already looked at the value for money for the Sea to Sky Highway, which showed there was \$120 million, \$130 million of added value to the taxpayer. Also, I believe that the Auditor General looked at the Abbotsford hospital, which was the first P3 model. So we've already, as a committee, looked at some of these things. It exists, and the information that's on Partnerships B.C. is what can be disclosed.

I'm just questioning this line of questioning. There's a point where this committee does not look at government policy-making and cabinet confidentiality. I'm just wanting to make sure that this conversation is in order as well.

B. Ralston (Chair): Well, we're dealing with note 25, contractual obligations and the implications of that. It's \$52 billion in obligations. You have some background in terms of previous reports, but as the Auditor General has said, he's considering further reports on different projects.

The review of the Abbotsford hospital was a review. It was not an audit, and he's indicated that he has further work in line. So as far as I'm concerned, given the magnitude and given the importance of the topic, these questions are in order.

If you want to continue, please do.

K. Corrigan: In response to Joan's comments, I do know full well that the Auditor General office reviewed three projects, I believe, and doesn't do that anymore — or hasn't done that. I shouldn't say "doesn't do that," but it hasn't done that since.

[0950]

My understanding was that there was some dissent about whether or not that was an appropriate process. There was certainly public comment on it. A review speaks only to plausibility and does not examine whether or not the assumptions are correct assumptions but says they are plausible assumptions. I think there was a lot of commentary at the time about those reviews. I'm not saying that the reviews were not correct, but I'm saying that the reviews only spoke to plausibility and didn't look at the underlying assumptions.

As the Auditor General has just said, the devil is in the details. If you have, for example, a 7½ percent discount rate as opposed to, say, a 4 percent discount rate, it makes a difference whether or not money is saved. There are a lot of questions about whether money was saved.

People like Marvin Shaffer say that it absolutely cost hundreds of millions of dollars more to do the Sea to Sky Highway privately than to do it publicly. So that's why I'm asking.

The reason I'm bringing this up now also is that Auditors General in other provinces have recently, within the last year or so, made comment about the assumptions and the methodology — which is very similar to the methodology that Partnerships B.C. is using — and have questioned and disagreed with the methodology, or very similar methodology as Partnerships B.C. has used.

For example, the assumption that all the construction costs in public projects are paid out during construction is not necessarily true, because the public sector borrows money as well. Assumptions about what the discount rate is, and having a discount rate which, the higher it is, favours the private sector model....

There are questions that have been raised, not just by people who are critics of public-private partnerships but by the Auditors General in, for example, Ontario, who specifically raised concerns about the methodology that is very similar to the Partnerships B.C. one. That's why I would appreciate if this committee could do further work, and perhaps a discussion with the Chair at some point about how we could have a closer look in some way, perhaps through inviting Partnerships B.C. to come and talk about their methodology.

The Auditor General just encouraged suggestions. Well, I think it would be really helpful if the Auditor General at some point would consider taking a look at the methodology and some of the specific criticisms that have been raised, perhaps, by other Auditors General and the modelling that is included.

That's where we are with that, but I'd like to maybe ask.... Since we're talking about the passbooks, I'd like to ask the comptroller general a couple of questions about some specific projects and what are in the note 25 and some of the other finance documents from this year and last year, by way of comparison.

B. Ralston (Chair): Just before you get started, John Les has a question.

J. Rustad: I'm just wondering: was there a question in the last five minutes of dialogue?

K. Corrigan: I was about to ask one, but I was told that the....

B. Ralston (Chair): Generally, the practice has been here to allow people an opportunity to comment as a prelude, as setting the background for a question. I'm not going to be overly restrictive in that sense. I appreciate that you may not appreciate what's being said, but as far as I'm concerned, that's in order.

John Les, you had a comment?

J. Les: Listening to the discussion this morning and having received some assurances from the Auditor General that, in fact, he is going to be reviewing some of the public-private partnerships that have been accomplished over the last several years, I would suggest that we await the results of those audits rather than embarking on what's almost a borderline philosophical discussion this morning. I'm happy to engage in it if you'd like, but there will be a time and place when we can thoroughly review each and every one of those public-private partnerships if the committee wishes to do so.

I'd rather do that on objective terms, rather than having a somewhat subjective, almost estimates-type discussion this morning.

[0955]

B. Ralston (Chair): Well, I understand the member has some specific questions about note 25 and specific contractual obligations, which she's going to move to now. I'm prepared to hear those questions.

K. Corrigan: I have some very specific questions about the Sea to Sky Highway. What I have done is prepared a small document, which is a table and just one quick excerpt which includes the cash flows for the Sea to Sky Highway, taken from the value-for-money re-

port prepared by Partnerships B.C. on the Sea to Sky Highway improvement project.

I've taken the liberty of making copies. I'm not suggesting that anybody should take the numbers that I have in this table that were prepared by our research staff, but they are taken from all the public accounts. Is it possible to have them distributed to the members just for their...? I just wanted to ask a couple of questions about some numbers in the public accounts contractual obligations and the actual payments.

B. Ralston (Chair): So you prepared a document. How does that relate to the contractual obligations that are disclosed in note 25?

K. Corrigan: The contractual obligations, the greater detail that we are lucky enough to have received over the last few years, where it breaks down what the contractual obligations are: those are the numbers that I am relying on.

Over the last few years the comptroller general has provided further detail on the contractual obligations, the actual payments that are made. That's where the numbers come from.

B. Ralston (Chair): In the public accounts the individual contractual obligations are aggregated up into groupings. Are you looking at a specific grouping, then, that is in the specific note? There's one on transportation, which has \$14 billion, close to \$15 billion, in obligations. Is that the note that you're looking at?

K. Corrigan: That would be the note that would be appropriate, yeah.

If it's the wish of the committee.... I simply had questions about trying to understand why it is that the numbers that are predicted in the value-for-money report as opposed to the actual payments to Sea to Sky Highway Investment Ltd. partnership and the amount that is the specific obligations that are in the more detailed, disaggregated line item, the contractual obligations, are quite different over the last few years.

I would be happy, if it would suit this committee better, to provide in writing to the comptroller general the information that I have with a request that the comptroller general get back to us and provide the information. It's very specific information, but it does have to do with the accounts of the province. It's all in the financial documents. If that's more appropriate.

B. Ralston (Chair): Just so that I understand your question, then. You're saying that in the value-for-money reports produced by Partnerships B.C. there is a series of projected annual payments, and in the contractual obligations disclosed in the public accounts there is a separate series of annual payments, and those two

are very dissimilar. So you're seeking an explanation for the disparity between the value-for-money report projections and the annual payments in the public accounts. Is that...?

K. Corrigan: That's mostly correct. There's a third document that's in the financial statements of the province which is the actual payments to Sea to Sky Highway Investment Ltd. partnership. Simply going through the schedules, there are payments as well — for example, in 2009 of \$53.8 million, which compares to the value-for-money report of \$28.7 million, projected. Those are the kinds of....

I have the table, and I'd be happy to provide it to the comptroller general to try to find out what it is.... I'm trying to get a sense — and I think the Auditor General referred to this previously — about trying to coordinate the different pieces of information that we have and find out how they flow together. I would be happy to provide that and would appreciate a response and perhaps a response with a timeline, if that's possible. It's not really complex.

[1000]

B. Ralston (Chair): Just so I'm clear, then, the \$53 million that you mentioned is included in this consolidated revenue fund detailed schedule of payments — this document, *Public Accounts 2008-2009*. So you're naturally familiar with this.... My question is to the comptroller general. Is that a question that you could furnish an answer to?

C. Wenezenki-Yolland: I think what the member wants to understand is how all these numbers relate. What I would like to do is take her information, and I would suggest we come back. We probably need to draw a picture to help explain it, as opposed to just trying to articulate it.

There are technical reasons as to why cash flows and actual expenditures and some of the numbers look different. So it would be easiest to come back to actually give a picture to show where the numbers are, how they line up and why they would be different.

D. Horne (Deputy Chair): Actually, on that line of questioning, I think obviously there seems to be considerable confusion as to the presentation from the members opposite in taking numbers and trying to figure out where they work. The last time we had this discussion and went through the public accounts, one of the comments that was made.... Perhaps we could talk a little bit more now about the presentation of the statements themselves.

We talked about the difficulty that some of the members opposite are having in comparing numbers from one document to another, making comparisons that

really aren't relevant, quite frankly — basically, making it so that numbers that are published in one place have some relevance to numbers that are published in other places.

Now that we've had basically three or four months to give some thought to that, I wouldn't mind the Auditor General perhaps commenting on this as well. Has there been any more thought given to those types of presentation questions, to some simplicity in allowing some of the comparisons to be made in relevant terms? If not, what impediments exist in order for that to be accomplished?

J. Doyle: Currently the presentation in note 25 meets the requirements of GAAP. However, it is a somewhat opaque set of figures. If there is an interest in analyzing it further, I see no difficulty with that because it's all documentation or commitments that have been made. They're in place. They can be structured out. I see no reason why the presentation can't be changed.

D. Horne (Deputy Chair): Sorry, not to cut you off. I wasn't actually talking specifically just about note 25 but basically about the others as well.

J. Doyle: Okay, the whole.... By definition, a set of financial statements is difficult to read. Unfortunately, there's a large proportion of people who do read them and actually take away the wrong idea from the way the numbers are presented.

As you'll appreciate, it's a long and technical process to actually produce a set of financial statements. I think there is a need for good communication in regard to what those financial statements actually mean. Some of that is shown in the front end of the document we're all referring to. Also, there is perhaps a need for a detailed briefing as to how these financials are put together and what the underlying numbers are so that informed discussion could take place.

Every year the comptroller general and I do talk about different aspects of presentation, and it's an aspirational goal we have that we would sit down and go through the financial statements and try to make them more user-friendly for people. But you've got to remember that this is a whole province that you're looking at here. There are a large number — 160-something different entities — that are brought together to produce one set of financial statements. In that process there is bound to be some losing of the detail.

[1005]

My view is that if that's the case, you should be able to go to individual financial statements of different entities that comprise the 167 that come up to the total.... You should be able to go to those particular entities and have a look and see what they're doing because of the financial statements that they have presented and provided.

Sometimes it's a combination of looking at the two that gives you insight into what's going on.

What is material at the entity level may not be material at the summary financial statement level. Therefore, you'll inevitably find more detail and therefore more things to look at, at the entity level.

I would say that it's a project that we are continuing to kick forward and that we'll continue to have discussions, particularly as we move into the future, when there're going to be significant changes in the way that different entities are going to be publishing their reports into the future as Canadian GAAP continues to evolve.

B. Ralston (Chair): Doug Enns completed a report relatively recently — he'd done a previous report, ten years — and was talking about reporting the reporting process itself. He said that the ultimate goal would be to be able to track through from the budget through estimates to the actual expenditure in public accounts.

Obviously, that's a very opaque process at this point, and it's very difficult to follow any individual item in the budget through in that detail. Do you foresee through — I suppose in the longer run — use of information technology, some progress in that direction?

J. Doyle: Different jurisdictions across the world have approached this in different ways, and some jurisdictions do have a direct link from the original estimates process right through to the final financial statements for that particular entity or block of activity. That's not the case in British Columbia at this time, although you can track through a lot of information from the three or four documents that comprise the estimates through to figures here, and you can certainly do it at the global level.

I'll draw to your attention that the comptroller general produces a document which is not subject to audit by me. It's a document she produces each year which looks at the ministerial responsibilities, which gives it a total figure — the budget that's being put forward and performance against that particular budget as total numbers.

It would seem to me to be an ideal that citizens could track individual budget estimates or votes, tracking right the way through to their final destination in the summary financial statements. But that would take a huge amount of effort, and if technology is not deployed to make that simple, then I think the whole process would be quite problematical.

The tools that can be used in some jurisdictions go down to where citizens can go in and actually have a look at almost every transaction that's undertaken by government. Now, no one's suggesting that that would necessarily work in every jurisdiction, but that's one end of the extreme. The other end of the extreme is that very little information is provided.

British Columbia fits between those two. There is a lot of information that is provided. According to the follow-up Enns report, it needs to be tied up together in a lot tighter way. Now, that was his perception ten years after his original report. I do not know what the response was from government. I just can't remember it.

B. Ralston (Chair): I'm not sure that there was a considered response. It's obviously a huge topic. That's at least my recollection of it. There hasn't been any debate. That may be something that the committee at some point wants to do.

D. Horne (Deputy Chair): Thank you for that, Auditor General. I'm interested in the comptroller general's view of that as well.

C. Wenezenki-Yolland: As we have been moving along over time to have financial statements that are strongly compliant with external standards, the accounting standards, and as they have changed, I do believe that over time financial information has gotten more complicated and more challenging to understand. I've said that at this committee before.

[1010]

I challenge my profession on a regular basis to try to remember that we actually need information that people can understand for it to actually be useful.

I do believe that there are opportunities to have both audited financial statements so that people can trust the integrity of the financial information but also amend it with additional information that helps to explain — particularly in our context, where our audience is the public and the people of the province — and to put it in terms that are more easily understood and digested by those who are not necessarily accountants and financial professionals.

I believe that that's absolutely important in order to ensure that we have transparency and accountability into government. I do believe that there are certainly opportunities to improve.

We have talked about a vision of financial information in the province in the future, which is one source of data that everyone can go and look at, and everyone will draw the same conclusions from that information. But that does require some of what the Auditor General talked about, which is technology and systems that will allow you to do that so that you can trust that people will look at that information and have the same understanding of what is real.

There are some jurisdictions that do that. We have some significant complexities here in B.C. The summary financial statements are not just the voted appropriations of the ministries, as you know. They are also the consolidated statements of almost 200 other entities from across the province.

There are some challenges in thinking that you can look at the very transaction and follow it right through,

because we have different accounting standards right now for each of those organizations. The accounting standards that we report at on the summary level are public sector standards, while the standards that a school district or university might follow are yet a different way of recording the information. To get to that place, there is a need for some consistent basis of accounting.

Right now we accommodate for that by making adjustments for accounting differences when we consolidate into the summary statements, but that's a very hard concept to explain to people.

The reason that the number looks like A over here in the school and the reason it looks like B is because there is a difference in accounting practice. That does not help to achieve the target or the place that the committee is talking about. Certainly, we would like to get to that place, but it is a lot of work, and it is a long-term vision. It's something that we can work incrementally towards over time. It is not something that we can just do in the next year or even the next five years.

We've really tried to take an approach of incremental, continuous improvement of information, which is why you've seen over time more and more information becoming available as people request it and ask for the information. We are open to hearing what is helpful, what is understandable, what is useful, and trying to incorporate that into how we actually do the financial reporting for the province.

S. Chandra Herbert: Thank you for that answer.

I guess the question I had is.... My understanding is that this committee has.... Past practice has been that they could request right down to the cheque stub, in a sense, for separate transactions. I know that in looking through the public accounts, sometimes it can be difficult to understand how something breaks out, because it's a big number, and maybe....

For example, in advertising. Maybe an advertising company gets a contract, but it might be for a couple of separate projects, or you're not quite sure what the money was used for necessarily.

The question I had, understanding that some on the opposite side were concerned that some of these questions weren't on the agenda.... I heard comments like: "This is ridiculous. This is not estimates." So I understand they don't want to....

B. Ralston (Chair): Let's just not engage in cross-debate, if we can.

S. Chandra Herbert: No, I'm just trying to understand the role of this committee.

B. Ralston (Chair): I understand that you're summarizing some comments, but let's just try and focus on the public accounts of the province here — and legitimate questions that are directed to those. Thanks very much.

S. Chandra Herbert: So the question really is: if we have questions around specific line items that might not come during a session like this, because I know we meet somewhat infrequently...?

[1015]

If we could ask, for example, "Could such-and-such a line item be broken out?" would it be appropriate for a member of this committee to send a letter to the comptroller to request the more specific information, or does it have to come through this committee?

C. Wenezenki-Yolland: No. We receive requests for details, like breaking out of line items, all the time in our office.

S. Chandra Herbert: Okay, good to know.

B. Ralston (Chair): Just as a suggestion, it would be helpful if at least the Clerk of Committees was copied on that, so then the answer could be provided to other members of the committee as we went forward.

S. Chandra Herbert: I guess I, too, would be interested in whether or not the committee might be able to have a presentation on the Enns report that came out. I'd taken a look at the first one, and I took a look at some initial recommendations in the last one.

I guess it would be helpful for me as a committee member to get an idea of where his review is coming from compared to the work that this committee does, because I know other public accounts committees meet more frequently than this one has. Just as an example, we're still considering reports from '08-09 when we're into '10-11.

I would support the Chair in having more frequent meetings, but also.... There's a relatively new Chair who is doing his best to get these meetings going, and I appreciate that we're clearing through the backlog here. Just to put on the record that that would be helpful, I think, for this committee.

R. Lee: From the discussion, one question has really come to my mind. We have the account level for each individual organization and their function or coordination in between — right? — another layer. And finally, you've got the presentation level, which is probably for public consolidated account statements.

Right now I don't know which stage we are into — say, the unifying bodies kind of process by moving to GAAP. For example, even school boards have different kinds of accounting systems. I think we are moving to one system, but there's also some suggestion to move to another more universal system.

This kind of a system transaction has actually created some confusion, I think, sometimes. So are there any thoughts on...? I don't know. There may not be one

system for the whole world, but is there any progress to making it easier so that when you have transition from one system to another the numbers could be more consistent — that kind of thing? Do you mind commenting on that?

C. Wenezeki-Yolland: In the context of accounting standards, one of the ways to have more consistency is to have a common definition of how you capture costs and how you account for information. With the pending changes that are happening because of the direction Canadian accounting standards are going, we are intending to leverage that opportunity to draw greater alignment across the reporting entity — that is, the government reporting entity — to move to greater consistency.

There is a state of change, and we're going to use that as an opportunity to move towards greater consistency across the entire entity, which will help us move towards that direction. We do still comply, though, with the independent standards, which in some ways still direct some of our organizations to follow other accounting standards. So there will still be some anomalies, but for the most part the objective will be to align at least the accounting and reporting of all of the organizations to a consistent basis.

If we can get people reporting on a consistent basis, then it starts to allow you to move to a more common information technology structure that can allow you to move to that place when you can drill up and down and through the organization more transparently.

R. Lee: My question to follow is.... I don't think anyone can dictate what kind of software system organizations can use or what internal format they can use. I don't know how you can achieve that if there is no authority from your department to ask for similar formats of reporting.

[1020]

C. Wenezeki-Yolland: I do not have the authority — you're right — to ask for that. Government has the authority to ask for that. Irrespective of authority, you can also achieve a lot through collaboration and common sense of purpose and direction.

There were also recently some revisions to allow for the comptroller general to provide direction in regard to accounting standards across the broader reporting entities. Anyone who is within the reporting entity would have to follow the direction of the comptroller general. Now, that is under the direction of Treasury Board.

They would have to move to those standards — not necessarily the technology. I'm not a technology person, but I do understand that there are ways to use technology to bring that information together, provided that it's captured on a consistent definition in the first order.

R. Lee: Do you mind commenting on that, Auditor General?

J. Doyle: I think it's an excellent idea to move to a common form of accounting. It's naturally not going to be achieved, because we have — or we will have, I suspect, although I'm not sure — IFRS for some entities who are more commercial, and we will have PSAB for others.

What complicates a lot of the budget setting and the financial reporting at the moment is the interaction of these different versions of GAAP that currently exist. They're actually shown quite well in this document if you look at some of the tables at the back of the document where they're comparing different subsectors or sectors of the government reporting entity, where you see a line there which says "accounting adjustments."

This is the conversion of the summarized information from a particular sector, be it hospitals, colleges, universities or school districts. You see a summary of all of them in a table — operating statement and a balance sheet — and then you see a line underneath which sometimes radically changes their performance and sometimes it doesn't. It's called accounting adjustments.

This is where there's a clash between the different not-for-profit GAAP that's being deployed by some of those entities and the PSAB GAAP which is used by government to conduct its reporting. This creates complications because, for example, it can send very interesting and mixed messages around performance.

I hesitate to share this with the members and drag you into a financial accounting lesson, but if you look at page 102, you can see there that surpluses are made in some entities and losses are increased for others. Trying to explain this in any deep and meaningful way, when there are so many different versions of GAAP available, is actually quite problematical.

The shift over to the same way of reporting, the same way of bookkeeping, consistent accounting policies and standards across the board, would actually take away this discussion topic completely and allow us to have a look at what is the performance, from a government perspective, of a particular entity.

I'm going to look at colleges and institutions on page 102. It shows that although their analysis broke even, because of accounting adjustments, there was, in fact, a very small deficit. You can see there, also, that universities showed a deficit for the year when you summarize them, but because of the accounting policy adjustments, that deficit was actually reduced, according to the way it would impact the balanced budget legislation at the consolidated level.

It's something that is going to have to change, because this is too much like smoke and mirrors and complications, and it is something that is being worked on by many people to try and bring about these structural changes.

[1025]

The other two that are on there are health authorities, where the deficit is increased, and school districts, where the surplus is increased. It's these bottom-line figures that flow through to the result for the year on the summarized operating statement and contribute to the deficit or surplus of the province as a whole. Now, if that could be fixed, then a lot of the complication in these issues might start to disappear, and a lot of the variations between entities on how they do their book-keeping would disappear.

It did come to me as a shock, coming from a different jurisdiction, when I first came here. I spent the first few months basically learning all the standards and how they applied against the various forms of GAAP and then the different accounting policies that existed within those forms across the government entity. I think I understand them now. If not, I've got a team of people that do.

But both groups have the same problem. You have all these different variations and different ways of interpreting a set of financial statements. Quite frankly, it should be easy. You should be able to read a set of financial statements, and it should make sense. I'm afraid that isn't always the case.

Anyway, that was my brief little comment.

R. Lee: I have no further questions.

B. Ralston (Chair): It's not terribly reassuring, but nonetheless....

I note the hour. We'll wrap up on this topic fairly shortly.

K. Corrigan: Thank you for that. That's very interesting. I actually feel better, because I don't feel quite so badly about my ability or lack thereof to read the statements if the Auditor General had to spend a few months to bring himself up to speed.

I have a final question — just a bit of past business, I guess. This committee made a motion. I think it was John Rustad who made a motion in January asking for an estimate of time — I'm paraphrasing here — it would....

B. Ralston (Chair): If I could interrupt. I think the comptroller general is prepared to answer that. I was just holding that off until the end, so she will answer that.

K. Corrigan: Oh, okay. Great. Then I won't bother.

B. Ralston (Chair): I have two more questions, and then we'll wrap up here.

S. Chandra Herbert: Just a question for the Auditor. It sounds like there might need to be an audit of auditing, in a sense — just for value for money and so on — if people are having to spend a lot of time interpreting

between statements year in to year out. Whether or not that's the best use of their time.... Maybe the comptroller general might have some thoughts on that.

C. Wenezenki-Yolland: Do I believe that's the best use of people's time, having to reconcile different accounting and different adjustments? No, I don't. I'm actively leading an initiative within my profession to try to get some stability for public sector reporting for that very reason. It's very active, and we're very vocal.

G. Gentner: I get worried when the Auditor General and the comptroller general actually agree on some things. [Laughter.]

Nevertheless, I am hopeful that we will continue this dialogue with the comptroller general relative to public accounts. Simply, we're not going to close the book on this, because I have a lot of questions.

The last frame on the PowerPoint made by the comptroller general.... The second-last, before it says "Questions," says "Additional Information" and talks about consolidated revenue funds, purchasing card payments, schedule for public debts. It seems like nefarious — well, not nefarious; sorry — sort of incidental material. But when you start layering through it, they are important things. Hopefully, we'll be able to deal with it.

In particular, I can give you an example. When I was comparing, it's more a matter of accessibility than accounting practices. When I looked at — let's take one example — Helijet expenses by various ministries and added them up.... You could find them from the purchase card entries and go look at the consolidated payments. There was a discrepancy. I can only figure that's because there's maybe a contract with the B.C. Ambulance Service. This is different than the purchase card.

[1030]

I guess where I'm going with this.... Those are questions I would like to drill down in and find out. What are, in particular, the practices of purchase card protocols? Who has cards? When does the comptroller general decide to tear them up? Every ministry has different contracts for different reasons. One deals with Bell Canada. One deals with TELUS.

I find — and maybe I'm a very boring person — that when you start spending your nights going down the ledger of purchase card entries, it tells you a lot about government.

J. Les: You've got issues.

G. Gentner: I've got issues. I don't want to bore you with them today, but I'm hopeful we'll have the opportunity to spend some time.

I think that when you really deal with the contracts and the use of purchase cards, it tells you a lot about government and where we're heading. Why is it that

we're using more Bell Mobility than, I suppose, Rogers? I don't know.

I'd like to spend some time back on that subject, Chair, when we have an opportunity. Noting the hour and also knowing that we'll have a whole new set of books coming forward in July, it could be an interesting comparative between this year's and of course next year's.

J. Rustad: This discussion has raised a couple of thoughts, because it goes to the principles of accounting and the principles as to how things are accounted.

Over time, of course, we have seen significant changes in accounting practices, over the last 20 or 30 years. You could probably go back further. You could probably say that the changes are continuous, and the only thing that's constant is the fact that there is change.

Having said that, one of the things that has always been a concern to my constituents and to many people in the province is debts and deficits — the way they're actually accounted and the way they are presented.

There was a big hoopla about a decade ago around debts and deficits and how that accounting was happening then. There were changes that came in over the last decade to try to make that more transparent. I'm just wondering if you could review how things have changed over that decade — obviously, you can't go into great, great detail — in terms of how debt and deficits have been accounted for, how they are tracked and how they are presented.

C. Wenezenki-Yolland: There was a lot of work done as a result of the original Enns report that came out of some of the early results. There were a number of recommendations. Government has acted on all of the original recommendations of the Enns report.

It talked about ensuring there was alignment between the budget and the public accounts. Government used to set all of their own accounting policies. It was also the impetus to move away to the public sector standards. So both the budget and the public accounts are prepared on public sector standards.

In regard to the actual deficit or debt, they are clearly provided for in the public accounts. You can clearly see what the operating deficit or debt is in any given year. You can also see within the public accounts whether the government is in an accumulated surplus or deficit position, which is over time. Right now the province has an accumulated surplus, even though we are currently in.... Well, this year we'll be in an operating deficit. This time we weren't.

Also, if you want to look at the debt reporting, there is a separate reporting in the *Public Accounts* at the very back that identifies all of the debt that is reported on the province. That debt report is actually audited and reviewed by the Auditor General to give some of that assurance.

In that regard, I believe that from where it was to where it is now, there is a lot of transparency. There is information available to people so that they can tell at any point in time where the government is in regard to the deficit or the debt.

We would be happy to answer any questions you have on that reporting, which is why we have Larry here.

B. Ralston (Chair): Thanks very much. The time for this section has expired. I'd like to take a brief recess and move to the next report.

[1035]

I would say just before we leave the topic that I expect there may be some written questions from members that will come forward to the comptroller general, and we'll look for those answers.

Before we move, I just wanted to give the comptroller general an opportunity to answer the question that was a result of a motion put by the committee. Perhaps the Clerk can provide the motion just so we have that before us before we get the response.

K. Ryan-Lloyd (Clerk Assistant and Acting Clerk of Committees): Earlier this year, January 26, 2010, it was resolved by the committee "that the Comptroller General advise the Select Standing Committee on Public Accounts as to the estimated cost to her office of compiling information on the magnitude of the province's contractual obligations and the quality of the available data, as requested by individual Members of the Committee during the course of its meeting on January 26, 2010."

C. Wenezenki-Yolland: We did do a project plan to determine what that cost would be. What we had estimated the cost would be is for my office directly. It would be approximately 200 hours of effort, and at an average salary cost, that would equate to approximately \$200,000 all-in.

In addition to the direct costs of my office, we also did an estimation of the time that would be required by the individual entities, because there are 200 entities that would also have to gather information for us. We have a broad range, because it is an estimate. We estimate that their costs would be anywhere from an additional \$200,000 to \$400,000 for those entities to then do the work. So the total cost would be somewhere in the order of \$400,000 to \$600,000.

One of the reasons for that is that a lot of this is manual work. It requires people to go through individual contracts, review them, make an assessment and then report that information.

Recognizing that, this would not be a cost over and above. What would happen is that if people are asked to do this work, they will put other work aside in order to do this work. So we have employees, and they would

make this a priority. It means something else wouldn't get done.

We have done a preliminary review. Irrespective of that, we did ask for some extra information as part of this year's public accounts to try to get a feel for the quality of information that we would get back from the organizations, to determine how good our assessment was. What we have identified is that there would be a considerable amount of work in order to separate what is a real contractual obligation from what isn't.

So I do believe that estimate is valid. The higher-end estimate is probably more realistic about what that would cost.

B. Ralston (Chair): Thanks very much. If we could take a brief recess and then move to the next item.

The committee recessed from 10:38 a.m. to 10:41 a.m.

[B. Ralston in the chair.]

B. Ralston (Chair): The report that we're dealing with now is report No. 13, *Public Sector Governance and How Are We Doing?* We have the Auditor General here, who is going to introduce Mr. Gaston, who has worked on the report. The comptroller general, I believe, is here. Lorna Pritchard, the director of financial governance, financial management branch, Ministry of Finance, is here to assist as well.

**Auditor General Report:
Public Sector Governance
and How Are We Doing?**

J. Doyle: Good morning. There are actually two documents within this publication. The first is *Public Sector Governance: A Guide to Principles of Good Practice*, and the second part is *How Are We Doing? The Public Reporting of Performance Measures in British Columbia*. Together these two reports provide a strong foundational tool to assess public sector governance and accountability. They describe in broad terms what public sector entities in B.C. should be doing and are applicable to every area in the B.C. public sector.

In relation to our governance guide, compiling a good practices model was the easy part. The more challenging part is embedding the principles into the way organizations conduct their business and deliver their services. This is the role of the boards.

The second report, the survey, gives us a picture of performance measure reporting at a point in time — the first time this is done, and the first time it has been produced for the government reporting entity. This has given us valuable background information to help in future planning work as well as helping public organizations develop how they report performance through

annual reports. In effect, both of these documents are tools that can be used by different entities to carry out their business.

The group responsible was led by Assistant Auditor General Malcolm Gaston, and I'll now ask Malcolm to take you through the summary of the report. Thank you, Malcolm.

M. Gaston: Good morning. As has just been mentioned, the document that you have is actually comprised of two separate reports. One provides a framework for public sector governance, and the other one is a snapshot in time. It's the result of a survey of looking at what performance measures had actually been reported by public sector organizations within B.C.

Why did we do this work in relation to our public sector governance guidance that we produced? First of all, to make sure that we had a definition of governance that everyone could understand and relate to.

It is important to recognize that government actually produces a lot of guidance around governance. When we looked at this, we noted that it tended to be at a bit more of a detailed level than the document you have before you and quite often, for good reasons, was aimed at specific sectors or groups of sectors.

[1045]

We wanted to produce a document which was maybe more at a principles level and would be seen as guidance, a framework that could be used by any organization within the B.C. public sector and indeed, as the document itself mentions, could be used as principles in a framework that could be used, for example, with contract arrangements that involve multiple jurisdictions or organizations — so much more at a high level.

The other reason that we produced this was to set out what we saw as the landscape for good governance and to signal the types of areas that we would be looking at in future and the things we would be looking for.

We consulted an extensive number of sources. I've listed five here on the slide. I think the bibliography at the back of the report actually lists 15, but we started with a much larger number than that. One that I would draw your attention to is the first one on the slide, which was papers produced by the Canadian Council of Legislative Auditors. These papers were produced by a governance study group, which is a subset of an organization that represents all of the legislative auditors across Canada at the provincial and federal levels — so a fairly authoritative source.

In terms of what we produced, there is the report that you have before you. We've gone further than that. This is a piece of work that we wanted practitioners to use. We wanted it to be a document that would be useful to those working in the public sector, particularly those with responsibility for the different aspects of governance that we've outlined.

I believe that you had circulated a copy of our guide. This is a separate document we produced that's based on the report. It's designed to be something that is easy to pick up and take away and flick through, and to provide the basics of what we would see as good practice in governance. That guide was translated into an electronic format, which is available on our website. It's interactive, so someone can go in and click on the different parts of the guide, and it takes them to a bit more detail which helps explain specific areas, such as risk management, for example.

We started by identifying the principles that we felt should underline good public sector governance. None of these will be any surprise to you, but they are accountability, leadership, integrity, stewardship, transparency — principles that should run through all of how a public sector organization conducts its business and should be seen as an integral part of good governance.

The framework we produced — or the house of good governance, which came from a model produced by the Australian National Audit Office — has eight elements within it. Interestingly, the foundations of the house look at leadership, ethics and culture — very much the basis on which good governance is built. Then it goes on to look at the other elements of good governance, leading up to the top level — the roof of the house, if you like — which is hopefully confidence in the organization, the confidence that the organization is being guided by good governance principles.

Moving on to the second report, which is within the document you have, this is our survey of performance measures reported by organizations right across the government reporting entity. Annual reports are a critical tool to describe and explain performance of organizations. Within those reports, performance measures should reflect the critical areas of performance for each organization.

[1050]

As part of this work, we examined around 1,400 performance measures from a total of 72 organizations within the government reporting entity. This was to gain an insight into performance measure reporting, to set a baseline in terms of our understanding of where it is and hopefully to identify areas for further investigation. In terms of any future work that we may conduct here, obviously this gives us a point that we can go back and refer to, to see how things have moved forward.

The first thing I'd like to note is that overall the findings were quite positive and encouraging. A picture was painted in terms of the maturity of performance reporting in the province. There are some areas I'd like to highlight.

Some 96 percent of organizations we looked at had their performance measures available through their website, so almost 100 percent. This is obviously good in terms of the accessibility of performance information.

Some 20 percent of organizations had performance measures that involved stakeholder surveys. While this could obviously be higher, it seemed a good start. We had a good level of measures that involved benchmarking against other organizations.

Some 78 percent of performance measures were consistent in the definition of the measure with the prior year. The importance here is that if you're going to be able to look at a trend of performance — how an organization is performing over time — then you need performance measures that are consistent for a period of time. To have almost 80 percent of measures consistent from one year to the other allows you to get that picture of whether an organization's performance is improving or otherwise. The details for these are shown, as well, in exhibits on pages 52 and 53 of the report.

We did pick up some observations which led to recommendations. The first one was to keep the number of performance measures in annual reports to a minimum. Now, we've never specified what the right number of performance measures is, but in the B.C. reporting principles — which this committee actually had a hand in producing several years ago — principle No. 3 talks about focusing on a few critical aspects of performance.

We could go back to the old maxim that an organization that has 50 priorities, for example, has none. So it's coming back to: what are the priorities of the organization? What are the critical aspects of performance? What should we be focusing on? One organization that we noted, for example, had 205 performance measures within their annual report. We wouldn't see that as good practice.

The second point talks about a number of efficiency measures. Page 59 highlights that some sectors are better than others, but that in general, there should be an increase in the number of efficiency measures used within annual reports.

The third item talks about accuracy and timeliness. Again, page 61 shows how different sectors are performing in relation to each other, but in general, there should be more measures available looking at accuracy and timeliness. Obviously, the applicability of these will depend to an extent on the type of activities that an organization is involved in.

The last areas for improvement we picked up on were looking at the differences between sectors. "School districts should include current-year targets," was one of the points that we made. It's all very well talking about the performance that an organization has achieved in a year. But what was the target they had, and how well have they done against the target?

In relation to health authorities, we also recommended that they should not be required to include within their annual report every performance measure that's in their letter of expectations. Again, it's coming back to principle 3 within the B.C. reporting principles

— that they should focus on the few critical aspects of performance.

Looking at these two documents as informing us about good governance, we've been able to use the house of governance part that you have within the report as a lens for our work going forward and to inform the work that we do.

[1055]

The first element in the top right-hand side, looking at the whole house. We've recently used a survey right across all the government reporting entity organizations gathering information on governance practices in relation to information and decision support. The board use of information piece, which we're going to be talking about soon, was informed by this particular framework.

The next item on the agenda in relation to executive compensation and performance pay fits very much within planning and performance monitoring. We have an audit underway right now looking at risk management. So this has certainly informed our work.

The last thing I'd like to say is that if the success of a report can be measured by the amount of positive feedback we've had — a lot of it informal through discussion with ministry staff, with audit committees — or by the number of invitations that we've had to talk about these reports and what they say and what it all means, then these reports have certainly been very successful.

That concludes my presentation.

B. Ralston (Chair): Thanks very much. A response, then?

Anytime you're ready, go ahead.

C. Wenezenki-Yolland: First off, we'd like to thank the Auditor General's office for the work that they have done in regard to the governance and governance principles. We really appreciate that work, and we appreciate the opportunity to come and speak to the committee, as well, about that work in the context of B.C.

As the Auditor General has pointed out, this is some practice guidance, and it provides some very high-level, broad principles. There is no question that some of the key principles underpinning this are not surprising, and you probably have heard a lot of these words throughout government in the past: "accountability," "strong leadership," "integrity," "stewardship" and "transparency." They're not uncommon terms in the public sector. Having the principles out there to reinforce what we have really built into the substance of governance in the provincial government is, I think, extremely helpful.

I've also had the opportunity to use some of the Auditor General's words in a recent report that I did, so thank you very much, John. It was very helpful.

So we're not actually here to disagree. As the previous member had indicated, we're not here to disagree. We're actually here to endorse and embrace the work

and appreciate the additional knowledge that it adds to our library and our various governance documents that we already have available to us. I think they referred to a number of them in the report itself. The Crown agency provides very good governance information to all of the Crown corporations. The board resourcing office also provides a comprehensive set of information for board governance.

As well, we were handing out an additional paper that we were working on recently within the core government, which is looking at the government's management and accountability framework. We are constantly looking to review and strengthen that, with these principles, really, at the core of everything we do.

We have handed out a document to just give you a bit of context about what goes on in B.C. I won't talk through that, but certainly we do appreciate the work that the Auditor General has done.

I think you can just go through there. I don't really have anything to challenge. So if we move on to the second half of the report, which is probably where we actually have more to say... It would be in regard to the public reporting and performance measures, this being one of the foundational governance principles.

[1100]

As the Auditor General had alluded to, there were the performance reporting principles for the British Columbia public sector. B.C. has had those in place for a long time. I actually looked back to see when they came into place, and it was November 2003. Those principles were developed with government and with the Auditor General and were endorsed by this committee.

The province has undertaken a lot of work over time to move to performance reporting. B.C. is still seen as very much a leader in the area of performance reporting and is still drawn on by many other jurisdictions in this regard. I do believe that the Auditor General's findings are not by accident. We would like to hope that they are by design, as a result of the efforts that have been made over the last period of time.

If we look at it, the Auditor General's report commented on the very positive findings of the report, finding that performance measurements consistently met the SMART principles — specific, measurable, attainable, reliable, time-bound benchmarks. They commented on some specific aspects of what you might look for in performance measures, and they were saying that 26 percent of the measures were benchmark-type measures that allowed for comparison amongst other organizations.

A large degree of stakeholder surveys are utilized within the performance measures to seek feedback from the people receiving the public services. I think you had a very good presentation yesterday from the Ministry of Health, where they talked about some of their work in regard to performance measurement in and across the

health sector, and I think those are very good examples of what is going on.

All of the organizations — 96 percent — made performance measures readily available to the public. That goes back to the transparency in providing the information to the public, so they can see what the government is doing and how they're performing over time. And 79 percent kept their performance measures consistent over time. Consistency is extremely important because you want to be able to compare over time and see the trends of improvement. That is extremely important.

The government does agree that service plan and annual reporting guideline templates do provide excellent information to our ministries and Crown agencies, and have definitely had a positive influence on this area over time.

In regard to the recommendation that the Auditor General had — to keep the number of performance measures to a minimum, increasing efficiency measures and reporting on accuracy and timeliness — we are happy, and we agree with the Auditor General that we would like to see this. It is sometimes challenging to get organizations to want to keep their measures to a few. They like their measures. Also, one of my personal experiences: if you've had a measure out in a public forum for a long time and it suddenly disappears, there are sometimes some communication challenges with that.

We do provide guidance to organizations in their planning and in their performance reporting to try to keep them to a few very specific, meaningful measures, but you do have to balance that with being transparent and being able to explain where those measures are.

That has certainly happened, and while we do provide the guidance and the guidelines through the service plans and through the information that we provide to the Crown agencies, we have asked them to consider incorporating more efficiency measures, timeliness and accuracy. That has actually happened. The guidelines went out — I can't remember when — recently, and they embraced that concept.

Individual organizations, however, do determine their own performance measures. We don't tell them what to do. Some organizations go through a very consultative process in order to identify what those measures are, because they do want measures that are meaningful to the people who are going to be looking for performance in that area. They do identify them based on their own organizations, and we recognize that one size does not necessarily fit all.

[1105]

You may not want things to be going really fast, if you want... In certain circumstances outcome might be better than being timely — in some circumstances. You have to look at each and at what's appropriate for those programs.

We would say, as of January 31, that the recommendation as provided by the Auditor General is substantially

met, based on the additional guidance and direction. We will continue to monitor that and continue to encourage organizations to move forward.

In regard to school districts, school districts should include current-year targets in all of their performance measures in their accountability contract and reports. The school districts have a different accountability mechanism. Where ministries and health authorities have service plans, school districts have an accountability contract with the Ministry of Education. It focuses specifically on achievement, with both short- and long-term areas.

The Ministry of Education has committed to encouraging school districts to include current-year student-focused targets in their achievement contracts and reports. There are superintendents of achievement within the Ministry of Education, and they are going to continue to work with the district superintendents around improving and identifying those targets on a district-by-district basis.

Those achievement contracts with those measures are expected to be submitted back to the Ministry of Education by July 15. Certainly, I think that's an indication that we are taking the Auditor General's encouragement for continuous improvement seriously and finding ways to promote that across the public sector.

The next recommendation is that government letters of expectation not require inclusion of every performance measure in the health authority annual reports. I'm not sure if that was the 200-and-something you referred to, Malcolm, but I wouldn't be surprised. That goes back to my conversation that it's hard to get people to let go of their measures.

Irrespective of that, the Ministry of Health has actually done an excellent job in this regard, and we consider, based on their actions, that they've fully addressed this. The Ministry of Health certainly recognized the need to refine the measures for the health authorities, to get them to focus on a few key measures, at the same time recognizing that performance measures are designed to reflect the breadth and depth of health care.

As I said, we did have some presentations here yesterday that did talk about some of that, particularly programs and how you might measure some of those programs.

We're very careful about where the few measures are. What you would see in the Ministry of Health is that they have now moved to having service plans for the health authorities. Those service plans will focus on a few key measures, as recommended by the Auditor General. They will also be multi-year measures, which is also what the Auditor General had recommended.

Within the service plan they have the ability to provide three-year targets for those measures. That's where you would find the few very focused measures. Then the ministry will continue to have more specific measures that they monitor on an individual program basis to

continue to improve the performance and keep some of those 230 for management and monitoring, as opposed to the public reporting.

The recommendation — I actually already talked about this on the previous slide — was to have three-year targets for the measures. The Ministry of Health has embraced that and does have that now available.

In summary, I believe B.C. is doing quite well in regard to the performance reporting — as, obviously, does the Auditor General. We are always willing to improve in our reporting, consistent with the earlier discussion, and we will continue to incrementally improve that to provide better information to the public.

B. Ralston (Chair): Thank you.
First question, Norm Letnick.

N. Letnick: Thank you very much, Mr. Chair, for the opportunity to ask a few questions.

I have no questions on the first part. I don't imagine too many people would. Good work.

[1110]

On the second part, the overall findings. I agree they're positive and encouraging. Almost 100 percent of all performance measures available on the website, so they're available to the public. That was good. I also liked the validity and the reliability of the information that's being provided and how it's consistent over time.

One of my first questions on that is: how about relative to other jurisdictions that are using similar performance measures? Was any consideration given to looking at not only providing measures over time so that we could show how we're improving or achieving challenges but also show how we're doing relative to our competition in the business sense — right? — in other areas?

I have a couple of other questions, but why don't we answer that one first and then we'll go to the other ones.

J. Doyle: We do actually mention that a large number of entities were benchmarking their performance against other organizations within this province or other entities outside the province. The issue, then, is the appropriateness of that benchmarking, and we didn't find any major standouts that made it inappropriate.

I think the issue is the informative content. Each entity needs to think about whether or not that should form part of their transparency and accountability and find the best possible comparators to use to inform citizens.

N. Letnick: On the specific recommendations, it's nice to see that the government supports the moves to key performance indicators and is continuing in that direction. "The ministry will encourage school districts to include current-year student-focused targets in their achievement contract reports." Again, it's nice to see that that's moving forward and we're making a lot of progress.

We're also making progress in the health care area, but I have to remind myself all the time that health care in B.C. is about 11 percent of the GDP of the province and about 40 to 42 percent of all program spending. So we might have a few more measures in that one area, then, than you may have in maybe some of the other ministries. I think it's important to put that into perspective as well.

With that, I understand that the Health Ministry is moving more towards a balanced scorecard approach to keeping track of their measures, which is not inconsistent with SMART — specific, measurable, achievable, realistic and timely. But there was no comment at all in the audit or in the response regarding the move towards a balanced scorecard. At least, I didn't see one when I was reading it quickly. So my question would be: is there any challenge with that from the comptroller general's, from government's perspective? Can we continue moving in that direction?

Then the last question — I might as well ask now — is the challenge of information transfer. I didn't talk about it yesterday, but I was thinking about it — the challenge of transferring information from regional health authorities to the ministry to try to get good information to make good policy decisions on. I understand from watching what was going on over the last few months that there might be some challenges there. If you could comment on that, as well, if you feel it's part of this, because it is information that is projected to the public.

Those are my last two questions. Overall comment: great work on the Auditor's report, and government is supportive of the recommendations. I like it.

C. Wenezenki-Yolland: How about I take the part on the balanced scorecard to start out. In the context of the balanced scorecard, I see that as being absolutely consistent with the principles that are recommended in this report. I have to tell you: I have a personal bias for a balanced scorecard. I've championed that for a very long time. It actually has a very good perspective.

From an operational perspective and making decisions, the context of it forces you to look at your organization from multiple disciplines. So it forces you to consider: "What is the business and the service delivery that I'm in?" Then: "What are the resources and the people that I need to bring to that?" and "What are the innovations, and how do those align with my strategy?" It actually forces you to look at kind of four quadrants and to consider measures.

Out of that, what you would get is service delivery or outcome measures. You would get efficiency and effectiveness measures. You would be looking at your workforce to determine, "Are they engaged and committed to delivering good service?" and of course: "Are we are managing and getting value for money on the financial measures?"

[1115]

I believe it's a very good perspective that the Ministry of Health is undertaking, and we are actually seeing a lot more of that concept emerge.

You may not see it as much on the service plans, but certainly in the operational plans of ministries that really is a focus that they're taking in driving their operations to make more effective decisions in regard to how they run their ministries in order to achieve those objectives and monitor their performance over time. I think it's very positive, and I think it very much aligns with the direction.

In the context of getting information from the Ministry of Health, I did hear some of those struggles in the presentation, and I do believe that that is challenging. I do believe that the Ministry of Health does have a strategy, though, that they are working on with the health authorities and within their sector to improve how information is collected and how information is shared between the health authorities and the ministries to address that over time. It will take some time.

It is, as you said, a very large sector. It has a very diverse set of services that it provides. It is very complex, and there are huge culture aspects, as well, that have to happen as part of that change to allow that information to move freely. I do believe they have a good strategy in place and are working towards that and that you will see improvements in that over time as they continue down that road.

J. Doyle: The information that's being transferred needs to be de-identified, and I think that covers all the privacy issues. It's what's required to track performance, if you like. I think the difficulty is really marshalling the information in a way that it can be utilized in the best possible way.

Another point that was made in the report, and perhaps it deserves a little bit more explanation, was the drop from 205 down to a reasonable number of KPIs — key performance indicators, or key measures. It doesn't mean that those other ones would not be available. They can still be done on the website, and that's at quite a high cost for the agencies concerned. But the critical ones, the key performance measures, could be published within the service plans in a way that it's relatively easy to digest them. But other information can still be available.

Now, one aspect of all of this is where B.C. fits in the spectrum of very good to awful. It's actually in a good position. There are some jurisdictions that are further ahead of it in the world, and there are some that are well, well behind it. The fact that performance measures are published is very good indeed. It allows transparency and accountability. It allows discussion. It allows informed content and discussion.

There is no assurance on these performance measures in the same way that you would have for a set of financial statements in this jurisdiction. Some jurisdictions

that are further up the spectrum have in fact audited the performance measures. In fact, where I come from, in Western Australia, they've been doing it since 1986. In fact, it forms part of the opinion on the financial statements for each area.

At the moment I think the situation is correct in that there's development of how you measure performance and how you communicate it well, but soon there will be an appetite for: "Well, how do we know these figures are right?"

Now that we've gotten to the stage that we've got the figures and we can ask questions on them, where do we go next? That's still a discussion that needs to be played out as we go forward.

K. Corrigan: I wanted to thank the Auditor General's office for the guide. It was really helpful to me as an MLA to read it and understand better the workings of government and guidance to principles of good practice. I found that very worthwhile.

Thank you for the presentation, Malcolm. I appreciate that.

I had a question about the performance measures and the Ministry of Health. What I didn't see was any discussion or direction, I guess, about how the Ministry of Health can align the priorities through performance measures between the various health authorities.

[1120]

I'm just wondering if I could get some background or comments about what that process is, in your understanding, or whether there is a process of alignment wherein the Ministry of Health would set the broad priorities and then the health authorities would have performance measures that fit within those priorities. Or is it more that the health authorities are so independent that it's not possible to do that?

C. Wenezenki-Yolland: I actually believe the presentation you had yesterday kind of spoke a lot about the process that they go through in the Ministry of Health. The Ministry of Health does set very broad, higher-level objectives and priorities for specific areas of health care, and then what they do is... And they describe the process. They have a consultative process that includes not only the health authorities but clinicians and other experts in the area to actually identify what are reasonable measures.

They actually probably have a much more consultative and team-building approach to how they define some of their measures than we might see in other areas. They do have the ability to set the broad objectives, and they choose to work with the health authorities and with their sector in defining those measures to make sure that they are meaningful to the sector.

G. Gentner: I read the report, and within about six or seven pages I didn't like it. I don't expect any commentary

from the comptroller general here, but when I went through it.... We're doing this as something that's subjective, I suppose, in our perspective of government. We're talking about public sector governance. We're not talking about a government; we're talking about the whole universal concept.

There's a distinction between the private sector and the public sector. When I started getting into it, I started looking at the flow chart, and there's a line between the citizens of B.C. and the Legislature of British Columbia. What is the relationship between the Auditor General and the Legislature?

One of the most important parts of governance, as suggested, was that of integrity and that of being impartial. So I have to ask the question: what is the role of the opposition? I have no understanding here in this report. Good governance is based on good opposition. I think we have a bad government. Maybe that says a lot about the opposition.

But I have to ask the question: what is the role here in good governance? I think impartiality means proper resources to the opposition. I can tell you that I have telephones in my office that were wired in the 1980s. I can't do conference calls like maybe some ministers can.

There is a good governance practice in Alberta. Parties that have members of two get full funding, as opposed to here. If you are under four, you get very little funding.

Impartiality. Where is the role in this flow chart...? I see the Legislature is put together as one block. But here is an opportunity for anybody.... It's obviously not in the mandate of the Auditor General, but where in this report do you show that impartiality in the role of the opposition?

J. Doyle: Thank you for the question. As you have quiet correctly pointed out, it's outside my mandate and outside the scope of the report.

B. Ralston (Chair): That keeps it short. The comptroller general is not going to touch that one either. Very well. Very prudent. But it's still a good question.

Any further questions? Given that we've finished a bit early on that, perhaps the next report is scheduled to.... I think the staff will be here at 12. Oh, I see they're already here.

If we could begin the report on executive compensation now, then we could perhaps.... I think we have scheduled 45 minutes for that. Then if we could adjourn, maybe, at quarter after 12 and then return at one o'clock for the next report, that might work. Is that generally agreed, then?

Personally, I would like to provide some time for a short break. I know the proposal was to go through for the straight five hours. I'm not sure that we'll hit all our key performance indicators if we do that.

We'll recess just for a couple of minutes now.

The committee recessed from 11:25 a.m. to 11:30 a.m.

[B. Ralston in the chair.]

B. Ralston (Chair): The report we're about to consider is *British Columbia Crown Corporations Executive Compensation Arrangements — A Work in Progress*. The Auditor General is here. He'll introduce Mr. Gaston. We have, to respond, Tom Vincent, who's the vice-president of the Public Sector Employers Council secretariat. The Auditor General could begin.

Auditor General Report:
British Columbia Crown Corporations
Executive Compensation Arrangements
— A Work in Progress

J. Doyle: Executive remuneration in both the private and the public sectors has received much media scrutiny and public comment in the past. Obviously, it's a sensitive area. Our overall conclusion is that clear direction has been set but that there are a number of improvements required, and we have made several recommendations to address these.

What we found is a system that is in transition. Government is exercising more control over executive compensation by capping what CEOs can earn. When these caps were introduced, the compensation for existing CEOs was grandfathered for the duration of their terms, but because most appointments are for indefinite terms, we did not know when the compensation caps would be fully implemented.

Government acknowledges that my recommendations are consistent with the next steps in the development of their framework and has already begun implementing them. I would like to thank the staff at the public sector employers council secretariat and the staff at the Crowns included in our audit for their cooperative response to our work.

I would like to emphasize that the subject of this report is the CEOs within these entities and that we have not done an appropriate piece of work at this stage in regard to their direct reports.

Malcolm Gaston, who I introduced earlier, was responsible for this particular piece of work, and I'll now ask him to make a brief presentation.

M. Gaston: In this audit we set out to assess the extent to which the government and a sample of six Crown corporations had established the appropriate structures and processes to ensure that executive compensation is well managed and also to provide some guidance to support executive compensation planning and management.

It's important to note that we did not assess executive recruitment, selection and succession management practices and that we also did not evaluate the fairness

or reasonableness of total compensation components or amounts. These are policy decisions that are the prerogative of government and the board of directors.

The Crown agencies secretariat and Treasury Board conducted a review of Crown agency executive compensation in 2007. Based on their review and recommendations, cabinet set CEO compensation caps for each Crown corporation. Those CEOs earning more than the caps set for their position were red-circled, which means that they stay on their current salary. However, when these positions become vacant, government expects a new CEO to be hired within the cap that has been set.

At the time of our report being published, six new CEOs had been hired, and all but one had been hired under the total compensation cap set for that position in that Crown.

All exceptions to established caps must be approved by the Premier and the minister responsible for the Public Sector Employers Council, or PSEC. In the case of one exception, we found no record a decision was produced, and approval was granted verbally. Obviously, we do not view this to be good practice.

It will take some time for total compensation caps to be fully implemented, as most corporate Crown corporation CEOs have indefinite-term employment contracts.

[1135]

In terms of our overall conclusion, we found that both the provincial government and the Crown corporations that we looked at have established clear direction to manage executive compensation. However, we also found that improvements are required to ensure that this direction is consistently followed.

As already stated, the caps that government has set on total CEO compensation will take many years to fully implement. Government's guidelines and requirements for executive compensation disclosure are consistent with good practice. Our main source here was looking at what the Canadian Securities Administrators require for publicly listed companies. Again, we did identify some areas for improvement.

I'll now go briefly through our findings and recommendations. In relation to high-level direction, we concluded that this has been set but lacks mechanisms to ensure that these are consistently followed, and we've recommended that better mechanisms should be in place to resolve executive compensation issues — the report does refer to a couple of organizations that would help there; that better compensation proposal submission and approval requirements should be made, and that government should maintain a formal record of those decisions. This in turn would then feed into better monitoring systems to ensure that the caps that have been set are being followed.

We found that, as we've already said, limits on executive compensation will take several years to implement and

also that Crowns have established frameworks to manage executive compensation. But coming out of our more detailed findings we did recommend that Crowns should conduct periodic reviews to ensure that performance-related pay programs achieve intended results.

Some organizations do this to make sure that the system they have in place is achieving what they intended for it, but it should be widespread.

We found that most Crowns have aligned performance paid to organizational goals, but the link between results and pay — the actual performance payments made — is not always clear. We've recommended that better performance measurement and well-documented links should be put in place between performance pay and performance results.

Some of our findings, as well, were around the nature of the measures that were used in that they tended to be focused more on the individual's performance — that there should be more around team goals and corporate goals and that measures, as well, should include more of a focus on long-term performance and not so much on short-term.

We also found that executive compensation reporting is generally consistent with good practice. We've recommended, in relation to more detailed findings, that information included in public disclosures of Crown corporation executive compensation should be reviewed by government to ensure that it meets reporting guidelines and that the chair of each Crown corporation board should sign off on the executive compensation disclosure statement and, through this, provide assurance that the payments made were in accordance with what the board approved.

That concludes our presentation.

T. Vincent: Thank you for the chance to present on the response to the Auditor General's report on exec comp in Crown corporations. The purpose of my remarks will be to describe the measures put in place to address the Office of the Auditor General's recommendations. I'm going to use the findings and recommendations from the Auditor General's report as the platform from which to describe that. The slides may look a little similar to what you've just seen from the Auditor General's deck. The words that accompany them will differ of course.

The Office of the Auditor General began work on the report in the spring of 2009 and completed it in November of 2009. The implementation of some of the report's recommendations actually began when the audit was just getting started. Other recommendations that have been implemented were ideas that came up in the course of discussions with the Auditor General's staff, and when we came across a good idea through those discussions and it was administrative in nature, we grabbed it and started to go with it.

[1140]

Some of them were in train before November 2009, and others have been implemented since the report's release.

The report in our view was fair. It was balanced. It provided good advice on how to improve in an area that has been acknowledged to be a pretty good area by western developed countries standards, by world standards. The report gave some credit where it was due in the areas of clear direction from government on just what the rules are, the solid frameworks in place in Crown corporations to manage executive compensation, the alignment of performance pay to organizational goals and high-quality disclosure of executive compensation.

It also criticized where it felt that was due — in particular, variable processes for securing approvals of compensation plans, some inconsistent recordkeeping, an absence of a strong connection in disclosures between performance pay and the performance that led to that performance pay.

We benefited from the Office of the Auditor General's team being willing to engage in discussion with us about where to draw the line between the autonomy and independence of Crown corporation boards of directors and government control and oversight on the other hand. While no two people are likely to draw that line in exactly the same place, the discussion was useful and has been a theme in our subsequent consultations with Crown corporations and indeed other public sector employers.

While I mention other public sector employers, I think it's worth commenting that many of the recommendations that the Auditor General's report makes have application beyond the Crown corporation group to other public sector employers, such as the health authorities and the universities and colleges. So we're extracting the advice and recommendations we received that were formulated based on a study of the Crown sector and are implementing those recommendations on a somewhat broader base.

The first comment here is about putting mechanisms in place to resolve executive compensation issues with Crown corporations. The comments in the report itself that support the first recommendation mention that the Public Sector Employers Council, the council itself, hadn't met for a long while. It was actually since the last bargaining mandate was being developed. It also noted that the Crown Corporation Employers Association had been largely dormant in the period leading up to the Auditor General's report. The report also noted that measures had been taken to address that.

To address those observations, the council met in January of this year. In addition to labour relations issues, it dealt specifically with executive compensation issues, the Auditor General's report, the action plan to address the recommendations in the Auditor General's report. The Crown Corporations Employers Association has

indeed been revitalized. It is now an important part of the communications between government and Crown corporations in the areas of labour relations and executive compensation.

The report noted that recordkeeping and documentation of requests and approvals were inconsistent. To address that, the documentation of requests and decisions has been tightened and formalized.

To address the other recommendations on the page, in the coming round of disclosures, which is quite soon, we will be checking the disclosures against compensation plans to ensure that approved plans are actually being followed. This had been done informally in the past and is now going to be done quite formally and applying standard auditing techniques.

[1145]

The profile of the report itself and the action plan associated with it have been raised with Crown corporations and with the Crown Corporations Employers Association, including playing up and publicizing and emphasizing regularly information that's available on the Public Sector Employers Council website. Letters raising the profile of the report and the action plan related to it were sent to ministers responsible for Crowns, board chairs of Crowns and to deputy ministers whose ministers have responsibility for Crowns.

In addition, we have a regime in place now where on the appointment of a new minister to one of those portfolios, a new deputy to one of those portfolios or a new chair to one of those boards, we send that letter out again to ensure that they're familiar with the processes and policies in the area.

Those recommendations that apply mainly to Crowns rather than government we have been emphasizing when we meet with the Crowns. The Crowns, in our experience, were very receptive to them. But the Crowns are a large group, and the profile of the audit was highest with those corporations included in the sample that the Auditor General's office used. So we're raising the profile of the report and its associated action plan with all of the Crown corporations, largely through the employers association but also through direct meetings.

An example of the kinds of things that we are emphasizing in this way. There's a recommendation in the report that where performance pay is employed, it should be tied to long-term performance as well as short-term performance. While that's much more challenging to design and set up, we nonetheless think it is a good recommendation, and it's a recommendation we're emphasizing when we talk to those Crowns that employ pay for performance. Another is that disclosures include the performance that led to performance pay as well as simply the performance pay itself.

The public sector employers council secretariat continues to check that disclosures comply with legislation and policy requirements but now does so more formally

— again in response to the Auditor's observations — and does so before the disclosures take place. In the past the rush to get the disclosures out and looked after meant that that took place afterward. We've introduced a lag now between receiving and disclosing and are spending the time in that lag ensuring that what's disclosed complies with the policy requirements.

Again in response to a recommendation from the report, boards will now be required to certify that executive compensation paid in a fiscal year was made within the approved executive compensation plan. This hasn't been a source of problems in the past, but we thought it was a good recommendation and, after some discussion about the division of authority on this one between boards' and government's role in oversight, adopted that recommendation.

The next couple of slides deal with the implementation plan. I described the implementation plan as I went through the findings and recommendations, so I won't go over it again in detail. Those that you see with tick marks next to them, as those four have, are ones that have been implemented now. As we've implemented these, where it has loaned itself to sharing that information, we've shared that information with the Office of the Auditor General's staff.

You'll see this next one, "Consult with public sector employers on those items," has a tick mark next to it as complete. In this sense, it's a tick mark and cited as completed because that has happened at least a couple of times with each employers association and many of their employers since the report has come out. It could be an item that has a star next to it denoting "ongoing" rather than a tick, simply because it is an ongoing process and isn't one that finishes.

[1150]

To conclude, I've described government's response to what the Office of the Auditor General recommended in its report and the actions to implement those recommendations. In closing, I'd like to note that as someone who was relatively new to this file when the audit began, the audit was a great opportunity for me to get up to speed faster on this file than I would have otherwise. While it might not have been huge fun at the time, I suppose I should be saying thank you.

If there are questions, I'd be pleased to respond to them.

B. Ralston (Chair): I'd like to begin with a question. On page 33 there's a table looking at many of the Crown corporations, and in most cases the term of employment is indefinite. There is some discussion in the report about moving to fixed-term contracts. One of the things that often happens and becomes a subject of public debate and question is that when someone leaves voluntarily — or there is an agreed departure, shall we say — the amount of severance that's required to be paid strikes

many people in the public as being disproportionate to the simple fact of leaving.

Would a move to fixed-term contracts alter or change that issue of severance? I think most people in the public are familiar with contracts for professional hockey players. At the end of your term, if you can't negotiate another contract, you're on your way out of the rink, and there's no severance. Would moving to fixed-term contracts deal with this issue of severance in a different way?

That would be for both Mr. Vincent and Mr. Doyle.

T. Vincent: I'm not sure if there's a distinct advantage to going first or second.

We did a fair bit of consulting on this, after the report came out, with the employers associations and the employers. What we found is that it's very much a cultural issue in the various sectors. For example, in the post-secondary sector it is standard practice to use terms. When we started probing a little bit about the application of terms in other areas, particularly the Crown areas, the responses we got were either flat-out negative or simply cautions: "Be careful what you do."

If there isn't an open-ended hire, the cost of compensating someone who has a limited-term contract would go up. You might end up paying exactly what you'd be paying in a severance arrangement anyway. Most open-ended contracts don't end in severance, because by the time someone is at that stage in their career, they're not 30 years old. That may well be their last formal position, and they'll retire from there. We were told just to be careful about rushing into imposing definite-term contracts in that regard.

The question you asked was: does it save severance? It certainly can, where it's applied, if the severance isn't capitalized in the amount of compensation that's paid over the term of the contract anyway, which would be an unfortunate result if the contract were then renewed, and you ended up capitalizing severance twice for someone who was severed once or not severed at all. It wasn't as simple as we had initially thought it was.

[1155]

J. Doyle: The use of fixed-term contracts needs to be accompanied with some other issues, as has quite rightly been pointed out. Usually it is a norm within those other issues to provide additional money for the fact that the term is fixed.

What I've seen in other jurisdictions around the world — and I did a bit of a review on this when I was in my previous job in Western Australia — was that there would be a basic salary, which would give individuals, for example, the right to return to the public service. If they wanted to retain that right, they could do so, but at the end of the term they would go back. That didn't suit many people that were in CEO or executive positions

within the equivalent of Crowns, because they were coming from other sectors in the economy.

Basically, they were used to a very different approach. So what they used to do was waive the right of going back. For that, they would get a 10 to 15 percent increase in pay, which would compensate them for the fact that it was a term appointment and a term appointment only. The turnover of CEOs in the public sectors that I looked at was, on average, probably every two to three years. It's not like that here, for whatever reason.

One of the major issues that the various governments used to demonstrate that term appointments were good was, first of all, the need to keep people fresh — the need to bring in new blood from time to time as policies or situations changed over time; the need to make sure that the levels of energy that were being deployed by senior executives was appropriate; and the continual need, which is accepted by everyone, of the constant measurement of good performance.

Typically, these created a situation where senior staff were incented to do a good job and that there could be a continuous dialogue around how well or not well they were performing, which does still take place in an indefinite-term arrangement, but perhaps without the fixed stops, or the fixed points of time, when performance can be evaluated effectively.

Whilst both systems work, it seems to me that the focus of our recommendation was to actually have continuous discussion around performance and to deal with performance that was sub-optimum rather than get fixated on whether they should be term contracts or not. Maybe that is a better way to look at the actual situation.

I agree that in tertiary education it is normal for there to be term arrangements, but I've actually seen it normal for term arrangements right across all sectors in other jurisdictions. It's an interplay. It's a policy decision.

B. Ralston (Chair): Well, we're all serving term appointments here, in one respect, as well — subject to recall, I guess.

T. Vincent: The Auditor General's report also included some comments about performance assessment by the board of the CEO and the best practice of that being an annual process. We've been emphasizing that, because it is a best practice. It is something that is done in the public service. It is something that's done on most of these boards. The Auditor's report described it as a common practice. The objective in our action plan is to make it a universal practice rather than a common practice.

J. McIntyre: I'd like to focus my comments, remarks, questions on the whole issue of the recommendation of the Auditor General that there be better performance

measurement and well-documented links between performance pay and performance results.

First, my comment is that I was delighted that (a) it was a recommendation and (b) there has been action taken on it. I totally appreciated the sort of shift in terms of the nature — that it's more about the team and corporate results rather than just the individual — and also on some of the longer-term goals of the organization rather than just the short term.

[1200]

One of the things that I wanted to raise specifically... When I sat on Crown corporations in the first term, we had both B.C. Lotteries and B.C. Hydro before us, and of course, the whole issue of compensation came up. Being from the polling industry, I was very interested to see that they used public opinion surveys sometimes as a performance measure.

I'll use the example of the Lottery Corporation and "percentage of the populace that were aware of particular lottery products or that participated in the lottery products" — things like that. So (a) it surprised me, but (b) what was — and I will be very candid here — very shocking is that they were using some of those survey measures as a link to performance and that when they were not meeting the performance measures, they lowered the goal. In other words, they might have said, "We want 50 percent awareness or 60 percent awareness," and if they didn't achieve it, the next year you saw, in the continuation, that the goal was lower.

I and others, as you can imagine, were shocked. I think this whole area really needed to be looked at. So my question, especially because those two corporations — lottery in particular, which is where this was going on — were part of the investigation... I just want some reassurance that that kind of thing is not tolerated.

I just was very interested in the whole use of public opinion surveys as performance measures and how widespread that is. Is it of value? Just some comments about that practice.

T. Vincent: I think your question relates to the relationship between the executive of a corporation and the board of the corporation. The notion of painting the bull's-eye around the arrow, if you'd like, is one that, having now been sensitized to it, we will ask about when we're talking to the employers associations.

The disclosure that's required here should help in that if performance pay is awarded, the performance associated with that performance pay should now also be disclosed. If the performance standard is low and the performance pay is awarded anyway, there's now a public light that's shone on that that I think by itself goes a considerable way to addressing it. I think that was probably one of the motivations of the recommendation in the first place. I don't mean to impugn motives for the recommendation, but it struck us as a pretty good recommendation.

J. Doyle: Whilst we have not included the detail in the report — but we will provide information to government about it — we found that on two particular occasions in two Crowns that we looked at there were inadequate linkages between the plans and the payment results. And whilst it would not be wise for me to mention which entities they are, it seems to me that they haven't quite got hold of this link yet.

Part of our thinking was that it would be unfortunate if performance plans and performance pay was painted around the arrow as opposed to set in advance and being totally objective in the first instance.

I would like to see — and I know it will happen as we go forward; I'll come back and spend some more time in a couple of years looking at this — that these are stretch targets. These actually talk about the conveying of value from these structures and organizations, from the individual executives to the organizations to citizens, as opposed to mathematical processes which just generate an income stream.

This open-within-the-organization and overt-within-the-organization mechanism by which incentives are provided for good performance really does need to be in place honestly and be carefully structured so that in fact they do give rise to good performance. Whilst that may be a sensitive area, it seems to me that that is the expectation from most citizens who would look at these organizations.

[1205]

I was interested in the "painting the target around the arrow." I'd never heard that expression before, but it seems to me to beautifully encapsulate some of what we found.

B. Ralston (Chair): I think we're all going to take that metaphor away from today. It's a good one.

J. McIntyre: Chair, could I just have a follow-up? One of my questions wasn't.... I appreciate comments from both, and maybe the Auditor General alluded to it, but that link back to the public.... Is it widespread practice to use customer surveys, public opinion surveys as performance measures for organizations?

I know that in the private sector they do, obviously. I had lots of clients who were looking at those things. Anyway, nobody commented on that, and I....

J. Doyle: I recall having a conversation with a minister in Perth one year. It was supposed to be a private and confidential discussion. He asked me how hard it was for senior executives in one equivalent of a Crown to achieve their performance. I said that they could fall asleep for most of the year and still achieve their performance targets.

It seems to me that the shifting of the line, which you described, is inappropriate. If we are going to have

targets about how performance pay is calculated, they should be objective and include long and short term as well as all the other issues around team and organizational performance.

I'm pleased to say that having had that conversation with him, the next thing he did was go out and order a review of the executive compensation for the industry that he was responsible for. Fortunately, he didn't mention my name in that process. They went through and they completely changed the way that remuneration was calculated. In doing so, arguably, they actually improved not only the performance but the expectation of performance that was there for that group of executives.

To be fair to them, they actually welcomed it. They found that the way the calculations were working was perhaps not always a good recognition of their contribution. To find a good way of contributing, which is very difficult, was a great incentive for them.

J. Rustad: I just have a couple of questions. The first is just around the report and the executive compensation levels. I'm wondering if you did the comparative analysis to the private sector or other organizations just to see if those sort of levels of compensation were appropriate — and, I guess, into how much detail you went when you looked at that.

J. Doyle: The compensation settings are a policy decision of cabinet. As you'll be aware, I'm not allowed to have a look at policy decisions and comment on the merits of policy. We did, however, do a reasonableness test to see what the situation was and try and do some comparisons with other jurisdictions. We didn't see anything that was considerably out of tune, but we didn't do a line-by-line value proposition in regard to each and every one of the executives.

We took that as a given. Although we did read the paperwork, we assumed that that had been done elsewhere, and we just took that as our basic input.

J. Rustad: The reason why I'm asking that is.... You talk about public expectations or public perspective. With Crowns that can sometimes be a monopoly — for example, ICBC or B.C. Hydro or those types of organizations — there's an expectation, of course, that they are within some sort of guidelines or levels that would be comparable to other types of organizations.

You've kind of looked at the executive. I'm just wondering if you've gone and looked at other levels within the organization in terms of compensation, not just with management executive but also across the scale.

[1210]

It would be interesting to know — if you have, or if you're thinking about doing it — what sort of comparisons our Crowns are compared to other sectors. I guess the question is: have you looked at that, or are you considering looking

at that sort of a comparison in terms of a value for money or some other type of work within your organization?

J. Doyle: Many jurisdictions have formal processes when it comes to establishing salaries and remuneration levels. They vary from an independent tribunal that may exist, to decisions that are made based on a recommendation, but they're made by the local cabinet. They can use tools that are freely available for evaluation in the marketplace, and typically the approach looks at a value proposition of comparison — this kind of job, this kind of responsibility — and compares it with some quartiles within a generalized database.

I think the comptroller general made observations in regard to that in regard to another report that she did where they went through that process.

A lot of people have great difficulty seeing this six-figure number with multiples in the first digit as being a reasonable compensation level when you compare it with Coca-Cola or some other areas. Really, it's an issue around what the responsibilities of the agency are. What do they do? How can they bring about change? How can they manage their own performance? Are they stewards or are they genuinely executives that are serving a shareholder?

Now all that kind of process is not something that my office is skilled in. It's the work of experts, and the documentation for it needs to be put together and a value decision needs to be made about what is reasonable and appropriate. So I am not planning to try and double-guess what the levels should be. What I would expect, though, is that a proper process is undertaken by people that are skilled in this area and a judgment made about what is appropriate for this public sector.

You will see within the public sector quite wide varieties of pay for different people in different areas. Sometimes that's brought in because of the nature of the work — for example, hospitals and the health sector. I was talking with some senior staff in one of the health authorities recently, and they told me that they could not attract people from overseas simply based on salary. Yet if you look at the salaries and then you compare them to what is paid in some other areas within the public sector, you would draw the conclusion that, in fact, they're quite reasonably well paid.

If you compare the B.C. salaries to, say, Alberta or to another jurisdiction, although it looks like the same job, there are differences in the pay that are brought about by a number of local factors. So it's really all location specific. What are the problems existing in the organization? What's the state of the marketplace at that given time?

One of the observations that I'd make is that the fixed-term contract arrangement at least allows the organization to actually renegotiate or rethink about who it wants to bring in, on a regular basis, so you're not

locked in with a particular salary which relates to market conditions sometime in the past.

I don't plan to do any audit work is the short answer. If I did, I'm not sure who in my team would be able to do it. I actually think it's the role of line management to do that work, although I might make observations around the process that they follow.

G. Gentner: You know it's lunchtime when John Horgan walks in the room. Welcome, John, the astute member for Juan de Fuca.

[1215]

I was going to ask more questions on the compensation paid. I'm curious why it wasn't included in the table on page 34, the incentive compensation that was awarded to each CEO. Obviously, there are intangibles that are included — the recreational dining. I know when Joan was talking about the Lottery Corporation, there was a conference in Africa, and lo and behold, there was a safari included. Those are intangibles that we aren't seeing as sort of a part of the incentive plan.

Putting that aside, I just want to ask the question relative to sunset clauses. As we see more privatization and more CEOs perhaps going into the industry of their interest, they have a huge capacity of corporate memory that goes with them. Is it standard practice that we should have a built-in sunset clause whereby there is a period which they shall not engage in that sector until 18 months? What is the best practice?

T. Vincent: I'd be happy to address the first point you raise fairly completely and the second point you raise somewhat less completely.

The column you see there that's entitled — I'm on page 33 of the report — "Total CEO compensation 2008-2009" does indeed refer to total compensation, not simply salary. So it includes incentive pay. It includes statutory benefits, pensions. If there's a vehicle allowance or any of that kind of thing, it's all in that number.

G. Gentner: But it's not broken down.

T. Vincent: With respect to restrictions on future employment, I know that there are certain places where that is the case. Powerex, for example, has in place for some of its employees arrangements that preclude them from working for a competitor within a period of time after they leave Powerex.

As I said in advance, it's a somewhat incomplete answer. I know that where it's viewed as relevant and would place an organization at a competitive disadvantage, they do that, but it isn't a particularly common practice.

G. Gentner: It's not a normal practice? Have we done a comparative with other provinces? My understanding is that there are examples that exist where the

competitive advantage is for those who seek those with a corporate memory. Powerex is a good example. I'd just ask again: has there been a comparative done relative to other jurisdictions? Is this the normal practice?

T. Vincent: No, there hasn't been a comparison.

V. Huntington: Mr. Doyle, during your initial discussion you mentioned that you had not examined or assessed succession planning because it was a policy area and out of your jurisdiction. I could see that at the CEO level perhaps, where cabinet might be making the decision to replace. However, below the CEO level, would not succession planning be a very, very important measure of performance at the executive level and something that perhaps ought to be considered a measure of performance within an organization?

J. Doyle: Thank you for the question. The exclusion I made because it was policy was the setting of the CEOs' total remuneration. That was my exclusion. When it came to this particular piece of work, we did not consider succession planning and a whole raft of other things that are reasonable topics to have a look at. The thought of looking at succession planning within particular entities is, in fact, a topic that we may be able to do at some time in the future, although I don't recall it being high on my list at the moment.

It should, however, be something that is considered within boards. If I were to do such work, then I would expect for them to have a succession plan, either formal or informal. That's part of their key risk assessment, and key risks and the management of those risks are obviously an important part of governance. You can see that all these things interact and link together. When a board is operating properly, they've got all these things lined up.

[1220]

I do not know what the situation is in regard to central planning around what would happen if an entity was suddenly short of a chair or a senior executive. I don't know if government does any planning along those grounds because we have not examined it.

V. Huntington: Just briefly, I'd like to thank both parties. The response, I think, of the comptroller general's office has been very good. I think you are getting toward most of the areas that have been brought up.

S. Chandra Herbert: I appreciate that in the report it said the average salary for a British Columbian in 2006, when the census was, was \$42,000. The average salary for a CEO in the province of B.C. in the public sector is about \$540,000. Then, I also appreciate you mentioning that 54 percent of the current CEOs are above the cap cabinet enacted in 2007. I didn't find in the report what

that cap was, so I'm just curious if you could share that with me.

T. Vincent: We asked the staff who performed the audit not to include that in the report if they could see their way clear to that. The reason is because it then becomes a floor for negotiations between the board and the CEO when they're negotiating compensation, rather than a ceiling. We were most appreciative of the audit report not including that information.

Now, you could probably get a feel for it by looking at the total compensation and clustering it, but that information... When things work the way they're supposed to work, that information should be known by the minister responsible, by the chair of the board, and that's pretty much it.

S. Chandra Herbert: Thank you for that, and just, I guess, to follow up. I was interested in Mr. Doyle's presentation mentioning that to go above the cap, the Premier would have to make that call and that in one case, after the cap was set, there was a verbal approval. That was about all the records the Auditor was able to find on that specific case.

I wonder, Mr. Vincent, if you might be able to provide a little more information to this committee about that specific instance and a recommendation — and what publicly is now being done — so that we can get that information in a more proactive format.

T. Vincent: I understand, in doing some checking on that, that it was B.C. Lottery Corporation. I believe the reason that the cap was deemed to be a constraint was that it required some special skills for the CEO at the time. If you recall what was going on at that time, there was some trouble that needed to be sorted out.

It isn't uncommon — for example, if a major capital project or a major business plan change is in place — for a board to come to government and say: "We would like an exception to the cap for a three-year term, and then after that we're happy to go back to the cap."

S. Chandra Herbert: The second part of that question was: how is that kind of public disclosure of that kind of information...? So that we don't just have to ask about here but that somebody might be able to find out — what's the plan to do that?

T. Vincent: Though the arrangement itself wasn't documented — or what was approved wasn't documented — in advance of the hiring, the compensation that's been paid since the hiring is disclosed publicly every year. All elements of compensation are there for anyone who wishes to know what they are.

[1225]

S. Chandra Herbert: I see. Just following up on that question, the final was just that there was mention of two Crowns that.... There wasn't a clear link between performance and performance pay.

I know the Auditor said that he didn't feel it was appropriate to mention which Crowns. I just wonder what the reasoning for that was, given that we want to ensure that all the Crowns are doing well, and we understand that only a few were reviewed in this. So I just want some idea. Is this widespread, or do you think it was limited to those two Crowns? What's the thinking of not revealing which ones they were?

J. Doyle: We looked in detail at six Crowns. For two of them we found this condition. The normal accountability for the Crowns is to the Crown committee. I can't remember the exact title. It is for that committee to seek and discuss and go through those kinds of issues.

When we go through and conduct an audit, we always have to weigh up the merits of releasing information or changing condition. It seemed to me at the time that the best thing to do was to seek to change condition by, first of all, advising the Crowns, making that information known internally to government, and then they would then adapt and actually correct that situation.

B. Ralston (Chair): I have Vicki Huntington, then Kathy Corrigan, and then I'd like to recess briefly.

V. Huntington: Just to follow up, then, on Spencer's question. I take it you're not anticipating a written disclosure for reasons for going over a cap. Your answer.... Well, the salary might be there, but the reasons for disclosing, which was a recommendation, I think, from the Auditor's report.... You don't anticipate seeing written reasons in the future.

T. Vincent: I'm sorry. I don't understand the question. Can you say it differently or louder or whatever you think might work?

V. Huntington: Whatever I think might work. That may not work.

I think what Spencer was trying to ask, if I'm correct, is that one of the recommendations was that when a cap is exceeded.... In a few instances there were no reasons apparent for exceeding that. By the shape of your answer — that you can find the salary information but not necessarily the reasons for disclosure — I take it you don't anticipate that recommendation becoming a reality.

T. Vincent: That's correct. What is being acted on is the performance that results in the awarding of performance pay being described explicitly in the annual disclosure. But where compensation exceeds the cap, the reason for it exceeding the cap.... We have no routine

way of doing that. Neither, though, is there any reason not to describe it. If it's of interest, perhaps when an appointment is announced, if the appointment raises such a question, it could be answered then. There's no overarching reason not to.

K. Corrigan: I just wanted to get clarification on the updates with respect to the comments on page 20 of the report. The Auditor General's report says:

"We expected to find both that the Public Sector Employers Council meets regularly and that the Crown Corporations Employers Association is actively involved in working with the council's secretariat to carry out the roles and responsibilities outlined in legislation.

"In fact, however, we learned that the council has not met in the past two years. Instead, it has been the provincial cabinet that's been setting the strategic direction with its CEO compensation framework."

I do understand that in the presentation it was indicated that the CCEA is being reinvigorated, but I'm wondering if you have any comment on how it can work effectively if the PSEC has not been meeting. You may have said that there has been a meeting, but I didn't quite catch that. But just maybe comment on that sort of governance area and how that could impact oversight in this area.

[1230]

T. Vincent: Two parts to the question, so I'll try to address each. One is the regularity with which the Public Sector Employers Council meets. The Public Sector Employers Act establishes the scope for that group, and it amounts to labour relations, human resources and executive compensation.

Executive compensation was indeed dealt with by cabinet in 2007. The council dealt with labour relations through the 2006 through 2010 round of public sector labour relations bargaining. It met again because there was a requirement. There was an agenda. There were matters within its legislative scope that required it to meet. One of those was the mandate for the current round of bargaining, and another was the Auditor General's report and its recommendations with respect to executive compensation.

The other part of your question related to the Crown Corporations Employers Association. There had been one. I understand that it sort of withered a bit and wasn't being used particularly effectively. As it withered, it was used less and less, and it began to be a self-fulfilling cycle.

It has now been reinvigorated. It has an exec director, or a CEO. It's a conduit for information to and from the Crown corporations. When we want to talk about disclosure, when we want to talk about mandates, we tend to do that through the employers association, and when the Crowns are able to speak to us with a single voice — and one of the areas where they are seeking to do that is executive compensation — they do that through the efforts of the employers association.

B. Ralston (Chair): Thanks very much. I'm proposing that we recess till, perhaps, ten to. We can take 15 minutes, and then we'll be reconvening to consider our final two reports. So if we could recess now for 15 minutes.

The committee recessed from 12:33 p.m. to 12:50 p.m.

[B. Ralston in the chair.]

B. Ralston (Chair): We're resuming our meeting after a brief recess. The report now under consideration is entitled *Making the Right Decisions: Information Use by the Boards of Public Sector Organizations*. The Auditor General will be presenting, and the comptroller general will be responding.

With that, we could begin with Mr. Doyle.

**Auditor General Report:
*Making the Right Decisions:
Information Use by the Boards of
Public Sector Organizations***

J. Doyle: *Making the Right Decisions: Information Use by Boards of Public Sector Organizations* was a first for this office. It was based on the premise that Crown agencies and other entities are responsible for a significant portion of public sector expenditures, and a key to their effectiveness as boards is that they are governed properly.

It is critical that board members have access to accurate, reliable, timely and complete information to make informed decisions. Apparently, no one had ever asked them before: do they think that they get the right information to make decisions?

To get a sense of whether board members have access to the right information, we surveyed all board members in the government reporting entity — as I say, a first. Because it was the entire government reporting entity, we obviously had to be careful how we marshalled our results to make sure they were comparative within sectors.

We did obtain a high response rate, but I'll leave it to Malcolm to provide more details about that and what their responses were. However, I would like to emphasize that this was not an audit of the information provided to boards. This was, rather, the board members' self-assessment of the information they receive and how they use it.

The survey is a starting point for us. I hope that the feedback will form the basis of discussions at various board tables — indeed, I know it already has — focused on continuously improving the quality and use of information. It will also provide a benchmark for future work for my office.

I've already introduced Malcolm Gaston, the assistant Auditor General responsible for this report. Now I ask him to make a brief presentation.

M. Gaston: Much has been written about the responsibilities and functions of boards. A lot has been written about information and decision-making, but what we found when we started to look at this was that not nearly as much had been written about what boards should expect to receive to aid decision-making or how they should use the information that's provided to them.

We set out to create a set of guidelines which was developed from an extensive literature review. The guidelines were then used to structure our survey questions to gauge current use against what would be considered good practice. We hope that the guidelines and the findings from our survey will assist boards and organizations to ensure that decision-making information framework used is in place and is effective.

In terms of the guidelines that we produced, we organized these into six key areas. First of all, around the board getting the information that it needs, does it know what it needs? Then, secondly, does it have access to that information? The third area: is the information of a sufficiently high quality for the board for its needs? The fourth area: does the board understand the information it needs? There can be two different sides to it: one, that the information it receives is understandable; but as well, does the board have the skills or the training to help them use that information?

The fifth area: the information is used in decision-making, and what is the decision-making framework that's in place within organizations? Lastly, that periodically the board evaluates the quality and the quantity of the information it's receiving — so every so often looking back and saying, "Are we getting what we need when we need it?" etc.

[1255]

Crown agencies play a big role in the daily lives of those of us who live in British Columbia. The overall annual expenditure of all Crown agencies in B.C. accounts for about two-thirds of B.C.'s total public sector expenditure. Difficult and risky decisions are constantly being made by boards, and high-quality information is critical to effective decision-making by those boards.

Our survey was sent out to over 1,000 board members in 141 public sector organizations. We received a very good result — 70 percent of board members responded to our survey, which we are told is a very high response rate. We also sent the survey out to corporate representatives within each of the organizations — those primarily with responsibility for corporate governance — and again received a 65 percent response rate.

In the conducting of this survey, we would like to thank certain organizations — the board resourcing and development office, the Crown agencies secretariat and the B.C. School Trustees Association — for their help.

In terms of the final products, this has been one project which has allowed us to produce quite a lot. There is the formal report that you have before you with the analysis

of the survey results. A separate document is also available on our website, which contains the guidelines on what would be considered good practice in terms of information going to boards and how it's used.

We've also this week just published another document to our website where we took about 2,500 text responses from within the survey responses that we received from individual board members where they told us about what they thought was good practice within their organization or where they thought improvements could be made. There's a huge wealth of information in there.

We've analyzed that information and fed it back in the form of a document which, hopefully, board members will be able to use, and they'll be able to recognize their own organizations in that document and help them. We've put up some more information, some more detail on the survey results.

Lastly, we're also issuing to every board where we had at least a 50 percent response rate a summary report, which will give them their own average response for all of the board members to each question, compared to the average for their own sector. It will benchmark their own responses against the average for their sector. Hopefully, this will help board members have a conversation about their own practices, the information that they receive and help them move forward through that.

In terms of our overall findings... Again, as the Auditor General has just said, this wasn't an audit. It's based very much on the responses that we received back. Overall, boards in the B.C. public sector appear to be receiving and using the information that they feel they require.

In general, boards in the health sector and Crown corporation sector appear to be using information well, as compared to the guidelines developed. Certainly, the responses were more positive than in other sectors. Picking up on that, boards in the school, university and college sectors seem to have a bit more room for improvement than in health and in Crowns.

Board members in the education sectors — in that I include school districts, colleges and universities — were more likely to report having an inappropriate mix of education and experience. Another finding was that in general, management seemed to believe more strongly than board members that the information needs of board members were being met — maybe not surprising.

Board members also reported if they were in their first year of appointment that they were less confident in how to access, use and interpret information. Obviously, the implications there for organizations are in training and support. There was also a finding that there seemed to be a lack of clear explanation for some of the information that was being provided.

[1300]

Other findings were that some boards did not feel that the decision-making process gave them enough infor-

mation on the risks associated with the information that they were receiving and, also, that debates may not be being guided by sufficient or adequate information. Lastly, a third of all board chairs reported that they do not periodically devote time to evaluating the quality and the timeliness of the information that they receive.

That concludes our presentation.

B. Ralston (Chair): Thank you very much.

C. Wenezenki-Yolland: Again, I appreciate being able to be here to respond to the Auditor General's report *Making the Right Decisions: Information Use by the Boards of Public Sector Organizations*. In compiling our response, we did do some consultation with the Ministries of Health, Education, Advanced Education and also the central groups that are responsible for providing some guidelines and oversight in this regard.

Again, we'd like to compliment the Auditor General's development of the guidelines. We appreciate the complementary nature of the guidelines provided by the Auditor General to the existing resources that we already have available in regard to boards and board governance. The Auditor General's staff specifically reference that in his report. Those materials are provided by our Crown agencies secretariat as well as our board resourcing and development office. So we would like to acknowledge that.

In the context of the report, it was a development of some guidelines, and as he said, it was a self-assessment through a survey. There were representatives, as I understand it, from 141 Crown corporations that responded — so quite significant.

There were no recommendations for government, but there were some observations in the report that we find interesting, particularly given our role in governance and wanting to ensure that we have strong boards and strong decision-making in our public sector organizations.

In summary, overall, it was a relatively positive response, as the Auditor General has alluded to in his presentation, indicating that government has provided some effective guidelines.

Also of note in the context of B.C. is that B.C. is one of the few provinces in the country that has publicly documented its competency-based appointment process for appointing board members in the context of their education and skills. This is actually seen as a leading practice in regard to recruiting boards, and we do believe that that approach has probably contributed to the positive findings that you are seeing within some of the survey results. Again, it wasn't an audit by the Auditor General, but it is a self-assessment, and it does highlight some interesting information for us.

[1305]

I talked about the guidelines that we already provide on the Ministry of Finance's website. You're welcome to

peruse those at any time. There are a number of guidelines, checklists, best practices, whatever you would like to learn for yourselves. In your own roles you might find some of those resources actually helpful and informative. Certainly, for any board members, we would invite them to go to those sites and to review, and take advantage of, those resources.

When we looked at the findings, I think one of the areas that obviously stood out in the report was the differences in the sectors. The Auditor General highlighted within his report the difference within the education sector relative to some of the other sectors that are performing at a higher level than those sectors. If nothing else, it does cause you to step back and take note.

Certainly, within the education sector we do have some differences. The most obvious one is a difference between having an elected board, in the case of school districts, versus the other boards that are appointed based on a competency type of framework. That could be one of the contributing differences.

Also of note was the number of new board members, or members that had less than one year. That certainly highlights an area of interest as well. Some of the other types of things that may be contributing to that are also in regard to the degree of training or, potentially, what they perceive as resources available to them to guide them in their role as board members.

In the context of first-year board members — and they do not feel that they are effective in their role — this is an area that this highlights not only for us but was also in a recent review, which is: what is the type or training and orientation that is provided to board members, when they come into these roles, to prepare them to actually take on the responsibilities of board members?

In the case of people in their first year, that really does highlight that as a specific opportunity to focus on. Certainly, there are resources available to board members. There is an opportunity for government to take, probably, a more active role in pushing those resources out, to make sure that those board members are equipped to take on, understand and use the information and to ensure that they understand their ability to ask for that information as well.

In the context of education, in talking with the ministry, they are going to use this report as an impetus to work with the school board trustees as well as the B.C. School Superintendents Association in order to provide stronger orientation and education for that sector. I think that that is extremely important and would be very helpful, based on my recent experience.

Going to summary, the government remains committed to ensuring that the various Crown agencies' boards receive the information they need, in an appropriate and timely way, to make decisions. B.C. is one of the few provinces in the country with a publicly documented competency-based approach, as I've already mentioned.

We are seen as a leader in this field. Even though we do have some challenges in some areas, we are still seen as a leader in corporate governance from a public sector perspective. We are committed to continually improving and to providing the opportunity to our boards to be as effective as possible.

With that, I'll probably just open it for questions.

R. Howard: Do I understand that this was the first such of this process?

J. Doyle: That is correct.

R. Howard: What would the follow-up regimen be? You did talk about some interface with the boards or with the ministry, I guess. Is there a follow-up regimen expected or in place?

[1310]

J. Doyle: The best way to track changes is to actually conduct a longitudinal study — in other words, follow up every year or every two years. We've got the tool; we've developed the tool. Whether we actually conduct the survey in future or we pass it over to government to conduct the survey is something that we can discuss, but it seems to me that it is a good way of getting the views of board members in a form that can be used more generally to actually bring about change and to fill any gaps that may be identified.

I haven't had that discussion yet, but I'm open to discussion about what the next steps are.

R. Howard: Can I ask the question again of the comptroller general? Given that there were some potential challenges, especially on the education side, or the education sector, what is your follow-up plan for that?

C. Wenezenki-Yolland: In the context of the education sector the ministry has committed to putting greater effort there. I've also recently made a recommendation to the ministry that training and orientation be mandatory for board members.

It appears to me that when new board members come on, whether it's to a Crown corporation or within the school districts, ensuring that they understand their role, what their responsibilities are, what the information is that they have available, how their role is different from the role of the management, their ability to request information to make decisions, guide their decisions.... What is good information for boards to have to make decisions? Then, also, for boards to be able to do some ongoing evaluation and assessment of their conduct as boards and the information is all very good practice.

In that context, we've recommended to the ministry that they mandate that type of orientation and training for all new board members.

R. Howard: That would handle the new board member side, but what about an evaluation similar, perhaps, to the process we've just been through, or...?

C. Wenezenki-Yolland: So in the context of this survey that the Auditor General has done, he and I have had conversations previously about what happens with these types of works. He has talked about sharing the survey tool with us or passing it over so that we can do some ongoing monitoring and evaluation to target efforts. We are open to doing that and would continue to do that.

We also, as part of my program, do internal audits. We go out, and we do conduct governance reviews, reviews of organizations on a random basis. That will also continue. So complementing that with an ongoing survey of this sort — as well as doing some independent assessment and audit and feeding information back to continuously improve — is absolutely within our mandate.

R. Howard: Well, it certainly makes sense. If we've identified a potential challenge, if the governance part of an operation isn't right, what's below it doesn't have much chance for success.

I was interested.... More board members with a year or less — would that just be a timing thing, given local elections, or is there some other dynamic at play there?

C. Wenezenki-Yolland: Likely. The answer would be that it is quite likely, given that there would have been a recent election when the Auditor did his work.

R. Howard: Well, I look forward to the follow-up work on this.

J. McIntyre: I'll just be quick, because the comptroller general actually answered my question about.... It would seem that it makes a lot of sense to have the training mandatory. I was just thinking that, certainly in the private sector, if you arrived at the doorstep for your new job or whatever and they have training, you would be taking the training.

I understood — only from the media — that actually, in the recent situation in the Vancouver school board.... If that was correct, it appeared that some of the elected trustees opted not to take the training. If that's an issue, then I think that you've clearly identified something important. My comment: I would encourage the sharing of those tools.

[1315]

If we've reinvented those things and it is a way for us to keep in touch with people on these boards and volunteer boards that we can make sure they're getting and using information effectively, it's to everyone's advantage. Thanks for the good work.

B. Ralston (Chair): Did the Auditor want to comment?

J. Doyle: Sorry, I was looking up some information to respond to an earlier question.

I've got in front of me a document which breaks down the demographics of the board members that actually responded. It's not included in the report and, if you like, it's a working paper of the office.

I'm looking down the column that says "Education, school districts," and 29 percent of those who responded were in their first year, but over 50 percent were actually four years plus. But again, that doesn't break it down by school district. That just talks about the total. If we looked at it as the total perspective, it seems to be, in the simple analysis, that there's plenty of experience four years and over, with about a third of the board members being new. And of course I do emphasize that that may not be the case in every school district.

When I looked at the colleges, it was a little different. One-third were new. One-third had been there less than two years. That's two-thirds. And the rest had been there for some period of time. So colleges were quite a different dynamic and a different mix.

I won't go through all of these, but the Crown commercials seem to have the approach where the bulk of experience was there that over 50 percent of them had four years plus and that, basically, only 14 percent were actually new, less than one year. So there were some interesting mixes between the lengths of experience, but don't forget that some of these board members may have had experience from elsewhere.

All we were tracking was the experience within that particular board. I don't think we asked the question as to whether they were experienced board members, but I suspect that in some of these areas that may well be — particularly, say, for Crown areas, so they have been board members for much longer than that.

S. Chandra Herbert: Just a question. I understand this report came out in December 2009. When was the survey in the field? When did people get approached with questions around their experience, their training or lack thereof?

J. Doyle: The survey was issued in June of that year.

S. Chandra Herbert: And when was it expected to be returned?

J. Doyle: We moved the timelines a little bit to encourage responses, and we did some additional reminding of people. But we expected it to be back within about six weeks.

S. Chandra Herbert: Okay. Just if I'm understanding that, then in the case of the recently elected or the first-year-electeds, we're talking about six months or so, maybe seven months, where they would have had that

opportunity to do that training that was suggested. Okay, that's helpful for me to understand, and I would love to see the document the Auditor mentioned around the fuller information on the different boards. I know it's a working document. It's just very interesting.

Moving to a slightly different topic, although it is very tempting to talk about training.... Should MLAs be mandatorily required to have training, and should city councillors as well? As I know, the BCSTA, I believe, the School Trustees Association, made the question: if they have to have this training, shouldn't everyone else?

In both documents, both from the Auditor and from the comptroller, one of the goals was to create a set of good-practice guidelines around the use of information by boards. The question that I had is — and it's similar to a question Guy Gentner asked earlier around the earlier report: was there any investigation into information use by, I guess, former board members?

[1320]

The idea of a cooling-off period.... We can look at information use while they're on the board, but I think for the public it's also equally important to have a look at information use by board members, potentially, after they leave a board, because sometimes it is highly privileged information.

I know that in some cases in government — although it doesn't seem to be a broad principle — there are cooling-off periods. In other instances, there aren't. It's always puzzling to me when there is one and when there isn't and how that justification might be made. If there are any thoughts on that from either the comptroller or the Auditor General.

J. Doyle: Not many thoughts. Under my own legislation — the Auditor General Act, 2003 — there is no statute of limitations in regard to any information my staff or I receive. We are simply not allowed to use it in any shape or form going into the future unless it's publicly revealed.

Now, that might be a stringent test because of our particular circumstances, but my expectation would be — although we have not tested it, and I don't think I've got any plans to test it — that information that is made available to board members is always held confidential unless it appears in the public arena.

C. Wenezenki-Yolland: In the context of the confidential nature, I am not aware of any explicitly articulated policy in that regard. In the context of confidentiality, board members' obligations and conflict of interest, there is certainly ethics, and ethical documentation, in regard to protection of that type of information.

J. Les: I'm interested in the thinking around the training and orientation of new board members. We're talking now about not only on government boards but also school boards.

I know that in municipal government there is an organization called the UBCM that takes a bit of a leading role in training new council members. I'm not aware that that's the case, necessarily, with the school trustees. Frankly, I'm not sure whether across the Crowns there is an organized process either.

The debate that goes on in my mind.... If management takes it upon itself to train new board members, cynics would suggest that that's where the indoctrination process begins. I'm not even given to be that cynical.

I think, obviously, there's no question that training and orientation are important, but equally important is the question as to who provides that. Do you have any thoughts around that?

C. Wenezenki-Yolland: In the context of school districts, for example, the Ministry of Education is talking about working with the B.C. trustees association. They provide a lot of training and information currently to school board trustees. They may be a logical conduit to provide that type of orientation and training, and they would independent from the management. There is an opportunity there, and they are exploring that opportunity.

You've already referenced what happens in the case of municipalities. In the case of Crown corporations there is a significant amount of training that is provided through our Crown agencies resource office. Over and above that, I do believe there is an obligation of every individual who chooses to be a board member to ensure that they equip themselves with that information.

While we, or various associations, can provide all of the information, it should not take away from the onus on the individuals to ensure that they have the capacity to understand those responsibilities and the information being presented to them.

K. Corrigan: I'm really glad that both the Auditor General and the comptroller pointed out, with regard to school boards, that the greater number of members who have served one year or less could be partly because it has to do with elections.

[1325]

Then, as the Auditor General pointed out, the large proportion of school board members who have served four years, more than four years and.... Looking at the graph that is in the report, on page 22 there is a larger group, about 50 percent, than in any of the other categories except for the Crown corporations commercial.

I would suspect, given the timeline of the reporting period, which is in and around June and the month or two following of 2009 — which, as Spencer points out, is just over six months after election — they would have actually been serving for about six months at that point.

Of course, you're going to have a response that says there's going to be a fairly large proportion that are

in their first year, given that there's some turnover in every election and, as well, that there would perhaps be a higher number of people reporting some confusion or not being fully comfortable with the information or fully understanding or knowing how to access the information. That would be the case of somebody who was elected to a board of education.

I think it's important to point those things out — that there are a lot of people who would be new at the time this survey was filled out as well as the fact that there is almost a majority of people who have served more than four years. If you'd waited — not that I'm suggesting this should have happened; it was coincidence.... But if the survey had taken place a year or two later, the numbers would have been very, very different. It would have been a very low number. There would have been none of them that would have served one year or less if it had been done a year later, unless somebody had resigned. So I think that's important to note.

I also recall.... I'm mentioning this because members have said that it's a good idea to make this training mandatory. I was a school board member in an excellent district that does a lot of training and so on. When the legislation came in to put in place special advisers, I remember being opposed and concerned about that legislation because I thought that what it was going to mean was that the provincial government was going to move the bar on how it looked at school boards, forgetting about the fact that school boards had been around for well over a hundred years, and in fact their involvement in education in many cases was not.... There was no provincial government overseeing education, in my understanding.

There's a very long and proud tradition, and I've got to say it really concerns me that the suggestion is that training should be made mandatory, as opposed to working with school boards as equal partners — which, in my opinion, they are, even though government has taken away more and more powers and imposed more and more requirements on school boards.

I think that the right way to proceed, to have the most perfect of worlds, is to have a partnership, not one government which is superior to the other imposing its will on local school boards. That's a general comment which I could not stop myself from making, given recent developments and a comment that was made about it being mandatory.

But the report was excellent, by the way. Thank you so much for the presentation.

B. Ralston (Chair): I'm not sure that that arises strictly from the report, but there you are.

K. Corrigan: You're right. It doesn't.

B. Ralston (Chair): I note that it's 1:30. John Rustad, perhaps the last question.

J. Rustad: Thank you for the report on this. There's no question that governance, in terms of how things work — school board, municipalities, Crowns, etc. — is very, very critical. I spent three years as a school trustee myself before going into provincial politics, and the school trustee academy that goes on after every election endeavours to be able to do a significant amount of training for trustees.

Having said that, when you have a budget — and, in the case of the school district I was on, which was school district 57, a \$121 million budget or \$124 million or \$128 million or whatever it was when I was there — that's a lot of decisions that have to be made by people that often come forward without the kind of skill sets that enable them to really get their head around it. So they are very, very reliant upon senior administration for making those decisions.

[1330]

Senior administration has a significant opportunity to be able to influence where board decisions may be in terms of the information they bring forward and how many options, I guess, were put on the table.

I guess the question I would have for both the Auditor General and the comptroller general is: given the complexity of issues, such as with school board and the influence that senior administration can play on that decision-making, how would you propose to be able to do the kind of training that would be required when we are still in a situation where, for most board members, the only information they have to make decisions on is based on information that's brought forward to them by senior administration?

C. Wenezenki-Yolland: One of the other options available to board members.... One, there should be some training and orientation to what is good financial and business information, and that should be generic.

One of the other structures that we've seen with boards is to have an audit and finance committee. Typically, the makeup of that would include board members but not only board members. They have an opportunity to bring in some expertise to augment — and I think the Auditor General acknowledged in his report as well — the ability to assess their skills and determine where they are and what information they would need to support themselves as a board so that they can feel comfortable in challenging that information.

If you augmented your finance and admin committee with the appointment of one or two experts from a financial background that are independent of management and independent of the board itself, they could provide some of that expertise and that value and that guidance to the board in those types of discussions and reviews. So there are different ways to do it, but that would be, certainly, one of the ways that you could do that.

J. Doyle: Could I draw your attention to pages 26 and 27, which talk about board members having access to the information they need to make decisions? It seems in the first blush that most board members have the information that they need, but it's like everything. You're never quite sure if you've got the right amount of information until you start asking questions and going through things.

I would draw your attention on page 27 to.... I'll read from the report. "There are...some areas" where this is not working. "For example, according to 20 percent of board members in all sectors except universities" — so not just school districts but right across the broader Crown area as well — "technological barriers are preventing board access to necessary information." Don't forget. This is a self-assessment by board members themselves.

"The information they require does not exist." Ten percent said that. "The information is not timely or current" — 10 percent. "Reports do not link financial and non-financial information." Then finally, the board chair does not take responsibility for ensuring that the information is valid.

The next paragraph talks about boards' responsibility, in that boards do not always gather the information in a cost-effective way. "Almost every third board reported requesting more information from management than is required to discharge its responsibilities."

I'll just remind you that management thought they'd provided the information, whereas boards were not so convinced about it. It's still good, but there was a gap.

It goes on to say: "This problem is particularly prevalent in the K-12 sector, where almost every second board reported this situation."

All it points to is that boards need to engage with management to collect information in order to do their job properly. It's healthy that that information is out there, and they're not alone in that desire to get that information.

What I will find interesting, when the second one of these is done, is whether that situation has changed because we now have board members in some sectors that are more experienced — or, rather, they've been there longer — and whether or not the ripple effect of this information going out across the boards has actually made a difference to the way that the management structure and the boards interact with each other.

[1335]

I think if we're going to do another survey of this, it will be in the middle of next year that we would do it. Obviously, we'd hope to see at that point, perhaps, the answers to some of the questions that have been raised and also, perhaps, a change in some of the responses as the confidence that should exist between boards and management has developed and boards feel more comfortable about the process that they're following.

B. Ralston (Chair): Before we leave the report, I just wanted to make the comment that I was a little taken aback by the failure to make any real distinction between boards that are elected and boards that are appointed.

While one might wish for a higher quality of board member in the appointment process, it doesn't seem to me that the report really shows much deference to the democratic process, where people's motivation for seeking public office is sometimes different from those who seek appointment to a board of a Crown corporation, for example. It doesn't seem to me that in this process much distinction was made, and I think that's a very important distinction.

Surely in our society democratic values have to have at least, if not ultimate primacy, some primacy. That seemed to be ignored here in the report.

I don't know. Probably, I should let people respond if they want to. If there is a response, fine. If not, then we should move on.

J. Doyle: There is a response, Chair. We didn't differentiate.

One thing we did not explore is whether or not there were the appropriate skills to operate effectively as a board within the group that was the board. If you like, that insight and your observations have led us to consider whether or not we need to expand some of the questions that we actually ask next time around.

What happens when there is a board elected that doesn't have the array of skills that are necessary to operate effectively as a board? I don't know. We didn't ask that question, and boards have not given us back enough of a response to be able to conclude on it.

It is a very good point. As I say, at the moment, this is just findings based on the questions we asked and the responses we got. We didn't draw conclusions other than the obvious ones.

But it is something that board members need to consider. How is it that they make themselves effective and how is it that they identify if there are any gaps in the array of skills that they've got? Because those gaps can either be filled from within the board structure itself or they can be filled by proper and appropriate questioning or requirement to management of information that would allow the board to make the decisions that it needs to make. But it's a very good point.

C. Wenezenki-Yolland: I have nothing additional to add to that.

B. Ralston (Chair): Thanks very much. If we could just take a minute and move on to the next.

J. McIntyre: Just because the Auditor General had mentioned about perhaps expanding the questions.... You alluded, Auditor, to asking the question — I think,

wearing my pollster hat, it would be a very important question to ask — about length of board experience and what type of board. It's a really important attribute and demographic. To look at your results by those who have had experience on other boards or different types of boards would be very important in the overall analysis.

B. Ralston (Chair): Thanks very much. If we could just take a minute to move on and set up for the next one, *Oil and Gas Site Contamination Risks*.

[1340]

If you're ready, Mr. Doyle, we might as well begin.

**Auditor General Report:
*Oil and Gas Site Contamination Risks:
Improved Oversight Needed***

J. Doyle: As we are all aware, the oil and gas industry is a key component to the provincial economy. The industry has expanded rapidly over the past decade, and this growth has provided financial benefit to the province — some \$2.3 billion in revenues in 2008-09. This growth comes with environmental and financial risks that must be managed by government. This is done through the Oil and Gas Commission.

The Oil and Gas Commission is the primary regulator of the industry and is responsible for ensuring that industry complies with the standards necessary to protect the environment and to meet its financial obligations to restore sites.

This audit assessed whether the Oil and Gas Commission is providing adequate oversight of the risks associated with oil and gas site contamination. We concluded that improvements are needed in a number of areas.

The audit team that conducted this work is here today. To my right is Morris Sydor, the assistant Auditor General, who shortly will provide a brief overview. Behind me is Wayne Schmitz, the executive director; Amy Hart, a manager; and Tin Lok Ng, a manager in the sustainability and environment portfolio within the office. I'll now ask Morris to make his presentation.

M. Sydor: Good afternoon, Chair, committee members. Again, just a quick background. As John indicated, the oil and gas sector is obviously an important economic component in B.C. Over the past few decades there has been a total of about 20,000 wells that have been drilled in B.C. As a result of all this activity, of course, environmental and financial risks exist, and the Oil and Gas Commission has to manage these through a number of oversight processes.

Our audit purpose was to assess whether the Oil and Gas Commission is providing adequate oversight of upstream oil and gas site contamination risks. To do this we looked at three issues. We assessed whether agency

responsibilities are clear, because there is more than the Oil and Gas Commission involved. As well, we looked at whether the Oil and Gas Commission is aware of the environmental and financial risks and whether it has established appropriate oversight procedures to deal with those risks. Lastly, we looked at whether there was adequate accountability reporting being provided.

[1345]

Our overall conclusion was that the oversight of the environmental and financial risks needs improving. There was a memorandum of understanding that was implemented, but it hadn't been in place long enough for us to assess whether it was operating effectively.

In terms of environmental and financial risks, we determined that the information related to those and the associated oversight procedures could be improved. Similarly, the information being reported out to legislators and the public could be improved as well.

If we look at the first area, agency responsibilities, at the time that we carried out our audit there were two prime pieces of legislation that dealt with contamination of sites and their restoration — the Petroleum and Natural Gas Act and the contaminated sites regulation under the Environmental Management Act. These two pieces of legislation had the Oil and Gas Commission and the Ministry of Environment involved in looking at these issues.

Earlier, several years before we carried out our audit, there was uncertainty for industry and the agencies because of these two groups overseeing the risks and a lack of certainty as to whether sites that had been restored would not be reviewed again by the Ministry of Environment.

There was a memorandum of understanding signed in 2008 to clarify the roles. But again, as I mentioned, we didn't feel it appropriate for us to assess whether it was operating effectively at the time we carried out our audit.

We also considered that the environmental risk information and oversight procedures needed improvement. There were a number of high-risk sites, and there wasn't a tool in place to assess which ones were in fact high risk. So there were a number of sites — thousands — that hadn't been assessed yet because industry, the Oil and Gas Commission and the Ministry of Environment were waiting for agreement on getting a classification tool that could be used.

As well, there were a number of legacy sites that had been restored under the previous regulatory regime. The standards at that time may not have been as stringent as they are today. There hadn't been any assessment as to whether there were any risks associated with those earlier restorations.

In terms of sites that had received certificates of restoration — that means they've been restored and industry can move on from those sites — we found that there weren't independent field reviews being carried

out. Nobody was going out and assessing whether the job had been done adequately. We felt that an independent-audit approach should be taken to looking at these sites.

Another issue that we commented on in our report was cumulative effects assessments. We found that there was no formal program in place. This was something that had been looked at seven or eight years ago. Studies were done at the time to identify the sort of tools that might be used, but at the time that we carried out our audit, there was no program in place.

In terms of financial risk information — again, another area where we felt improvements were needed. There were a number of sites awaiting certificates of restoration, but again, the risk profiles hadn't been established because the tools hadn't been in place. A study had been done several years ago that estimated that on industry's side there was probably about a billion-dollar liability needed to restore the sites that were in place.

The Oil and Gas Commission tries to mitigate financial risks through a couple of ways. One, it collects security deposits. We weren't sure there were enough security deposits in place, as the amounts that were taken were fairly minimal — \$7,500 per operator. As well, at the time that we were doing our audit, the ministry was starting to develop a tool that would assess whether the operators in fact were financially viable and would be able to meet their restoration obligations.

The last area that we commented on here was orphan sites. There are not that many in the province. I think there were 38, and there were about 24 that still needed to be assessed to determine what work was necessary to make sure that those were environmentally safe. I think that work was underway or getting underway, and we recommended that that work be completed.

In terms of accountability information, we felt that there wasn't very much information that would allow legislators and the public to get a good understanding as to how the risks are being managed. There was some compliance information that was provided in the organization's annual report, and we felt that could be improved.

[1350]

As well, we felt that more information about the actual inspections being carried out, the results coming out of those inspections, would help legislators and the public understand the extent to which industry is meeting its regulatory obligations in the first instance, before enforcement activities have to be carried out.

That concludes my presentation, Chair.

B. Ralston (Chair): Thank you very much.

I want to welcome Alex Ferguson, who's the commissioner and the chief executive officer of the Oil and Gas Commission. Perhaps you can introduce yourself and the members of your group. I see you've got a couple of other people there.

A. Ferguson: Sure. I am Alex Ferguson. I work at the Oil and Gas Commission, based out of Victoria but half-and-half with Fort St. John as well. With me today, seated to my left here, is Randy Smith, our chief financial officer. Randy also looks after the environmental liability with companies from a financial aspect. To my right is Devin Scheck, who is our director for the waste management group that we have, based out of Fort St. John.

We have a presentation to go through. First I want to say thanks for the opportunity to provide our response to the work that the Auditor did on this topic. It is a fairly complex topic, so we appreciated the efforts that the audit staff undertook as we worked through this thing.

I'll flip through the first couple of slides. They're pretty quick, because it's just reiterating what was already said. The audit purpose — we'll just flip through that. We've already gone through that. The questions are similar to what was in the presentation you just saw. The conclusions are just reiterating those, so I won't go through those.

I will say that as we worked through the report and the findings with the audit staff, there was a lot of interaction that we had to make sure that the topic was covered adequately and thoroughly from our perspective as well as theirs. Again, it was a complex topic to go through.

One of the first ones that we had addressed previously — and it just came through in the audit — was really around our transparency. There is a report that we issued in 2008. It's an annual process we do now that really talks to a lot of the findings that came through the audit report and the discussions we had afterward. There are all kinds....

It's available on our website. It's been distributed, I think, to a great many people. Most of the interested parties in the northeast certainly have been part of reviewing that with us. It contains all of the information regarding the well site statistics, remediation work that is taking place, the work we've done around risk management and the details.

The commission's actions to address the audit recommendations more specifically. We do manage an orphan site reclamation fund. We have the legislated ability to enact and use money from that fund if there is a site that doesn't have an operator that we can find at that time.

We also have been managing, through the Ministry of Energy, Mines and Petroleum Resources, a fund that was set up a few years ago to deal with, as you heard, the "38 sites" that were identified. Many of those sites were from the early 1900s, the '20s and '30s. We've been administering those funds on behalf of the ministry to get the work done on the ground, on those sites.

We've also spent a lot of time, at least on the regulatory side, dealing with some of the regulations under the Oil and Gas Activities Act that I'm sure you know about. Those are really the benchmark for how we're going to conduct ourselves going forward. We have also made

great strides in implementing a liability ratings system, where we can dynamically assess the industry operators that operate in the province. It's a system very similar to those of Alberta and Saskatchewan in terms of how they manage the sites that industry is putting on the ground.

We also have issued, a few years ago, well suspension requirements. One of the topics in the audit report was around the inactive sites which aren't ready to go away yet but are not producing at this time. We have a management system to deal with how those are suspended and how we're looking after them.

[1355]

We also have done the site classification tool that was mentioned earlier, in consultation with Ministry of Environment under their guidelines. We've been steadily, as we've been able to and needed to, increasing some of the capacity of our staff to deal with any of the issues going forward.

The site restoration report. It was published last summer. It's an annual thing we're doing now. It contains all the information on how we're managing the risks of those sites being transferred over to government. Really, the impetus for us is to make sure those sites do not land in government's hands in terms of a contaminated site. All the statistics in there will provide that.

We also issue an annual field inspection annual report. I will say that, given the new act that's coming into play here very shortly — we hope — that report will probably change substantially as some of the rules and processes change under that. It will be something dramatically different going forward.

The site restoration report itself.... As you see there, all well sites and processing facilities that are no longer used for oil and gas production must be reclaimed to receive a certificate of restoration from the commission. That's an instrument that we've put together in consultation with the Ministry of Environment to allow the company to understand that they have met certain thresholds.

It does not supersede any of the requirements under the Environmental Management Act that could be retroactive if anything else is found on that site by any other person there, but it does give them a benchmark or a threshold that we can demonstrate management.

I'll go on. Operators are responsible for all issues related to surface reclamation of a site. A certificate of restoration does not remove the liability from the operator. He or she may have to come back at any time in the future, and there have been examples of that — probably not so much in our jurisdiction, but in Alberta, as well, under the same kind of model. The operator, as long as he or she is around, or heirs and successors are around, retains that liability.

We do manage the reclamation fund. It is based on our designation of a site under the legislation as an orphan.

There are some historical stats. There are many more in the annual report that we produce, but really, you can see the cumulative number of wells plugged, which is a little different than restored or reclaimed, because plugged is just the down-hole process to make sure the well itself is stable. It's separate from the surface reclamation that we require to make sure the site is back into production.

It's fairly constant over the years. I think the real message that this graph is demonstrating is that even though industry activity levels have been increasing, other than these last few years, the ratio of wells that we've been managing in that state has been fairly stable. It's a demonstration of some active management by the industry on those sites.

Some historical COR issuance, the certificate of restoration. You can see that there is, in 2003, a substantial lift. At that time we had put a lot of resources into some backlog applications that were in front of us. Then we stopped everything because we engaged with the Ministry of Environment on that process to establish new standards and processes around that. We will see an uptick of this as we go forward, just depending on industry activity and how they want to discharge their own liabilities.

There are, at this point, 3,814 sites, precisely, that were restored prior to the standards that we have in place today. Of those, close to 90 percent — 89½ percent — are linked to companies that have active operations in B.C. So we do have a tag to them. We have the ability to go after them if there are any issues. Given our dynamic way of measuring their liability rating, they are pretty healthy companies that can manage those liabilities. We're comfortable.

Of the remaining percent, we do have a good working relationship with the ERCB in Alberta, the regulator there. We also, certainly, have the ability to look at those companies. There are a very few we've found at this point.

A snapshot. There are 93 well sites — not operators, well sites — where we can't identify an owner today that we are very comfortable with.

[1400]

That is the risk that we're managing out of those 3,814 legacy sites. Now these are ones that have been COR'd already, so they have had a piece of work. This is the legacy issue that was brought up. These are the ones that were done prior to.... Well, there's a whole variety of years that they were done.

There are 93 out of that population of 3,800 that we can't find an operator for today. There are some more details on those 93 that break them down. Just for example — and Devin could speak more clearly to the questions around that — I think that out of those 93, there are two of those sites that actually produced oil and gas at some point in their history, maybe three. I may be wrong.

D. Scheck: We've done some work since that report was published, and the number of wells that we can't find an operator for is down to 53, and only two of those produced. They were a gas well and an oil well.

A. Ferguson: Future planning that we have through ongoing work. Certainly, the reclamation fund — continue to administer that and ensure that we have adequate reserve there. When we designate a site, then we'll be able to use that fund. It's a pretty healthy fund at this point. It can provide all the money we need for remediation, including compensation to landowners for a well that's on private land where their payments haven't been made.

It's an industry-funded mechanism, so it's an industry-pay model. We have the ability to continually replenish that fund from industry tax on production.

We are also in the midst of starting a post-certification compliance assurance review, the independent audit process that the Auditor recommended. So I think this year is the first year that we will do a fairly healthy sample at the beginning of the first year to look at those sites. Prior to issuing a certificate of reclamation, we will do an audit on them. That will give us that assurance that what we see on paper through professionals who are signing off on these plans is actually the reality on the ground.

"Improved management of contaminated sites." I mentioned earlier that we've accelerated substantially the liability rating system — our ability to dynamically assess operators in terms of their ability to maintain responsiveness to those liabilities. The new Oil and Gas Activities Act certainly enhances some of the administration tools that we have available to us, which will be a good stepping stone into the liability ratings system.

Again, the memorandum of understanding between us and the Ministry of Environment was a pretty healthy effort by everyone involved, and so we're really looking forward to seeing that come forward in more implementation as we step forward. Again, we do have the site classification tool under MOE's guidance that we are implementing.

Certainly, a major improvement for us is the Oil and Gas Activities Act. From a regulator's standpoint I can't say enough about how much we've been anticipating having this act in place and having modern regulations and additional tools around compliance and enforcement and many of the other things that we want to be doing. So we're looking for that as a real cornerstone moving forward.

Also, one particular feature in the Oil and Gas Activities Act, section 10 specifically, speaks to a requirement or an opportunity for the Minister of Environment to order an audit at any time of the performance of the commission and related to any environmental matter that they see fit.

In some of the minor additional amendments that came through in the act there was not necessarily an expanded

but a clarified authority for the commission to designate an orphan site. There was a little bit of grey zone in there that has been clarified — crystal-clear — so that we have the authority to use the fund when we do need it. And that concludes my presentation.

B. Ralston (Chair): Thanks very much. You proceeded through a lot of material with admirable dispatch, so that's great.

[1405]

K. Corrigan: I have a couple of questions. I want to understand the link between the liability-rating system and the reference on page 30 of the report where it says: "The Ministry of Environment had proposed a risk-ranking protocol for contaminated sites called protocol 12. Industry subjected 65 sites to protocol 12 and concluded that it would result in an inappropriately high number of oil and gas sites in northeast B.C. being designated as high risk."

Now, I understand that there is a collaborative effort to draft guidelines, but there has been no formal agreement to implement them. I don't know who would be the appropriate.... Probably, the commission would be the appropriate person to talk about.... How did the liability-rating system fit with the guidelines that the Ministry of Environment was developing?

A. Ferguson: I'll let Randy respond first.

R. Smith: The liability-rating system is a financial test. It measures the ratio of oil- and gas-producing assets relative to their reclamation estimate. I think Devin can answer the second part of that question.

D. Scheck: With respect to the ministry protocol, it's not directly related to the idea of liability management. It's related to the potential impacts from that site, and that's why we ended up developing the site classification tool with the ministry to focus on what important aspects are for oil and gas sites.

One of the things that was in the ministry protocol was a very small aerial extent of potential hydrocarbon contamination at surface that would deem something to be a high-risk site underneath that protocol. So we worked with the ministry and discussed how those risks could be mitigated short term and immediately. Whether that's exclusion by fencing in the short term while you hurry up and remediate that site, recognizing the challenges that many of these sites are under frozen conditions for much of the year.... There are some timing considerations that were involved in that too.

K. Corrigan: Just to follow up on that, then, where are we in terms of finalizing the Ministry of Environment guidelines?

D. Scheck: We have implemented the site classification protocol.

K. Corrigan: Okay. So it's just been revised. The cumulative number of wells plugged and restored, which was your slide. I just want to be clear that I'm understanding what this graph is saying, because cumulative, to me, means that. ... It looks to me like, for example, between 2006, 2007 and 2008.... Cumulative means that's the total number that have been done, not which was done in any year.

Really, what we're looking at is a very little number of wells plugged and restored. Or is this the number that was done in each year? I'm trying to understand.

D. Scheck: That is the cumulative total.

K. Corrigan: In other words, then, in 2006, 2007 and 2008 there were how many wells capped and plugged — new ones? Do we know those numbers?

D. Scheck: Yes, the capped and plugged numbers aren't.... I don't have them here on me.

K. Corrigan: Approximately? It looks to me like you're talking about maybe 5,200 or.... Yeah, about maybe 5,200. It doesn't look like there's much difference. So 5,200 or so in 2006, maybe a couple in.... The cumulative number. The only change seems to be the restored ones. There's a slight change in the number that are restored. Am I misreading this?

D. Scheck: No, I think....

B. Ralston (Chair): Well, perhaps if I could just intervene. Maybe if you don't have the precise figures with you here, you could give a response in writing. It could be circulated to the members of the committee.

[1410]

I think the question is clear. If you're not comfortable answering it and feel you might not give accurate information here, then that's another way of dealing with it. But if you have a comment now, please go ahead.

A. Ferguson: No, I was going to suggest that we could make.... It's in our report. We just didn't bring it here today.

B. Ralston (Chair): I had a question. In the Auditor General's report he talks about the deposit, and that's per company not per well, of \$7,500, which seems an inordinately low amount. Given that part of, I guess, your mission is to prevent orphan sites in the future, one of the ways to do that would be to secure deposits.

I note on page 37 that for some of the orphan sites they are estimating \$200,000 each to reclaim them. An

internal report — it's mentioned on page 36 — of the commission itself recommended that the deposit be raised to \$100,000. It's not clear whether that's per company or per well.

What is your comment on raising the deposit requirements, particularly for the junior companies where the likelihood of abandonment and inability to trace someone responsible is higher? So your comment, and then who makes that decision? Does the commissioner have the power to make that decision, or is that a decision that's made at the cabinet level?

A. Ferguson: Okay. First of all, the \$7,500 figure is a regulatory requirement that establishes the floor for a deposit. I think it's been in place for as long as the regulations have been in place, which are pretty dated at this point. We can provide that in terms of what we have been assessing.

You're right. The commission establishes anything above that floor that we assess. We will assess the first operator that comes in a representative site at this point, on their first well, and do an assessment of the reclamation that we believe may have to take place on there.

I think in the last three or four years we have not charged the minimum once. I think our average over the last three or four years has been somewhere over \$200,000. I can provide that detail....

B. Ralston (Chair): Is that per company or per well?

A. Ferguson: Per company on new operators that come in. Now, waiting for the new act to come in and the new regulations that we're hoping to have in place, we'll be able to clarify or raise that minimum floor for the deposit, although in practice we haven't charged it.

One of the real features of the liability-rating system is a way to dynamically assess and change for a company, regardless of number of wells, what their deposit has to be on record.

We're actually going away in the new model from a new operator with his first deposit coming into the province to every company — regardless of size, small or large — being able to on a monthly basis, and probably rolled up in a quarterly basis, assess a new deposit. It might be higher, or it may not change.

We won't lower it, because it is too administratively burdensome, but if there is a requirement, and we see a danger for that operator, regardless of the number of wells, we will raise the deposit. It's a very similar model to what Saskatchewan is just putting in place right now and to what Alberta has in place currently.

B. Ralston (Chair): The internal assessment that you make. Is that assessment tool the one that the Auditor General refers to in the report? I believe there is one that is suggested in the report.

A. Ferguson: No, I think that is related to the standards for the actual reclamation work. The assessment we do on a site for the current drilling deposit rule is just looking at that operator coming in with his or her first well site or location and doing a site assessment of that piece of ground, as to what the potential costs would be for reclamation.

B. Ralston (Chair): In the longer run, then, have you projected...? Obviously, the sites that are abandoned are older sites. There was an interesting article in the *Globe and Mail*. I don't know if you saw it. In Calmar, Alberta, they were looking at 50-year-old wells and turned up a metre away from someone's house — in an oil town in Alberta.

[1415]

I guess the focus of the report seems to be on preventing future liability. The concern of the report seems to be the potential increase in liability over the long run, so based on the concerns that have been raised in the report, are you confident that the innovations that you've been prompted to make, I think partly by the Auditor General, will deal with the issue of future liability in an effective way that protects the public treasury?

A. Ferguson: No question. There are a number of safety nets that are available and that will be enhanced with the new regulatory regime we have in place or coming into place, hopefully, right away. It would require a breakdown of any number of those or all of those safety nets for any liability to pass to the Crown at this point.

D. Scheck: Could I respond to the previous question that was asked? I actually do have the numbers.

B. Ralston (Chair): Well, sure. Is that the miracle of BlackBerry or...?

D. Scheck: No, no, but Alex.... When he said that it was in the annual report, it twigged me that I have a copy of it. So just some quick subtraction, and I was able to come up with those numbers.

B. Ralston (Chair): Oh. Well, there you are. Go ahead.

D. Scheck: For the 2006 year it was 150 wells that were plugged. At 2007 it would be 118, and 2008 would be 183.

B. Ralston (Chair): Thank you. That saves us waiting.

G. Gentner: It was mentioned earlier that the commission now is more transparent. How do we define transparency? Do you not have easier access to your website if you are a company versus a person off the street who just wants to get in?

A. Ferguson: If I understand the question — apologies if I missed it — I think our website is accessible to everybody. There are components where it's more of an industry portal for information on their specific applications — no different than there are specific portals available for landowners to get information for themselves.

I think if somebody wanted to acquire information from another area of the website, they could do that. I'm not sure it would be relevant to them, but we haven't had any issues or.... You know, the bigger issue we have with our website, to be honest, in the northeast is the lack of high-speed Internet through a lot of the rural communities.

G. Gentner: Well, just on advice to fellow members, if you go on the website and enter yourself as a company, unincorporated, there's a lot of information there that you'll find that most people can't find.

I'm interested in your talk in here about.... The B.C. upstream petroleum environmental task group was formed. Why is it so inward? Why is it so inclusive? The members of the task group are government department people, regulators, upstream petroleum industry and so-called subject matter experts. How many locals are on that board? Are there not any members from health boards, the Ministry of Health? After all, we know there's a major problem relative to sour gas wells and flaming.

A. Ferguson: Well, I think the committee that you're referring to is specifically around soil reclamation standards. I haven't been there, but there's a lot of discussion around barite levels and salts. I think it's intended to be highly technical in nature and not really a consultation group. It's more of a technical working group, if I could....

G. Gentner: I just want to go back to what Bruce was discussing. The Auditor General had suggested that there was a difficulty regarding risk — that there could be an increase of risk of liability transferred to the province now.

Now, you haven't quite established.... Are we talking about joint and several liability or just talking risk to the companies? I mean, what is the percentage when you have a problem? Is it going to be passed on to the commission, or is it going to be borne by the taxpayer at large?

A. Ferguson: If I understand that, our first obligation or intent that we have is to ensure that any contaminated sites do not pass to the Crown as an obligation. The tools that we have, as we've referenced — we're looking at improving those, certainly through the new act as well as just our own processes.

[1420]

The deposit-taking is our ability to ensure we have sufficient availability of funds without having to go to the

Crown. We also have the orphan fund, which is funded through industry to make sure the Crown isn't there.

We also have the final backstop, if you will, of the retroactive powers of the Environmental Management Act, which allows the Ministry of Environment to go back on any operator — not just oil and gas operators but any other industry operators — on a site. If they find contamination that is different or new, that wasn't exposed previously, they can go back and tell the operator to clean that up again.

G. Gentner: The Auditor General did mention that in the orphan sites reclamation fund the moneys were insufficient. I'm hearing from the commission that there are the means. Can we reconcile this between the two parties? I mean, do we have...? I'm looking at the royalty credit program, the amount of credits companies receive — millions and millions of dollars. There should be some bond placed, some type of mechanism in place.

I'm going to ask the Auditor General. The report was done. Is it his estimation that the orphan sites reclamation fund has sufficient moneys?

B. Ralston (Chair): This is a question to the Auditor General. I think you were speaking at Mr. Sydor at the time.

The question was whether the reclamation fund...? You expressed some concern about its financial adequacy in the report. Based on what you've heard and any changes that have been made subsequent to the report, your opinion is being sought on that.

J. Doyle: There are a number of sites that have not been assessed yet, so we don't know how much they are going to cost. There is money that's being collected on an annual basis, which is being accumulated in a trust fund within the Oil and Gas Commission — which they report on each year as part of their financial statements — which is deployed as required to remediate sites.

Our view was that because of the amount that is there and the relatively high cost to remediate the particular site, when you compare one with the other, there isn't enough money, or there may not be enough money, available at any given time to remediate.

Of concern, also, was the fact that some had not yet been assessed formally. There was no basis on which to judge whether or not the orphan site was adequate. Until they have been assessed formally, it's difficult to determine how much money would need to be spent, although obviously some money would need to be spent.

In the body of the report you'll find a table — and I can't remember which page it's on — which talks about how much it actually costs to remediate some of these, all of which are uniquely different in their own way. You'll see that it's quite a lot of money that's involved for some of them.

I suppose what we expected was that all the orphan sites would have had some kind of assessment regarding

cost and that there would be some documentation somewhere which talked about whether or not the rate set for contributions to the orphan fund was adequate to remediate those orphan sites within a reasonable period of time. We weren't able to find that.

B. Ralston (Chair): Mr. Ferguson, would you like to respond to that?

A. Ferguson: I think one thing that's important to remember is that, as the commission, we don't establish the orphan fund amount. That's a government responsibility. If we find that there's an issue and we don't have enough money, it's an opportunity to increase the levy to replenish the fund, to increase the fund, to cover any responsibilities that we're not able to have with the money that's there.

B. Ralston (Chair): Can that be done, then, by order-in-council?

A. Ferguson: Yes.

The other tool that I didn't mention... It's not our favourite tool that we have in the regulations. The commission has the ability — and it's well spelled out in the existing legislation, as the new legislation — if there is an issue and there are still some producing assets from that operator, to go in and take control of that asset, operate it and use the proceeds from that to fund any of the remaining work that needs to be done. It's not something that we really want to get into. In my view, it's probably the last-stop method that we would have.

[1425]

B. Ralston (Chair): It might be a technique for persuasion.

J. Rustad: Thank you for the report. Noting the time here, I'll be as brief as I can, since we've only got a couple of minutes left.

Earlier today on one of the other reports you'd mentioned "reluctant to engage in a particular report" because you weren't sure if you had the skill sets within your organization. I'm just wondering: with regards to this report, what were the skill sets or experts that you brought forward in particular, whether internally or externally?

Obviously, with oil and gas as well as on the environmental side, this is a very technical issue. I'm just wondering what skills you brought and what sort of expertise you brought into this audit.

J. Doyle: Thank you for the question. As with all audits that we undertake, we do an assessment at the beginning of the process regarding what skills we have available and what skills we'd need to bring in. Going through that process, we need to be aware of how we can

properly evaluate the evidence that we receive and how we can then put it into context for our reporting.

That's a process that takes place regardless of the audit. It's not just this particular audit; it's any audit. You could ask the same question: how could I possibly conduct an audit in regard to operating theatres when I'm not a surgeon? Well, I can and have, and it was well received.

The issue is: how do we actually bring in and fold into our work the necessary skills in order to ensure that we don't take simplistic views of what's happening and that the evidence we've found is in fact valid?

Part of the answer to that is in fact the responses we get from the agency concerned who, as you heard earlier, were quite happy to explain to us how some of these things worked and whether or not we got hold of the evidence and assessed it in the right particular place. Another part of that puzzle is to have individual expertise that we require within the team to actually do the work.

Did you want to mention anything else, Morris?

M. Sydor: Yeah, I think when we look at the team.... This is our second look at contaminated sites issues. In 2002 we actually did a previous audit looking at contaminated sites and how government is managing them overall. Half of the team involved in this particular audit was also involved in that, so we have had some continuity. The understanding gained at that time was brought forward to this time.

As well, in terms of audit standards, it's not a case of saying, "Here's the issue we want to look at," and diving right into it. There's a necessity to indicate that we have a good understanding of the business and how the processes work — what the inputs are, what the outcomes are, what the expected results are.

As well, in terms of carrying out the audit, it's an engagement with the Oil and Gas Commission. We actually didn't get started at the time we wanted because there's a process upfront that requires us to discuss the criteria, where we're going to get our sources of evidence. Staff who are involved in that exercise weren't available because of their travel commitments at the time.

There is a long process upfront in terms of both sides coming to an understanding as to how the audit is going to proceed, what issues are going to be examined and who is actually going to be carrying out the work.

B. Ralston (Chair): I've got Richard Lee, Vicki Huntington and Spencer Herbert. I notice the hour is 2:30. We were scheduled to adjourn at 2:30. Members have travel arrangements that are fairly time-sensitive.

I don't really like to do this to the witnesses, but I'm wondering if it might be more appropriate to adjourn now and bring the team back in the fall. I don't think we would be meeting again until the fall.

If there is any view on that, that would be my inclination at this time.

J. Rustad: I certainly don't mind that idea, but with the three remaining questions, would it be possible...? Rather than going through the effort of bringing the team back — because obviously there are a fair number of people here associated with that, and there's the expense associated — I'm just wondering if those questions could perhaps be put in a written form, as we have done in other meetings of this committee, and ask for a written response with regards to it.

B. Ralston (Chair): I think that's something we could attempt. Perhaps that's something that the vice-Chair and I can discuss.

[1430]

I think the feeling of some members is that this is a topic that will require more discussion than can be captured in simple written questions. Sometimes one question leads to another, and that's the dynamic process of questioning as opposed to written questions.

I'll take your suggestion. I'm going to suggest, with regrets to Mr. Ferguson and his team, that we'll endeavour to deal with this by written questions. But if we can't, I'll reserve the right to bring the group back at one of the meetings that we'll likely schedule in the fall.

The Clerk has one brief announcement before we adjourn.

K. Ryan-Lloyd (Acting Clerk of Committees): Very briefly, Members. I have been in touch, subsequent to yesterday's meeting, with Gary Mitchell, the provincial archivist, who is in fact most sincere in his invitation to you all to have a tour of his facility. He suggests that through our office we could arrange something ideally on a Wednesday or Thursday morning if it suits members' schedules.

The tour would be approximately 90 minutes in length and would include a tour of the reference room, preservation area, paintings vault and history section. If there are any groups of members or individuals who are interested, please let me know after the meeting, and I'll coordinate that as convenient to your schedule.

V. Huntington: Do we have to wait until September to complete this discussion? Could we combine it with a potential tour?

B. Ralston (Chair): Hopefully, we might try to arrange a meeting. Members' schedules being what they are, it has not always been easy to arrange meetings where everyone can be accommodated. I take your advice. We'll see whether we can do that. My expectation is that we will probably not convene a meeting again until September, but I will canvass with the vice-Chair if it's possible to do it earlier.

With that, then we're adjourned. Thanks very much.

The committee adjourned at 2:32 p.m.

HANSARD SERVICES

Director
Jo-Anne Kern

Manager of Print Production
Robert Sutherland

Post-Production Team Leader
Christine Fedoruk

Editorial Team Leaders
Laurel Bernard, Janet Brazier, Robyn Swanson

Senior Editor — Galleys
Heather Bright

Technical Operations Officers
Pamela Holmes, Emily Jacques, Dan Kerr

Indexers
Shannon Ash, Julie McClung, Robin Rohrmoser

Researchers
Jaime Apolonio, Mike Beninger

Editors
Anton Baer, Aaron Ellingsen, Deirdre Gotto, Margaret Gracie,
Jane Grainger, Betsy Gray, Iris Gray, Linda Guy, Barb Horricks,
Bill Hrick, Paula Lee, Nicole Lindsay, Donna McCloskey,
Bob McIntosh, Anne Maclean, Constance Maskery, Jill Milkert,
Lind Miller, Lou Mitchell, Karol Morris, Dorothy Pearson,
Erik Pedersen, Peggy Pedersen, Janet Pink, Amy Reiswig,
Heather Warren, Arlene Wells, Glenn Wigmore

Published by British Columbia Hansard Services, and printed under the authority of the Speaker.

www.leg.bc.ca/cmt

Hansard Services publishes transcripts both in print and on the Internet.
Chamber debates are broadcast on television and webcast on the Internet.
Question Period podcasts are available on the Internet.