2010



Report of the Auditor General of Canada

to the House of Commons

FALL

Matters of Special Importance Main Points—Chapters 1 to 9 Appendices



The Fall 2010 Report of the Auditor General of Canada comprises Matters of Special Importance, Main Points—Chapters 1 to 9, Appendices, and nine chapters. The main table of contents for the Report is found at the end of this publication.

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To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith this 2010 annual report to the House of Commons, which is to be laid before the House in accordance with the provisions of subsection 7(3) of the *Auditor General Act*.

Sheila Fraser

Sheila Fraser, FCA Auditor General of Canada

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Matters of Special Importance—2010



Sheila Fraser, FCA Auditor General of Canada

As the end of my 10-year mandate as Auditor General approaches, I am pleased to present my tenth and final Fall Report to the House of Commons. The Commissioner of the Environment and Sustainable Development will be presenting a separate report later this year.

Next spring, in addition to a Status Report, I will present a report to Parliament focusing on how the Office of the Auditor General of Canada has evolved over the last 10 years to better serve parliamentarians.

My Office audits federal government operations and provides Parliament with independent information, advice, and assurance regarding the federal government's stewardship of public funds.

The federal public service is a vast and complex organization that is tasked with managing a multitude of activities, programs, and issues on behalf of Canadians. The range of topics covered in this report shows the variety of responsibilities that federal public servants are expected to fulfill. We are often asked how we choose what to audit from among the vast range of activities and programs.

We select what we audit by identifying areas of greatest risk. Risk-based planning focuses on how well an organization is managing the risks that are critical to its success rather than simply focusing on areas of suspected weaknesses. In other words, we audit matters that are significant to Parliament and to Canadians, and we report what we find, both the positive and the negative. While audits that are perceived as more critical are likely to garner more attention, positive findings are equally important because they provide assurance that government is managing well.

As part of our risk-based planning, we consult senior departmental officials to find out what they consider to be their areas of greatest risk. This type of consultation helps ensure that our reports focus on important areas that are critical to the delivery of programs and services. It also helps ensure that any recommendations we make are useful to management and therefore more likely to be implemented.

The Office also considers requests from Parliament and its committees in planning its work. For example, the request to review the acquisition of the Chinook and Cyclone military helicopters came from the Standing Committee on National Defence. And what we found in that audit is troubling.

Given the cost and complexity of military acquisitions, how they are managed is subject to a number of policies, rules, and controls. This demanding acquisition process has been designed to ensure that the equipment and services purchased meet the identified needs and are delivered not only on time and within budget, but also in a way that enhances access, competition, and fair treatment of suppliers.

Our audit of the Acquisition of Military Helicopters (Chapter 6) found that these policies, rules, and controls were not respected. In particular, the way the advance contract notification instrument was applied in the directed procurement of the Chinook helicopters did not comply with the letter or intent of the applicable regulations and policies. In our opinion, the contract award process was not fair, open, and transparent.

Further, National Defence did not develop full life-cycle plans and costs for the helicopters in a complete and timely way. Buying helicopters is only one part of providing the Canadian Forces with the capability to perform missions. Other elements are required, such as qualified and trained personnel to operate and maintain the helicopters, hangars to house them, and spare parts over the life of the aircraft. Some of these elements are not in place, and costs have yet to be completely estimated. Adequate cost information enables the Department to plan to have sufficient funds available over the long term to operate and support the helicopters. In this case however, it may have to curtail planned training and operations.

The procurements of the Chinook and Cyclone helicopters underscore the need to recognize that acquiring such complex equipment carries unique risks and challenges that need to be properly managed, using an appropriate procurement strategy.

While the findings of this audit are cause for concern, it is important to note that the majority of the audit findings presented in this report are positive.

For example, Chapter 1 of this report deals with Canada's Economic Action Plan (EAP), the government's response to the global economic downturn. This initiative involves about \$47 billion in federal stimulus over a two-year period, with a further \$14 billion from the provinces and territories. More than 35 federal entities worked with provinces, territories, municipalities, non-government organizations, and the private sector to deliver close to 90 programs under the EAP. Our audit looked at selected programs to determine whether they were set up in a timely way and with appropriate safeguards. We found that the

government put in place appropriate practices and that it approved projects in a timely manner. Capacity to deliver the EAP within the short time frame created additional risks for departments, and senior management implemented additional controls to manage these risks.

It is encouraging to note that when tasked with rolling out a complex and time-sensitive initiative, central agencies and departments worked together to achieve timely implementation while paying considerable attention to risk and ensuring eligibility criteria were met.

It should be noted that we audited the Economic Action Plan as it was being delivered. Consequently, we did not audit the full implementation or the results of the Plan. Our Office is preparing a second audit of the EAP, to be reported in fall 2011. That audit will focus on program delivery and whether selected programs and projects undertaken under the EAP were completed as intended. Our work may also include an examination of the information collected on projects and whether this information was sufficient for federal entities to assess progress toward the objectives of the Economic Action Plan.

Chapter 5, Regulating and Supervising Large Banks, looks at how the federal government regulates and supervises Canada's six largest banks. Banks exercise key economic functions: they make and settle payments for almost all transactions taking place in the economy, they participate in capital markets to finance their lending activities, and they bring together lenders and borrowers. The way banks borrow funds, combined with the risks involved in their lending activities, can potentially threaten their solvency. When this happens, the public's confidence in financial institutions is shaken, which in turn threatens the stability of the financial system. Regulation and supervision are meant to mitigate this risk.

According to experts, compared with those of many other countries, Canada's banks fared well during the recent global financial crisis. They attribute this in part to the way Canada regulates and supervises its banks. The Canadian approach includes effective communication among federal organizations. Our audit found that during the recent financial crisis, this ongoing exchange of information among key players allowed for timely and informed decision making and contributed to Canada's relative success. We found that the Canadian approach also includes updating legislation, regulations, guidelines, and the supervisory process to keep pace with domestic and international developments. The challenge facing Canada now is to maintain its advantage at a time when new international standards are

being introduced, banks are innovating and their operations are becoming more complex, and financial markets are rapidly evolving.

The federal government delivers a broad range of services that have a direct impact on the well-being of individuals and organizations across the country and abroad. These services range from answering questions about income tax to issuing social benefit payments and renewing passports. At some point in his or her life, every Canadian interacts with the government to access services.

Our audit of Service Delivery, reported in Chapter 3, found that two organizations we examined are taking appropriate measures to ensure the quality of their services. Human Resources and Skills Development Canada and the Canada Revenue Agency—the two federal organizations that interact the most with the public—deliver large, complex, and ongoing programs that have a critical impact on the well-being of numerous Canadians.

Both Human Resources and Skills Development Canada and the Canada Revenue Agency are working to continuously improve service delivery and to provide Canadians with the high-quality service they expect from their government. For example, they assess clients' needs and expectations, monitor their own performance against service standards, and report on their performance. By using such methods, they are able to track progress and to determine what is working and what is not, and what they need to change.

Conclusion

This report is evidence that when senior officials give priority to large initiatives like the Economic Action Plan, public servants rise to the challenge. It shows not only that government is able to pull together and react quickly to urgent and unforeseen situations such as the global economic downturn, but also that it does a good job of managing the delivery of ongoing large and complex programs such as Employment Insurance and child and family benefits. Our positive findings speak to the effort that public servants put into ensuring that they serve Canadians well and look for ways to continuously improve.

I hope that parliamentarians find the information in this report useful.

In closing, I want to thank my staff for their professionalism and continued dedication to the Office and the Parliament we serve.

Main Points—Chapters 1 to 9



Canada's Economic Action Plan

Chapter 1

Main Points

What we examined

In late 2008 and early 2009, Canada was in the midst of a global economic downturn. The federal budget in January 2009, titled Canada's Economic Action Plan, was designed to respond to this downturn by stimulating the economy, in part by increasing government spending for sectors of the economy and regions of the country in need. The Economic Action Plan sought to stimulate spending by Canadians, stimulate housing construction, build infrastructure, and support businesses and communities. Together, these initiatives amounted to about \$40 billion, with an additional \$12 billion funded by the provinces and territories. These amounts were subsequently increased to about \$47 billion in federal stimulus and \$14 billion from provinces and territories. Budget 2009 also contained measures to add stability to the financial sector, which sought to improve access to financing for consumers and business by providing up to \$200 billion in credit.

Over 35 federal entities worked to deliver close to 90 programs in support of the Economic Action Plan. In many cases, funding for existing programs was "topped up" with additional funds; other programs were modified to reflect the economic circumstances. Some programs were completely new. In most cases, funds were made available for a fixed two-year period. Any costs incurred beyond the deadline would not be funded by the federal government. Many of the programs were coordinated and delivered through provinces, territories, municipalities, third parties, non-governmental organizations, and the private sector; we did not audit their delivery of programs.

We audited the Economic Action Plan as it was being delivered. We looked at how programs were designed and delivered and what steps were taken to ensure that only eligible projects were funded. We selected 11 programs for examination and also looked at the role of internal audit. Our audit included the role played by central agencies—the Privy Council Office, the Treasury Board of Canada Secretariat, and the Department of Finance Canada. We also examined compliance with financial management and environmental requirements.

Audit work for this chapter was substantially completed on 27 April 2010. We plan to carry out a second audit that will focus on how the stimulus money was spent.

Why it's important

The global recession caused significant job losses in key sectors of the economy, such as the construction and forestry sectors. Expecting that the downturn could be temporary, the government proposed temporary, targeted programs designed to inject about \$40 billion in stimulus spending into the Canadian economy, which was subsequently increased to about \$47 billion. This represents about 2.9 percent of GDP.

An initiative as large and complex as the Economic Action Plan imposed a significant increase in workload on federal departments. As speed of delivery was of the essence, officials were under pressure to quickly design, deliver, monitor, and report on new or accelerated federal programs while continuing to deliver their existing programs. Together, these factors increased the risk that mistakes could be made. At the same time, there was concern that if the stimulus money were delayed or allocated too close to the end of the two-year time frame, it would not meet immediate, short-term needs.

- Central agencies and departments took steps to ensure that programs were designed and processes streamlined to allow individual projects to be selected and funds to be allocated quickly. For example, the Privy Council Office and Treasury Board of Canada Secretariat used an accelerated process to speed up the policy and financial approvals for many Economic Action Plan programs, such as the Knowledge Infrastructure Program. As a result, the total time needed to design, review, and approve programs was reduced from the approximately six months normally required to two months.
- All the projects we reviewed met the eligibility criteria as set out in the program terms and conditions. Important considerations for eligibility were that projects would start quickly and be substantially completed by 31 March 2011. However, we noted that some projects started late, and it is not clear whether they will be completed on time. In addition, decisions on whether an environmental assessment was required for some projects were made on the basis of insufficient information gathered from applicants. As a result, it is unclear whether some projects that were approved should have undergone an environmental assessment.

- Central agencies and departments all paid considerable attention to risk. Risks were assessed and controls and mitigation strategies were put in place. Capacity to deliver the Economic Action Plan within the short time frame was a significant risk facing departments, and senior management implemented additional controls to manage this risk. In addition, the Office of the Comptroller General of Canada worked closely with departmental internal audit groups to help address risks. Departmental internal audit groups adjusted their audit plans to focus on areas of greater risk and provided appropriate advice and assurance to management.
- The government met the requirement to provide Parliament with quarterly progress reports on the implementation of the Economic Action Plan. However, the project-level information on jobs included in the quarterly reports was largely anecdotal and did not present a complete picture of all jobs created, nor did it include information on jobs created or maintained for all Economic Action Plan programs. Because of these data limitations, the government reported a macroeconomic estimate of jobs created or maintained as of January 2010. The total number of jobs created or maintained under the Economic Action Plan remains to be fully measured. The Department of Finance Canada has indicated this will be done through a macroeconomic estimate once the Plan is completed.

The entities have responded. The entities have agreed or generally agreed with our recommendations. Their detailed responses follow the recommendations throughout the chapter, as applicable.



Management and Control in Small Entities

Chapter 2 Main Points

What we examined

The federal government includes a large number of small agencies, boards, and commissions that carry out a wide range of activities, from environmental assessment to transportation safety. Most of these organizations, generally known as "small entities," have investigatory, regulatory, or quasi-judicial functions. For this audit of management and control practices, we considered small entities to be federal organizations that either have operating budgets of less than \$300 million a year or have fewer than 500 employees.

Our audit examined three small entities:

- The Canadian Forces Housing Agency, a special operating agency within National Defence. It operates, maintains, and allocates roughly 14,000 housing units across Canada on the Department's behalf.
- The Canadian Pari-Mutuel Agency, a special operating agency within Agriculture and Agri-Food Canada. The Agency regulates and supervises pari-mutuel betting on horse races to ensure that betting is fair to the public.
- The Pension Appeals Board, an administrative tribunal that is responsible for hearing appeals of Canada Pension Plan applicants that arise from decisions of the Office of the Commissioner of Review Tribunals. Although the Board is an administrative part of Human Resources and Skills Development Canada, it is independent of that department in its quasi-judicial role.

We looked at the controls applied by the three entities for acquisition cards, contracting, executive travel, hospitality, and selected areas of human resource management. We also examined whether the entities' management and control practices comply with government policies.

Audit work for this chapter was substantially completed on 16 March 2010.

This was the third audit of small entities reported by this Office; our previous audits looked at management and control, and at governance arrangements.

Why it's important

The relatively small federal organizations defined as small entities can have a significant impact on the health, safety, and quality of life of Canadians; on recourse for public servants or for citizens in cases of perceived unfairness and inequity; and on the competitiveness of Canadian industry. Some settle claims or arbitrate disputes that involve the government as an interested party, and they must therefore be independent from the government in such matters. As publicly funded bodies within the government, they need to ensure prudence, probity, and effective control over the spending of public funds.

What we found

- All three entities have management controls in place that are consistent with Treasury Board requirements and that are applied in managing the use of acquisition cards, contracting, executive travel, and hospitality.
- The Canadian Forces Housing Agency and the Pension Appeals Board have well defined human resource plans that are based on their operational needs. These plans identify future needs and challenges and are supported by strategies and initiatives. At the time of our audit, the Canadian Pari-Mutuel Agency was working on a draft human resource plan that had yet to be approved.
- All three entities have performance management systems in place and manage executive compensation in compliance with relevant authorities, although documentation of performance agreements and appraisals could be improved.

The entities have responded. The entities agree with the recommendation. Their detailed responses follow the recommendation in the chapter.



Service Delivery

Chapter 3 Main Points

What we examined

The federal government delivers a broad range of services that affect the well-being of individuals and organizations across the country and abroad. Deputy heads of federal organizations are responsible for managing the delivery of these services in accordance with their organizations' objectives, guidelines, and procedures.

We looked at the practices used by three organizations—Citizenship and Immigration Canada, Human Resources and Skills Development Canada, and the Canada Revenue Agency—to set their service standards, monitor and report on their service performance, and act on this information to improve service quality.

Audit work for this chapter was substantially completed on 31 March 2010.

Why it's important

The federal government delivers many services directly to millions of individuals, ranging from issuing passports to answering tax inquiries, to processing claims for Employment Insurance. All Canadians require the services of the federal government at one time or another, and research indicates that they expect high-quality service. At the same time, the government must balance clients' service needs with policy requirements and available resources.

- Citizenship and Immigration Canada has been working to develop service standards since 2007. It has so far established a limited number of standards, and these do not cover some of its major programs. Therefore, the Department cannot fully measure and report on its service performance. Nevertheless, it has some processes already in place that could form the basis for more comprehensive monitoring of service quality. The Department has taken action to better manage the quality of its service delivery, in line with its strategic priority of improving its service to clients.
- Human Resources and Skills Development Canada has clientoriented standards covering its main services. It uses these service standards to monitor and report on its performance. Through ongoing monitoring of performance against these service standards

- and through collecting feedback from its clients, the Department has identified issues and taken action in several areas to improve service.
- The Canada Revenue Agency has set service standards for services it has determined are important to its clients and has well-established processes for assessing its clients' needs and expectations. Many transactions that were once largely paper-based are now offered by telephone and on the Internet. While service standards have been added and updated, some may not reflect clients' current priorities. The Agency is in the process of reviewing and updating its service standards, which will provide it with an opportunity to ensure that its standards reflect current client and operational needs.

The organizations have responded. The organizations agree with our observations. Citizenship and Immigration Canada's response follows the recommendation in the chapter.



Managing Conflict of Interest

Chapter 4 Main Points

What we examined

In the federal government, "conflict of interest" refers to a conflict arising between the public service duties of public servants and their private interests. Outside parties—consultants or contractors—may

also have conflicts of interest in carrying out work for the federal government. At the time of our audit, the Values and Ethics Code for the Public Service, published in June 2003, was the government's main policy for conflict of interest as it applies to public servants.

We looked at what the Treasury Board of Canada Secretariat and five selected departments have done to ensure that public servants can recognize a conflict of interest, however it arises, and know how to deal with it. We had found cases of conflict of interest in previous audits in three of the departments: Agriculture and Agri-Food Canada, Natural Resources Canada, and Public Works and Government Services Canada. We included those departments as well as Canadian Heritage and Human Resources and Skills Development Canada in this audit.

Audit work for this chapter was substantially completed on 31 May 2010.

Why it's important

Conflict of interest is a government-wide issue that can extend across the public service to any department or agency. The public's trust in government institutions is fundamental to the work of Canada's public service. Whether apparent, potential, or real, conflicts of interest bring into question the integrity and fairness of decisions made by public servants. If not properly addressed, conflicts of interest can increase the level of distrust and cynicism toward government and, over time, impact the legitimacy and effectiveness of government actions.

What we found

• The Treasury Board of Canada Secretariat plays an important role, but is not providing sustained support to departments. Two areas that have suffered are policy guidance and training with content from the policy centre. This training supports departments and agencies in meeting common needs for training related to conflict of interest. The requirement to put in place new policies was also not met. As the responsible central agency, the Secretariat's role is

- crucial in fostering a shared understanding of the rules that govern conflict of interest throughout the public service.
- The five departments we examined have put in place mechanisms and assistance to address conflict of interest and, overall, have met their obligations under the Values and Ethics Code. Departments have set up organizational units to deal with values and ethics, designated senior officials to help public servants resolve issues related to the application of the code, and provided guidance and training on conflict of interest. For example, departments use their intranet sites to inform public servants about conflict of interest and provide contact information for staff who can answer questions.
- The departments have put in place processes to analyze conflict of interest declarations and identify and assess potential issues, but they need to follow up on required action and make sure that declarations are dealt with in a timely manner. Where it was clear that there was no conflict of interest, files were processed quickly, but our file review found that in 11 cases out of 25, processing took more than 120 days. Without adequate and timely follow-up, management cannot be assured that measures have been taken to mitigate or eliminate conflicts of interest.
- The three departments where previous audits found cases of conflict of interest have taken steps to address the risks identified. However, at the time of our audit, none of the departments had reviewed all areas of its organization to identify risks of conflict of interest. When departments know where conflict of interest is likely to occur, they can help staff guard against this risk, for example, through training to help public servants understand the situations they could face and the best way to address them.

The Treasury Board of Canada Secretariat and the departments have responded. The Secretariat and the departments agree with our recommendations. Their detailed responses follow each recommendation throughout the report.



Regulating and Supervising Large Banks

Chapter 5 Main Points

What we examined

In Canada, banks are regulated and supervised by a number of federal organizations responsible for contributing to the stability and efficiency of the financial system. The Department of Finance Canada provides policy advice on the legislation that governs banks and their regulation. The Office of the Superintendent of Financial Institutions Canada supervises banks by assessing their financial condition and verifying their compliance with the laws and regulations that govern them. The Canada Deposit Insurance Corporation provides deposit insurance and has some responsibility over managing risks posed by banks as well as in the monitoring and resolution of failing banks. The Bank of Canada has a role in providing lender of last resort facilities as well as in overseeing clearing and settlement systems.

We examined how the Department of Finance Canada and the Office of the Superintendent of Financial Institutions Canada have regulated and supervised the six largest banks in Canada, which are considered the most important to the Canadian financial system. We also examined how the Department of Finance Canada, the Office of the Superintendent of Financial Institutions Canada, and the Canada Deposit Insurance Corporation shared information for decision making. In addition, we examined how the federal organizations request information from banks.

Audit work for this chapter was substantially completed on 31 March 2010.

Why it's important

Instability in Canada's financial system can cause the public to lose confidence in banks and fear for their savings. It can also have significant fiscal consequences if the government has to step in and provide financial assistance to a bank that is in danger of failing. Banks play key functions in just about every economic exchange that takes place in the economy and are key sources of financing. Therefore, a sound and stable banking system is essential for Canada's economic well-being.

Compared with many other countries, Canadian banks fared well during the recent global financial crisis. Experts have attributed this in part to Canada's approach to regulating and supervising its banks. However, the recent crisis also caused the global financial environment to change at an ever-increasing pace, with international agreements and commitments producing a more complex regulatory framework. In addition, the financial industry continues to develop more diverse and complex financial models and products, which have higher risks. The stability of the banking system could be impacted if Canada's regulatory framework and supervisory approach do not keep pace with these developments.

- The Department of Finance Canada, the Office of the Superintendent of Financial Institutions Canada, and the Canada Deposit Insurance Corporation regularly share relevant information on regulating and supervising banks. This ongoing exchange of information contributed to Canada's relative success in responding to the recent global financial turmoil as the federal organizations had relevant and up-to-date information for decision making. The Office of the Superintendent of Financial Institutions Canada also interacted appropriately with foreign supervisors and regulators by exchanging information on cross-border issues. These exchanges help Canada stay abreast of emerging issues.
- The federal regulatory framework for banks is kept up to date to reflect emerging domestic and international developments. The legislation governing Canada's banks, the *Bank Act*, is revised every five years following broad consultation. However, there is no process to perform periodic reviews of the effectiveness of the significant parts of the regulatory and legislative framework to determine whether the existing rules and policies support a stable and efficient financial system. Without this type of effectiveness review, it is difficult for the government to determine whether successive regulatory changes are working or have had negative unintended consequences.
- The Office of the Superintendent of Financial Institutions Canada adequately supervises Canada's six largest banks and monitors emerging risks. However, the growing volume and complexity of its work is increasing the demands on its human resources. This challenge, combined with pressures on training and compensation, could affect the Office's ability to attract and retain qualified staff to maintain its capacity and competency to carry out its supervisory mandate.

• Together the Department of Finance Canada, the Office of the Superintendent of Financial Institutions Canada, and the Canada Deposit Insurance Corporation are increasingly asking banks for more information, but they are not periodically assessing whether they need all of this information to fulfill their regulatory and supervisory responsibilities. It is challenging for these entities to precisely determine the amount and type of information required. Although efforts are under way to improve the collection of information, progress on assessing the adequacy of information requested from banks has been limited.

The entities have responded. The entities agree with all of our recommendations. Their detailed responses follow the recommendations throughout the chapter.



Acquisition of Military Helicopters

Chapter 6

Main Points

What we examined

National Defence is replacing and upgrading its helicopter fleet and will spend nearly \$11 billion to acquire two new types of helicopters along with long-term in-service support. The CH-148 Cyclone is a maritime helicopter that will replace the Sea King helicopters; and the CH-147 Chinook is a medium- to heavy-lift helicopter. These modern and technologically sophisticated helicopters are expected to bring new and enhanced capabilities to the Canadian Forces.

Although there are significant differences between the two acquisition projects, both have experienced cost increases and significant schedule delays. For both projects, National Defence has adopted a relatively new approach to providing for long-term in-service support.

We examined how National Defence managed the acquisitions, with emphasis on whether the work to be carried out was described clearly and consistently in key information and decision documents, risks were appropriately assessed and managed, life-cycle costs and plans were complete and timely, and senior departmental boards provided appropriate oversight and approvals. We also examined the contract award process for the projects by National Defence and Public Works and Government Services Canada.

Our conclusions relate only to the management practices and actions of public servants. We did not audit the records of the private sector contractors and, consequently, our conclusions cannot and do not pertain to the contractor's practices or to their performance.

Our access to Cabinet confidences created prior to 2006 is governed by a 1985 order-in-council that permits access only to certain types of Cabinet confidences. Accordingly, we were not provided with information regarding decisions that were made prior to 2006.

Audit work for this chapter was substantially completed on 30 April 2010.

Why it's important

The capabilities that National Defence is seeking to obtain in acquiring the Cyclone and the Chinook helicopters are considered by the Department as essential to the support of Canada's military operations internationally and at home.

The total project cost of 28 Cyclone helicopters, together with initial set-up, training, provision of spare parts and long-term maintenance, is now estimated at \$5.7 billion. Delivery of the first fully capable Cyclone, initially expected in 2005, was delayed to 2008 and is now expected to occur in 2012. The total project cost of 15 Chinook helicopters, together with initial set-up, training, and long-term maintenance, is now estimated at more than \$4.9 billion. The first fully capable helicopter is scheduled for delivery in 2013, five years later than planned.

Given the cost and complexity of military acquisitions, how they are managed is subject to a number of regulations, policies, and controls designed to ensure that the equipment and services acquired meet the identified needs and are delivered on time and within budget in a way that enhances access, competition, and fairness. Careful planning and full costing of these projects are needed to ensure that all project elements come together in a timely and predictable way and that adequate funds are available over the long term. The demanding acquisition process requires effective leadership, oversight, and due diligence by senior decision makers across several departments. We recognize the significant efforts of many individuals involved in these projects over many years.

- National Defence underestimated and understated the complexity and developmental nature of the helicopters that it intended to buy. Both helicopters were described to internal decision makers and the Treasury Board as non-developmental, using "off the shelf" technologies. On that basis, overall project risks were assessed as low to medium. In each case, however, significant modifications were made to the basic models. For the maritime helicopter, this will result in an aircraft that never existed before. For the medium- to heavy-lift helicopter, this will result in a new variant of the Chinook. Ultimately, these modifications led to schedule delays and cost increases beyond original plans.
- The medium- to heavy-lift helicopter acquisition was a directed procurement using an advance contract award notice (ACAN).
 National Defence had initially planned to proceed rapidly to contract award by spring 2007; however, its needs and priorities were not precisely defined at the outset, evolved over the course of the acquisition, and were not finalized until 2009. The manner in which

Public Works and Government Services Canada used the ACAN did not comply with the letter or intent of the applicable regulations and policies and, consequently, the contract award process was not fair, open, and transparent.

- National Defence did not develop full life-cycle plans and costs for these helicopters in a complete or timely way. In addition, total estimated costs were not disclosed to decision makers at key decision points. Some costs have yet to be completely estimated and some elements needed for the capability are not in place. Without adequate cost information, National Defence cannot plan to have sufficient funds available for long-term operation and support of the helicopters. Moreover, without sufficient funds, National Defence may have to curtail planned training and operations.
- National Defence did not fully comply with the oversight and approval framework established in its Project Approval Guide. For the maritime helicopter project, boards provided appropriate oversight at the preliminary project and effective project approval stages. However, neither the Senior Review Board nor the Program Management Board met to challenge and approve the information in the 2008 revised effective project approval that was related to the contract amendment approval of \$262 million. For the medium- to heavy-lift helicopter, there was an absence of timely meetings, challenge, and approvals by senior boards at all key decision points in the acquisition process and before seeking Treasury Board approvals.

The entities have responded. The entities agree with all of our recommendations. Their detailed responses follow the recommendations throughout the chapter.



Registered Charities— Canada Revenue Agency

Chapter 7 Main Points

What we examined

There are more than 85,000 registered charities in Canada. They are exempt from paying tax on their income, and the federal government allows taxpayers to claim a tax deduction or a tax credit for charitable donations to reduce the income tax that they pay. For 2009, the estimated cost to the federal government of providing tax relief to individuals for charitable donations was almost \$2.4 billion.

The Canada Revenue Agency administers the *Income Tax Act*, including the provisions that relate to registered charities. To fulfil its role with respect to registered charities, the Agency defines its responsibilities as processing applications for registered charity status, carrying out audit and compliance activities, offering advice and guidance on complying with requirements of the Act, and providing general information to the public.

We examined how the Agency encourages compliance with the provisions of the *Income Tax Act* that relate to registered charities. We also looked at how the Agency deals with tax shelter gifting arrangements. These arrangements typically promise taxpayers (or "participants") that they can buy property, donate it, and receive a donation tax credit that is worth more than the amount they originally spent to purchase the donated property. Promoters of tax shelters are required to obtain an identification number from the Agency before they can sell, issue, or accept consideration from participants.

Audit work for this chapter was substantially completed on 8 June 2010.

Why it's important

To many Canadians, charities play an important role in society. They provide services that people might otherwise expect the government to provide. Canadians can volunteer for causes important to them, or make donations to those charities that they want to support.

The Agency's role is to ensure that charities comply with the measures in the *Income Tax Act*, so that their activities will achieve the charitable purposes for which they have been created.

As part of its role in protecting taxpayers by preventing abuses, the Agency has announced that it is reviewing all tax shelter-related gifting arrangements. It plans to audit every participating charity, promoter, and participant and has issued a number of news releases warning taxpayers about the arrangements. Tens of thousands of taxpayers have invested in these arrangements. Although very few registered charities are involved with tax shelter gifting arrangements, their actions could impact the whole charitable sector and cause some donors to stop making donations to those charities that are not involved in abusive tax shelters.

- The Agency's process for registering charities is thorough. The
 controls in place are adequate to monitor and manage the process for
 approving an organization's application for registered charity status.
 This process is important because it may be the most in-depth
 involvement the Agency has with a charity during its life cycle.
- More than 33,000 charities did not file their annual information returns on time in 2008. The Agency posts certain information from these returns on its public website. Donors can visit the Agency's website to check that a charity is registered and see select operating and board member information. Agency policy for dealing with charities that file their annual returns late is to issue reminder letters and de-register the charity after 10 months. Between 2007 and 2009, over 3,000 charities had their registration revoked for failure to file their returns. Most charities did file their returns once they received reminders.
- The Agency carries out random and risk-based audits to verify that registered charities remain in compliance with the *Income Tax Act*. In cases of non-compliance, the Agency has a range of tools and sanctions it can apply, ranging from education letters and negotiated agreements to intermediate and serious sanctions. However, although it has guidelines and references to sanctions in its audit manuals, it lacks sufficiently detailed internal guidance. During the period under audit, it continued to use mostly education letters, compliance agreements, and revocations; two charities were assessed intermediate sanctions.
- The Agency's communication to charities and donors is good, with information accessible through several channels, such as on the Agency website; by telephone, webcasts, and outreach programs; and on paper. For example, users can use the Internet, mail, or telephone to check whether a charity is currently registered, under suspension from issuing tax receipts, or has had its charitable status

- revoked. The Agency also has processes to ensure that the information it adds to its website is accurate and feedback mechanisms to verify that users' information needs are being met.
- The Agency has expressed concerns with some tax shelter gifting arrangements and has issued general warnings about them. The number of active tax shelter gifting arrangements is declining, but people continue to invest in them, a total of 172,300 by 31 December 2009. The Agency has audited many of them and by 31 March 2009, it had reassessed the amount of charitable donations claimed by over 69,000 participants who had invested in these arrangements.

The Agency has responded. The Agency agrees with all of our recommendations. Its detailed responses follow the recommendations throughout the chapter.



Facilitating the Flow of Imported Commercial Goods—Canada Border Services Agency

Chapter 8

Main Points

What we examined

The Canada Border Services Agency is the lead federal agency for operations at border ports of entry. Under the *Canada Border Services* Agency Act, the Agency has a dual mandate to provide integrated border services that support national security and public safety priorities and that facilitate the free flow of persons and goods that meet all regulatory requirements. The Agency works with other partners to provide these services.

We examined how the Agency fulfills the second part of its mandate, which is to provide integrated border services that facilitate the free flow of imported commercial goods and collect the revenues owed. The Agency has interpreted facilitation to mean minimizing administrative costs, minimizing intervention in the movement of goods, and minimizing delays, to the greatest possible extent while managing risks and ensuring compliance with regulatory requirements.

We examined the Agency's systems and practices for collecting and processing information to assess risk before goods arrive at the border, providing examination facilities and ensuring that they are adequate, developing service standards and monitoring performance against them, and assessing and collecting duties and taxes. We did not examine the Agency's responsibilities and activities related to unlawful or non-commercial goods being imported or exported; commercial goods being imported or exported by post; goods in transit or temporary admission of vessels for coastal trade; or the entry, detention, or removal of travellers.

Audit work for this chapter was substantially completed on 31 May 2010.

Why it's important

In the 2008–09 fiscal year, the Agency provided commercial services for 217,000 importers, 3,000 carriers, and 250 licensed brokers. It processed about 12 million commercial import transactions and more than 29 million low-value courier import transactions, many of which were also commercial goods. The Agency is the government's second

largest tax collector. It reported collecting \$23 billion in import tax revenues in 2008–09, almost all of which was from commercial goods.

Canada imports large volumes of goods every year. From 2005 to 2008, Canadian imports of goods rose from \$388 billion to \$443 billion. The Organization for Economic Co-operation and Development reported that about 28 percent of the goods consumed by Canadians in 2008 were provided by imports. Imports are also critical components of many Canadian exports.

The process of importing goods adds to importers' costs, including those associated with transportation, required examinations, and providing information to government organizations. Canadians benefit when these costs are minimized, because any increases can weaken the competitive position of Canadian industries, and because cost increases may also be passed on to the consumer. Members of the trade community have indicated that they want the Agency to deliver border services in an open and transparent manner so that the commercial importing process is more predictable and consistent.

- The Agency's systems and practices facilitate the flow of imported commercial goods. However, there are still some limitations that lead to inconsistent levels of facilitation, depending on where and when the goods enter the country. The Agency has undertaken two initiatives—the eManifest project and the Single Window Initiative—to align its operations with the best-case scenario of moving low-risk shipments through the border with minimal intervention. These initiatives aim to further automate and integrate the information the Agency requires from importers to assess risk.
- The Agency does not have reasonable assurance that the information provided electronically by commercial clients at various stages of the importing process is accurate, complete, and timely. Its monitoring process is unsystematic and limited in scope, which has an impact on the Agency's ability to effectively assess risk. The Agency has recognized this gap and has plans designed to provide it with better information about the extent to which the data it receives is accurate, complete, and timely.
- The Agency has established service standards for many of its key services to importers, such as processing times for electronic information and wait times at land border crossings. However, some of these standards cannot be measured accurately and the results are published only for land border wait times. Without better published information, the importing process is less predictable and it is difficult for importers to make informed business decisions about

- how, when, and where to import goods. The Agency has begun to develop a service strategy to address these issues.
- The Agency does not have reasonable assurance that commercial clients' assessments of duties and taxes owed are based on accurate information. Without such assurance, the Agency cannot verify that assessments are correct and that it is collecting the correct revenues owed. It also risks providing other government organizations, such as Statistics Canada and the Department of Finance Canada, with inaccurate and incomplete trade and revenue information. The Agency has recognized this gap and is working on a strategy to address it.

The Agency has responded. The Agency agrees with all of our recommendations. Its detailed responses follow the recommendations throughout the chapter.



Animal Diseases—Canadian Food Inspection Agency

Chapter 9

Main Points

What we examined

The Canadian Food Inspection Agency monitors the international progression of animal diseases, controls animal imports, and responds to animal diseases when they are detected in Canada. Working with industry, the provinces, and other federal departments, the Agency delivers a number of programs and services designed to protect Canada's animal resource base. About \$200 million annually—30 percent of its budget—is allocated to animal health programs.

Among these animal health programs, we examined the Agency's state of preparedness for animal disease emergencies—situations that call for prompt action outside of normal activities. We also looked at how the Agency managed recent animal disease emergencies.

Audit work for this chapter was substantially completed on 30 April 2010.

Why it's important

Trends in animal disease indicate that new diseases are emerging and more virulent forms of existing diseases, such as tuberculosis, are on the increase. Certain animal diseases, such as avian influenza, also threaten human health. Foreign animal diseases are of particular concern as many such diseases could enter Canada because of international trade and travel.

Failure to prevent the spread of animal diseases, including those that can be spread to humans, could cost Canada's livestock industry billions of dollars in lost production, the loss of international markets through export embargoes, and the costs of control and response activities.

What we found

The Agency has developed a collection of documents to guide its
response to animal disease emergencies. These include its overall
emergency response plan, the animal health functional plan that
provides a framework for responding to animal diseases, and
hazard-specific plans for avian influenza and foot-and-mouth disease.
These plans are consistent with accepted emergency management
standards.

- Some important work to improve readiness is not assigned deadlines or tracked until complete. The Agency has identified the need to update disease specific plans and develop procedures for certain higher risk animal diseases. However, it has not identified priorities or established a work plan to complete this work. This means that important work may not be completed on a timely basis, which could impact the Agency's emergency readiness. While the Agency has invested considerable effort in developing emergency preparedness and response strategies, key challenges remain. For example, the Agency has significant work to do to enhance readiness for foot-and-mouth disease.
- The Agency has a wide range of activities to enable it to derive lessons from animal disease emergencies and training exercises. However, it lacks a systematic approach to ensure that all key lessons are compiled, tracked, and acted upon. As a result, similar issues continue to be identified over the years. If these issues are not addressed, the Agency's response to an emergency could be affected.
- The Agency followed its established plans and procedures in managing the response to the avian influenza outbreaks of 2007 in Saskatchewan and 2009 in British Columbia. However, each disease and each outbreak is unique, and these results cannot be generalized to predict the Agency's response to future outbreaks.

The Agency has responded. The Agency agrees with all of the recommendations. Its detailed responses follow the recommendations throughout the chapter.

Appendices
Appendices
Appendices

Appendix A Auditor General Act

An Act respecting the Office of the Auditor General of Canada and sustainable development monitoring and reporting

Short Title

Short title 1. This Act may be cited as the *Auditor General Act*.

Interpretation

Definitions 2. In this Act,

"appropriate Minister" "appropriate Minister" has the meaning assigned by section 2 of the Financial

Administration Act;

"Auditor General" "Auditor General" means the Auditor General of Canada appointed pursuant to

subsection 3(1);

"category I "category I department" means department"

(a) any department named in schedule I to the *Financial Administration Act*,

(b) any department in respect of which a direction has been made under subsection 11(3) of the Federal Sustainable Development Act;

(c) any agency set out in the schedule to the Federal Sustainable Development Act.

"Commissioner" "Commissioner" means the Commissioner of the Environment and Sustainable

Development appointed under subsection 15.1(1);

"Crown corporation" "Crown corporation" has the meaning assigned to that expression by section 83 of

the Financial Administration Act;

and

"department" "department" has the meaning assigned to that term by section 2 of the Financial

Administration Act:

"funding agreement" "funding agreement" has the meaning given to that expression by subsection

42(4) of the Financial Administration Act;

"recipient" has the meaning given to that expression by subsection 42(4) of the

Financial Administration Act;

"registrar" means the Bank of Canada and a registrar appointed under Part IV of

the Financial Administration Act;

"sustainable development"

"sustainable development" means development that meets the needs of the present without compromising the ability of future generations to meet their own needs;

Control

- **2.1** (1) For the purpose of paragraph (d) of the definition "recipient" in subsection 42(4) of the *Financial Administration Act*, a municipality or government controls a corporation with share capital if
 - (a) shares of the corporation to which are attached more than fifty per cent of the votes that may be cast to elect directors of the corporation are held, otherwise than by way of security only, by, on behalf of or in trust for that municipality or government; and
 - (b) the votes attached to those shares are sufficient, if exercised, to elect a majority of the directors of the corporation.

Control

(2) For the purpose of paragraph (d) of the definition "recipient" in subsection 42(4) of the *Financial Administration Act*, a corporation without share capital is controlled by a municipality or government if it is able to appoint the majority of the directors of the corporation, whether or not it does so.

Auditor General of Canada

Appointment

3. (1) The Governor in Council shall, by commission under the Great Seal, appoint an Auditor General of Canada after consultation with the leader of every recognized party in the Senate and House of Commons and approval of the appointment by resolution of the Senate and House of Commons.

Tenure

(1.1) The Auditor General holds office during good behaviour for a term of 10 years but may be removed for cause by the Governor in Council on address of the Senate and House of Commons.

Ceasing to hold office

(2) Despite subsections (1) and (1.1), the Auditor General ceases to hold office on reaching 65 years of age.

Re-appointment

(3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office.

Interim appointment

(4) In the event of the absence or incapacity of the Auditor General or if that office is vacant, the Governor in Council may appoint any qualified auditor to hold that office in the interim for a term not exceeding six months, and that person shall, while holding office, be paid the salary or other remuneration and expenses that may be fixed by the Governor in Council.

Salary

4. (1) The Auditor General shall be paid a salary equal to the salary of a puisne judge of the Supreme Court of Canada.

Pension benefits

(2) The provisions of the *Public Service Superannuation Act*, other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the public service may, by notice in writing given to the President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the *Diplomatic Service (Special) Superannuation Act* in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the *Public Service Superannuation Act* do not apply to him.

Powers and Duties

Examination

5. The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act.

Idem

6. The Auditor General shall examine the several financial statements required by section 64 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.

Annual and additional reports to the House of Commons

- 7. (1) The Auditor General shall report annually to the House of Commons and may make, in addition to any special report made under subsection 8(1) or 19(2) and the Commissioner's report under subsection 23(2), not more than three additional reports in any year to the House of Commons
 - (a) on the work of his office; and,
 - (b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Idem

- (2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that
 - (a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;
 - (b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;
 - (c) money has been expended other than for purposes for which it was appropriated by Parliament;
 - (d) money has been expended without due regard to economy or efficiency;
 - (e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented; or
 - (f) money has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development.

Submission of annual report to Speaker and tabling in the House of Commons

(3) Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before December 31 in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receiving it or, if that House is not then sitting, on any of the first fifteen days on which that House is sitting after the Speaker receives it.

Notice of additional reports to Speaker and tabling in the House of Commons

(4) Where the Auditor General proposes to make an additional report under subsection (1), the Auditor General shall send written notice to the Speaker of the House of Commons of the subject-matter of the proposed report.

Submission of additional reports to Speaker and tabling in the House of Commons

(5) Each additional report of the Auditor General to the House of Commons made under subsection (1) shall be submitted to the House of Commons on the expiration of thirty days after the notice is sent pursuant to subsection (4) or any longer period that is specified in the notice and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receiving it or, if that House is not then sitting, on any of the first fifteen days on which that House is sitting after the Speaker receives it.

Inquiry and report

- **7.1** (1) The Auditor General may, with respect to a recipient under any funding agreement, inquire into whether
 - (a) the recipient has failed to fulfil its obligations under any funding agreement;
 - (b) money the recipient has received under any funding agreement has been used without due regard to economy and efficiency;
 - (c) the recipient has failed to establish satisfactory procedures to measure and report on the effectiveness of its activities in relation to the objectives for which it received funding under any funding agreement;
 - (d) the recipient has failed to faithfully and properly maintain accounts and essential records in relation to any amount it has received under any funding agreement; or
 - (e) money the recipient has received under any funding agreement has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development.

Report

(2) The Auditor General may set out his or her conclusions in respect of an inquiry into any matter referred to in subsection (1) in the annual report, or in any of the three additional reports, referred to in subsection 7(1). The Auditor General may also set out in that report anything emerging from the inquiry that he or she considers to be of significance and of a nature that should be brought to the attention of the House of Commons.

Special report to the House of Commons

8. (1) The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in the opinion of the Auditor General, should not be deferred until the presentation of the next report under subsection 7(1).

Submission of reports to Speaker and tabling in the House of Commons

(2) Each special report of the Auditor General to the House of Commons made under subsection (1) or 19(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.

Idem

9. The Auditor General shall

- (a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require, and
- (b) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the *Financial Administration Act*,

and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities.

Improper retention of public money

10. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board.

Inquiry and report

11. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought.

Advisory powers

12. The Auditor General may advise appropriate officers and employees in the federal public administration of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board.

Access to Information

Access to information

13. (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his or her responsibilities and he or she is also entitled to require and receive from members of the federal public administration such information, reports and explanations as he or she considers necessary for that purpose.

Stationing of officers in departments

(2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.

Oath of secrecy

(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.

Inquiries

(4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the *Inquiries Act*.

Reliance on audit reports of Crown corporations

14. (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.

Auditor General may request information

(2) The Auditor General may request a Crown corporation to obtain and furnish him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.

Direction of the Governor in Council

(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada.

Staff of the Auditor General

Officers, etc.

15. (1) The officers and employees that are necessary to enable the Auditor General to perform his or her duties are to be appointed in accordance with the *Public Service Employment Act* and, subject to subsections (2) to (5), the provisions of that Act apply to those officers and employees.

Public Service Employment Act —employer and deputy head (2) The Auditor General may exercise the powers and perform the functions of the employer and deputy head under the *Public Service Employment Act* within the meaning of those terms in subsection 2(1) of that Act.

Public Service Employment Act —Commission

(3) The Auditor General may, in the manner and subject to the terms and conditions that the Public Service Commission directs, exercise the powers and perform the functions of that Commission under the *Public Service Employment Act*, other than its powers and functions in relation to the hearing of allegations by a candidate under sections 118 and 119 of that Act and its power to make regulations.

Delegation

(4) The Auditor General may authorize any person employed in his or her office to exercise and perform, in any manner and subject to any terms and conditions that he or she directs, any of his or her powers and functions under subsections (2) and (3).

Sub-delegation

(5) Any person authorized under subsection (4) may, subject to and in accordance with the authorization, authorize one or more persons under that person's jurisdiction to exercise any power or perform any function to which the authorization relates.

Appointment of Commissioner

15.1 (1) The Auditor General shall, in accordance with the *Public Service Employment Act*, appoint a senior officer to be called the Commissioner of the Environment and Sustainable Development who shall report directly to the Auditor General.

Commissioner's duties

(2) The Commissioner shall assist the Auditor General in performing the duties of the Auditor General set out in this Act that relate to the environment and sustainable development.

Responsibility for human resources management

16. The Auditor General is authorized, in respect of persons appointed in his or her office, to exercise the powers and perform the functions of the Treasury Board that relate to human resources management within the meaning of paragraph 7(1)(e) and section 11.1 of the *Financial Administration Act*, as well as those of deputy heads under subsection 12(2) of that Act, as that subsection reads without regard to any terms and conditions that the Governor in Council may direct, including the determination of terms and conditions of employment and the responsibility for employer and employee relations.

Delegation

16.1 (1) The Auditor General may authorize any person employed in his or her office to exercise and perform, in any manner and subject to any terms and conditions that he or she directs, any of his or her powers and functions in relation to human resources management.

Sub-delegation

(2) Any person authorized under subsection (1) may, subject to and in accordance with the authorization, authorize one or more persons under that person's jurisdiction to exercise any power or perform any function to which the authorization relates.

Contract for professional services

16.2 Subject to any other Act of Parliament or regulations made under any Act of Parliament, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his or her office in appropriation Acts, contract for professional services.

Classification standards

17. Classification standards may be prepared for persons employed in the office of the Auditor General to conform with the classifications that the Auditor General recognizes for the purposes of that office.

Delegation

18. The Auditor General may designate a senior member of his staff to sign on his behalf any opinion that he is required to give and any report, other than his annual report on the financial statements of Canada made pursuant to section 64 of the *Financial Administration Act* and his reports to the House of Commons under this Act, and any member so signing an opinion or report shall indicate beneath his signature his position in the office of the Auditor General and the fact that he is signing on behalf of the Auditor General.

Immunities

Immunity as witness

18.1 The Auditor General, or any person acting on behalf or under the direction of the Auditor General, is not a competent or compellable witness — in respect of any matter coming to the knowledge of the Auditor General or that person as a result of performing audit powers, duties or functions under this or any other Act of Parliament during an examination or inquiry — in any proceedings other than a prosecution for an offence under section 131 of the *Criminal Code* (perjury) in respect of a statement made under this Act.

Protection from prosecution

18.2 (1) No criminal or civil proceedings lie against the Auditor General, or against any person acting on behalf or under the direction of the Auditor General, for anything done, reported or said in good faith in the course of the performance or purported performance of audit powers, duties or functions under this or any other Act of Parliament.

Defamation

- (2) For the purposes of any law relating to defamation,
 - (a) anything said, any information supplied or any document or thing produced in good faith by or on behalf of the Auditor General, in the course of the performance or purported performance of audit powers, duties or functions under this or any other Act of Parliament, is privileged; and
 - (b) any report made in good faith by the Auditor General in the course of the performance or purported performance of audit powers, duties or functions under this or any other Act of Parliament, and any fair and accurate account of the report made in good faith in a newspaper or any other periodical publication or in a broadcast, is privileged.

Estimates

Estimates

19. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.

Special report

(2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office.

Appropriation allotments

20. The provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General.

Audit of the Office of the Auditor General

Audit of the office of the Auditor General

21. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons.

Submission of reports and tabling

(2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting.

Sustainable Development

Purpose

- 21.1 In addition to carrying out the functions referred to in subsections 23(3) and (4), the purpose of the Commissioner is to provide sustainable development monitoring and reporting on the progress of category I departments towards sustainable development, which is a continually evolving concept based on the integration of social, economic and environmental concerns, and which may be achieved by, among other things,
 - (a) the integration of the environment and the economy;
 - (b) protecting the health of Canadians;
 - (c) protecting ecosystems;
 - (d) meeting international obligations;
 - (e) promoting equity;
 - (f) an integrated approach to planning and making decisions that takes into account the environmental and natural resource costs of different economic options and the economic costs of different environmental and natural resource options;

- (g) preventing pollution; and
- (h) respect for nature and the needs of future generations.

Petitions received

22. (1) Where the Auditor General receives a petition in writing from a resident of Canada about an environmental matter in the context of sustainable development that is the responsibility of a category I department, the Auditor General shall make a record of the petition and forward the petition within fifteen days after the day on which it is received to the appropriate Minister for the department.

Acknowledgement to be sent

(2) Within fifteen days after the day on which the Minister receives the petition from the Auditor General, the Minister shall send to the person who made the petition an acknowledgement of receipt of the petition and shall send a copy of the acknowledgement to the Auditor General.

Minister to respond

- (3) The Minister shall consider the petition and send to the person who made it a reply that responds to it, and shall send a copy of the reply to the Auditor General, within
 - (a) one hundred and twenty days after the day on which the Minister receives the petition from the Auditor General; or
 - (b) any longer time, where the Minister personally, within those one hundred and twenty days, notifies the person who made the petition that it is not possible to reply within those one hundred and twenty days and sends a copy of that notification to the Auditor General.

Multiple petitioners

(4) Where the petition is from more than one person, it is sufficient for the Minister to send the acknowledgement and reply, and the notification, if any, to one or more of the petitioners rather than to all of them.

Duty to monitor

- 23. (1) The Commissioner shall make any examinations and inquiries that the Commissioner considers necessary in order to monitor
 - (a) the extent to which category I departments have contributed to meeting the targets set out in the Federal Sustainable Development Strategy and have met the objectives, and implemented the plans, set out in their own sustainable development strategies laid before the House of Commons under section 11 of the Federal Sustainable Development Act; and
 - (b) the replies by Ministers required by subsection 22(3).

Commissioner's report

- (2) The Commissioner shall, on behalf of the Auditor General, report annually to the House of Commons concerning anything that the Commissioner considers should be brought to the attention of that House in relation to environmental and other aspects of sustainable development, including
 - (a) the extent to which category I departments have contributed to meeting the targets set out in the Federal Sustainable Development Strategy and have met the objectives, and implemented the plans, set out in their own sustainable development strategies laid before that House under section 11 of the Federal Sustainable Development Act;
 - (b) the number of petitions recorded as required by subsection 22(1), the subject-matter of the petitions and their status; and
 - (c) the exercising of the authority of the Governor in Council under subsections 11(3) and (4) of the Federal Sustainable Development Act.

Duty to examine

(3) The Commissioner shall examine the report required under subsection 7(2) of the Federal Sustainable Development Act in order to assess the fairness of the information contained in the report with respect to the progress of the federal government in implementing the Federal Sustainable Development Strategy and meeting its targets.

Duty to report

(4) The Commissioner shall include in the report referred to in subsection (2) the results of any assessment conducted under subsection (3) since the last report was laid before the House of Commons under subsection (5).

Submission and tabling of report

(5) The report required by subsection (2) shall be submitted to the Speaker of the House of Commons and shall be laid before that House by the Speaker on any of the next 15 days on which that House is sitting after the Speaker receives it.

Appendix B Reports of the Standing Committee on Public Accounts to the House of Commons, 2009–10

The following reports have been tabled since our November 2009 Report went to print. They are available on the website of Canada's Parliament (www.parl.gc.ca).

40th Parliament, 2nd Session

Report 19—Chapter 5, Passport Services—Passport Canada, of the 2009 March Status Report of the Auditor General of Canada (Adopted by the Committee on 21 October, 2009; presented to the House on 6 November 2009)

Report 20—Chapter 5, Financial Management and Control—National Defence, of the Spring 2009 Report of the Auditor General of Canada (Adopted by the Committee on 18 November 2009; presented to the House on 3 December 2009)

Report 21—Chapter 3, Contracting for Professional Services—Public Works and Government Services Canada, of the December 2008 Report of the Auditor General of Canada (Adopted by the Committee on 18 November 2009; presented to the House on 3 December 2009)

Report 22—Power of Committees to Order the Production of Documents (Adopted by the Committee on 18 November 2009; presented to the House on 3 December 2009)

Report 23—Chapter 7, Acquisition of Leased Office Space, of the 2006 May Status Report of the Auditor General of Canada (Place Victoria) (Adopted by the Committee on 25 November 2009; presented to the House on 10 December 2009)

40th Parliament, 3rd Session

Report 1—Following up on Recommendations made by the Standing Committee on Public Accounts in the 39th Parliament, 2nd Session (Adopted by the Committee on 16 March 2010; presented to the House on 29 March 2010)

Report 2—Chapter 2, The Governor in Council Appointments Process, of the 2009 March Status Report of the Auditor General of Canada (Adopted by the Committee on 16 March 2010; presented to the House on 29 March 2010)

Report 3—Chapter 7, Special Examinations of Crown Corporations—2008, of the Spring 2009 Report of the Auditor General of Canada (Adopted by the Committee on 16 March 2010; presented to the House on 29 March 2010)

Report 4—Chapter 1, Gender-Based Analysis, of the Spring 2009 Report of the Auditor General of Canada (Adopted by the Committee on 16 March 2010; presented to the House on 14 April 2010)

Report 5—Chapter 1, Safeguarding Government Information and Assets in Contracting, of the October 2007 Report of the Auditor General of Canada (Adopted by the Committee on 16 March 2010; presented to the House on 14 April 2010)

Report 6—Chapter 3, Human Resources Management—Foreign Affairs and International Trade Canada, of the May 2007 Report of the Auditor General of Canada (Adopted by the Committee on 16 March 2010; presented to the House on 14 April 2010)

Report 7—Chapter 4, Interest on Advance Deposits from Corporate Taxpayers—Canada Revenue Agency, of the Spring 2009 Report of the Auditor General of Canada (Adopted by the Committee on 16 March 2010; presented to the House on 14 April 2010)

Report 8—Chapter 6, Selected Contribution Agreements—Natural Resources Canada, of the Spring 2009 Report of the Auditor General of Canada (Adopted by the Committee on 25 March 2010; presented to the House on 19 April 2010)

Report 9—Chapter 2, Intellectual Property, of the Spring 2009 Report of the Auditor General of Canada (Adopted by the Committee on 25 March 2010; presented to the House on 19 April 2010)

Report 10—Public Accounts of Canada 2009 (Adopted by the Committee on 1 April 2010; presented to the House on 28 April 2010)

Report 11—Chapter 7, Emergency Management—Public Safety Canada, of the Fall 2009 Report of the Auditor General of Canada (Adopted by the Committee on 15 April 2010; presented to the House on 28 April 2010)

Report 12—Chapter 3, Income Tax Legislation, of the Fall 2009 Report of the Auditor General of Canada (Adopted by the Committee on 15 April 2010; presented to the House on 28 April 2010)

Report 13—Chapter 2, Selecting Foreign Workers Under the Immigration Program, of the Fall 2009 Report of the Auditor General of Canada (Adopted by the Committee on 29 April 2010; presented to the House on 12 May 2010)

Report 14—Main Estimates 2010–2011: Vote 15 under FINANCE, and Part III—Report on Plans and Priorities and Departmental Performance Report of the Office of the Auditor General of Canada (Adopted by the Committee on 11 May 2010; presented to the House on 12 May 2010)

Appendix C Report on the audit of the President of the Treasury Board's report *Tabling of Crown Corporations Reports in Parliament*

Tablings in Parliament for parent Crown corporations: Annual reports and summaries of corporate plans and budgets

Section 152 of the *Financial Administration Act* (the Act) requires the President of the Treasury Board to lay before each House of Parliament a report on the timing of the tabling, by appropriate ministers, of annual reports and summaries of corporate plans and of budgets of Crown corporations. This report of the President of the Treasury Board is included in the 2010 *Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada*, which must be tabled by 31 December.

The Act requires the Auditor General of Canada to audit the accuracy of the President of the Treasury Board's report on the timing of tablings and to present the results in her annual report to the House of Commons.

At the time that our annual report was going to print, we were unable to include the results of the above audit, since the President of the Treasury Board's report had not yet been finalized. The auditor's report, which is required by the Act, will therefore be included in the next Report of the Auditor General to the House of Commons. It will also be appended to this year's report of the President of the Treasury Board.

Appendix D Costs of Crown corporation audits conducted by the Office of the Auditor General of Canada

The Office is required, under section 147 of the *Financial Administration Act*, to disclose its costs incurred in preparing annual audit (Exhibit D.1) and special examination reports on Crown corporations.

An audit report includes an opinion on a corporation's financial statements and on its compliance with specified authorities. It may also include reporting on any other matter deemed significant.

A special examination determines whether a corporation's financial and management control and information systems and its management practices provide reasonable assurance that

- assets have been safeguarded and controlled;
- financial, human, and physical resources have been managed economically and efficiently; and
- operations have been carried out effectively.

In 2009–10, the Office completed the special examination of 10 Crown corporations. The costs incurred are in the following table:

Business Development Bank of Canada (joint audit)	\$910,320
business Development bank of Canada (Joint addit)	ψ910,320
Canada Deposit Insurance Corporation	\$357,582
Canada Post Corporation (joint audit)	\$1,907,702
Canadian Commercial Corporation	\$426,299
Enterprise Cape Breton Corporation	\$405,093
Export Development Canada	\$743,733
Marine Atlantic Inc.	\$621,801
National Gallery of Canada	\$820,510
National Museum of Science and Technology	\$690,946
Standards Council of Canada	\$381,296

Exhibit D.1 Cost of preparing annual audit reports for fiscal years ending on or before 31 March 2010

Crown corporation	Fiscal year ended	Cost (\$)
Atlantic Pilotage Authority	31.12.09	117,001
Atomic Energy of Canada Limited (joint audit)	31.03.10	550,734
Blue Water Bridge Authority	31.08.09	168,005
Business Development Bank of Canada (joint audit)	31.03.10	492,813
Canada Council for the Arts	31.03.10	187,596
Canada Deposit Insurance Corporation	31.03.10	176,154
Canada Development Investment Corporation (joint audit)	31.12.09	160,304
Canada Employment Insurance Financing Board	31.03.10	76,070
Canada Hibernia Holding Corporation	31.12.09	73,685
Canada Lands Company Limited	31.03.10	652,867
Canada Mortgage and Housing Corporation (joint audit)	31.12.09	589,006
Canada Post Corporation (joint audit)	31.12.09	695,976
Canadian Air Transport Security Authority	31.03.10	472,801
Canadian Broadcasting Corporation	31.03.10	895,806
Canadian Commercial Corporation	31.03.10	243,160
Canadian Dairy Commission	31.07.09	266,817
Canadian Museum for Human Rights	31.03.10	153,634
Canadian Museum of Civilization	31.03.10	182,974
Canadian Museum of Nature	31.03.10	115,876
Canadian Race Relations Foundation	31.03.10	145,193
Canadian Tourism Commission	31.12.09	329,813
Cape Breton Development Corporation	31.12.09	215,198
Defence Construction (1951) Limited	31.03.10	76,100
Enterprise Cape Breton Corporation	31.03.10	266,110
Export Development Canada	31.12.09	1,074,803
Farm Credit Canada	31.03.10	659,050
Federal Bridge Corporation Limited, The	31.03.10	118,265
First Nations Statistical Institute	31.03.10	68,491
Freshwater Fish Marketing Corporation	30.04.09	248,840
Great Lakes Pilotage Authority	31.12.09	150,919
International Development Research Centre	31.03.10	200,601
Jacques Cartier and Champlain Bridges Incorporated, The	31.03.10	142,804
Laurentian Pilotage Authority	31.12.09	110,823
Marine Atlantic Inc.	31.03.10	306,570
National Arts Centre Corporation	31.08.09	274,788
National Capital Commission	31.03.10	330,251
National Gallery of Canada	31.03.10	195,137
National Museum of Science and Technology	31.03.10	148,360
Old Port of Montréal Corporation Inc.	31.03.10	256,851
Pacific Pilotage Authority	31.12.09	94,449

Exhibit D.1 Cost of preparing annual audit reports for fiscal years ending on or before 31 March 2010 (continued)

Crown corporation	Fiscal year ended	Cost (\$)
Parc Downsview Park Inc.	31.03.10	153,667
Public Sector Pension Investment Board (joint audit)	31.03.10	518,402
Public-Private Partnerships Canada Inc. (joint audit)	31.03.10	110,576
Ridley Terminals Inc.	31.12.09	169,467
Royal Canadian Mint	31.12.09	634,510
Seaway International Bridge Corporation Ltd., The	31.03.10	122,868
Standards Council of Canada	31.03.10	91,910
Telefilm Canada	31.03.10	179,374
VIA Rail Canada Inc.	31.12.09	710,961

Report of the Auditor General of Canada to the House of Commons—Fall 2010

Matters of Special Importance

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