

# 2011



## **Status Report** of the **Auditor General of Canada** to the House of Commons

**Matters of Special Importance**  
**Main Points—Chapters 1 to 6**  
**Appendix**



**Office of the Auditor General of Canada**

*The 2011 Status Report of the Auditor General of Canada comprises Matters of Special Importance, Main Points—Chapters 1 to 6, an appendix, and seven chapters. The main table of contents for the Report is found at the end of this publication.*

The Report is available on our website at [www.oag-bvg.gc.ca](http://www.oag-bvg.gc.ca).

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Auditor General of Canada  
Vérificatrice générale du Canada

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To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith this Status Report of 2011 to the House of Commons, which is to be laid before the House in accordance with the provisions of subsection 7(5) of the *Auditor General Act*.

Yours sincerely,

A handwritten signature in black ink that reads 'Sheila Fraser'.

Sheila Fraser, FCA

OTTAWA, 3 May 2011



# Table of Contents

<b>Matters of Special Importance—2011</b>	<b>1</b>
<b>Progress made</b>	<b>1</b>
Actions taken toward improvement	1
Significantly improved financial management practices	3
<b>Remaining challenges</b>	<b>4</b>
Fiscal pressures	4
Conditions on First Nations reserves	6
<b>Conclusion</b>	<b>7</b>
<b>Main Points—Chapters 1 to 6</b>	<b>9</b>
<b>Chapter 1</b> Financial Management and Control and Risk Management	<b>11</b>
<b>Chapter 2</b> Large Information Technology Projects	<b>14</b>
<b>Chapter 3</b> Internal Audit	<b>17</b>
<b>Chapter 4</b> Programs for First Nations on Reserves	<b>19</b>
<b>Chapter 5</b> National Police Services—Royal Canadian Mounted Police	<b>21</b>
<b>Chapter 6</b> Regulating Medical Devices—Health Canada	<b>23</b>
<b>Appendix</b>	<b>27</b>
Report on the audit of the President of the Treasury Board's report, <i>Tabling of Crown Corporations' Reports in Parliament</i>	<b>29</b>





**Matters of Special  
Importance—2011**





# Matters of Special Importance—2011



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Sheila Fraser, FCA  
Auditor General of Canada

Since I issued my first Report to the House of Commons in 2001, our audits have taken my Office into a wide range of government programs and activities. I continue to be impressed by the professionalism, commitment, and resilience of public servants and by their efforts to ensure that Canadians are well served by their government. I believe that, in their public service, Canadians have a world-class institution that should be a source of pride.

My first Status Report to the House was tabled in September 2002. Our status reports tell parliamentarians what steps the government has taken to meet commitments made in response to our previous recommendations and whether, in our view, those steps represent satisfactory progress. In my view, there are numerous things that the federal government does well, particularly the ongoing activities on which many Canadians rely, including processing Canada Pension Plan, Old Age Security, and employment insurance benefits.

In an organization as large and complex as our federal government, however, it is not surprising that we have also found areas that need attention. Many of the issues we audit are complex, and making progress takes sustained effort over time. A rating of satisfactory does not necessarily mean that no further action is needed, but rather that the action taken so far is reasonable over the period since our previous audit.

I would like to use this Status Report—my last as Parliament’s Auditor General—to reflect on some examples of progress and also to underscore two challenges that remain of particular concern to me as my term comes to a close.

## Progress made

One of the most satisfying aspects of my work has been the opportunity to point to good practices and real progress in a number of government programs. Taken together, our reports have included many examples of efforts by federal departments and agencies to make changes that will be of lasting benefit to Canadians.

## Actions taken toward improvement

**Foundations.** The accountability of **foundations** is an example of progress arrived at in the past decade. In 1999 and for a number of successive years, the Auditor General’s observations on the government’s financial statements expressed concerns about the way

**Foundations**—Organizations that received significant amounts of federal funding in advance to carry out public policy objectives.

foundations were funded, the way their funding was accounted for, and their inadequate accountability for billions of dollars transferred to them by the government.

Given the amount of money involved, I am very pleased that accountability to Parliament has been strengthened to the point where foundations now appear before parliamentary committees to discuss the management of their programs. The government has also strengthened its funding agreements with foundations to increase their accountability.

I was pleased when Parliament amended the *Auditor General Act*, in June 2005, to give my Office a mandate to audit foundations. Where we have conducted audits of foundations—for example, Canada Health Infoway and the Canada Millennium Scholarship Foundation—we have generally reported positive observations.

**Passport Canada.** Passport Canada had struggled in 2005 to meet service demands that were growing even as security requirements increased. In 2007, it faced a surge in applications for passports needed to fly to the United States, resulting in prolonged waits and delays for travelling Canadians. By 2009, we could report that Passport Canada had made satisfactory progress in addressing the problem and was preparing for any subsequent increase in passport applications leading up to June 2009, when Canadians would also need passports to enter the US by land or sea.

**The Canadian Food Inspection Agency.** I have also noted the considerable efforts that the Canadian Food Inspection Agency has made since the 2004 avian influenza outbreak to improve its readiness for animal disease emergencies. The Agency developed policies, plans, and procedures to manage such emergencies and adjusted its approach based on lessons learned. While every animal disease emergency brings specific challenges that cannot always be anticipated, the Agency's established procedures enabled it to manage the 2007 and 2009 avian influenza emergencies and minimize the costs of lost production and the threats to animal health.

**Social insurance number (SIN).** The management of the social insurance number is an area where we found limited progress in 2002. In 2007, we reported that, while Service Canada was heading in the right direction to improve data quality in the Social Insurance Register, overall progress was still unsatisfactory. I was pleased to note in our 2009 Report, *Managing Identity Information*, that Service Canada had taken significant steps to implement a system for measuring and

reporting on the quality of data in the Register. It also implemented a national quality control process to verify that new information being added to the Social Insurance Register at the time of a SIN application is complete, accurate, and valid.

I hope that these few examples, selected from our reports over the years, will serve to assure Canadians that government does indeed take action to improve. I would like to turn now to an area of government where this has been particularly evident—the government’s financial management.

### **Significantly improved financial management practices**

I am pleased that I was able to provide a clean opinion on the government’s summary financial statements, the Public Accounts of Canada, for each of my 10 years as Auditor General. A clean opinion, that is, without qualification, tells users of the financial statements that they can trust the figures presented and that they depict fairly the financial position. I congratulate the government on this accomplishment—an unqualified audit opinion is achieved by few governments in other countries.

Another improvement I have noted during my term is the increased attention given by deputy heads to financial management. This may be due to the 2006 *Federal Accountability Act*, which designated deputy heads as the accounting officers of their departments. As such, they are accountable to the appropriate committee of Parliament to answer questions related to the management of their organizations.

Another significant development was the creation of departmental audit committees, which advise the deputy heads. As we recommended in 2004, these committees are required to include experts from outside government, who have diverse professional backgrounds. These include academics, former deputy ministers, or distinguished individuals from the private sector. Departments have attracted Canadians with impressive credentials to serve on their departmental audit committees, and deputy heads have told us that the committees provide valuable, objective advice on the management of their organizations.

As highlighted in Chapter 1 of this Status Report, another notable improvement in financial management is the recent requirement that departmental chief financial officers or their deputy chiefs have a recognized accounting designation. In 2003, when we first reported on the qualifications of senior financial officers, only 33 percent had

accounting designations; in 2010, we found that 82 percent of chief financial officers in the 22 largest departments had professional accounting designations. This has increased the capability for effective management of financial matters in those departments.

I am impressed by the progress shown in the short time since 2004 by internal audit, a key financial management tool discussed in Chapter 3 of this Status Report. We said in 2004 that the success of internal audit would depend on its professionalism and the value it added to the department. A capable internal audit function provides senior management with objective, independent assurance that its financial, administrative, and operational controls and its management practices are effective.

This year, I am pleased to report that there is greater appreciation of the role that internal audit can play; and, as a result, there is stronger senior management support for it across government. Departmental chief audit executives are now expected to have professional designations, and their audit staff are encouraged to seek their formal designations as certified internal auditors.

The maturity and professionalism of the internal audit community was highlighted in our first phase of auditing the Economic Action Plan (reported in fall 2010). In that audit, we were able to rely on the work of internal audits completed in three departments and to incorporate the audit findings and conclusions into our own audit work. This coordination of work done by internal and external auditors enhanced the support that audit was able to provide to government operations.

### **Remaining challenges**

While progress in many areas has been noteworthy, the government faces some significant challenges. The following two, in particular, concern me:

- Long-term fiscal pressures facing Canadians
- Conditions on First Nations reserves

#### **Fiscal pressures**

Like governments in most countries, Canada's federal government faces long-term fiscal pressures, such as those arising from the debt and deficit situation and an aging population.

Under existing programs, an aging population will inevitably increase government spending on health care. Health care as a percentage of total program spending has risen in many jurisdictions. According to Statistics Canada, seniors aged 65 and older form the fastest-growing

segment of the population and will represent more than 25 percent of Canada's population in 2056.

As populations age, downward pressures will be brought to bear on labour force growth, economic growth, and tax revenues. The same people who will be needing more health care services, as they age, will also be drawing from the Canada Pension Plan, Old Age Security, and Guaranteed Income Supplement. Together, the growing cost of health care, increased retirement payments, and potentially lower tax revenues will present a major challenge.

As noted by the Commissioner of the Environment and Sustainable Development, another looming fiscal pressure facing Canada is the cost of managing the potential impacts of climate change. Extreme weather events are increasing in number and severity; other impacts include threats to human health from extreme heat and the spread of diseases, such as the West Nile virus. The most extreme impacts are already occurring in Canada's North where, for example, the thawing of permafrost is affecting the stability of roads, buildings, pipelines, and other infrastructure. Climate change will potentially have major impacts on key economic sectors as well, such as forestry, mining, fisheries, and agriculture.

Adapting to climate impacts will be important to limit losses or to take advantage of opportunities that may accompany changing climate conditions. A national long-term strategy and action plan are needed to plan for adaptation, estimate the costs, and engage Canadians in adjusting their activities and their thinking.

Several of our audits in the past decade have shown that the government will also face the challenge of replacing federal infrastructure—the Parliament buildings, bridges and ferries, mail handling facilities and equipment, research facilities and laboratory equipment, and the information technology systems that Canadians depend on for a variety of services and payments are but a few examples. Infrastructure replacement costs will add to the government's long-term fiscal pressures. The cost of not developing and funding a long-term replacement plan will be far higher.

I believe Canadians need sound, long-term fiscal information to understand the implications of policy choices, especially changes in spending, taxation, and debt levels. They need to know how these choices will affect the financial burden on present and future generations. Fiscal projections that look only a few years into the future will not give them what they need to meet the challenges ahead.

Nearly 30 countries and some Canadian provinces publish long-term fiscal projections, ranging from 25 to 100 years into the future. For example, for the last 20 years, the United States has produced fiscal projections that extend 75 years. In Canada, the Department of Finance Canada last published long-term projections 9 years ago as informal working papers, which are long since outdated.

I recognize the scale, complexity, and difficulty of managing these financial challenges. I encourage the government to publish the long-term financial projections needed to fully assess the impact of the challenges facing us and to inform Canadians and engage them in discussion about the difficult choices that need to be made. Success will require strong leadership and the ability to maintain focus and momentum over long periods of time. Resolving these long-standing challenges will take renewed vigour and clear plans and strategies. I encourage the government to engage Canadians in these decisions.

#### **Conditions on First Nations reserves**

Between 2001 and spring 2010, my reports included 16 chapters addressing First Nations and Inuit issues directly. Another 15 chapters dealt with issues of importance to Aboriginal people. I am profoundly disappointed to note in Chapter 4 of this Status Report that despite federal action in response to our recommendations over the years, a disproportionate number of First Nations people still lack the most basic services that other Canadians take for granted.

It is clear that living conditions are poorer on First Nations reserves than elsewhere in Canada. In 2010, Indian and Northern Affairs Canada (INAC) reported that the average well-being of those communities continued to rank significantly below that of other Canadian communities. For example, the high school graduation rate for residents of reserves is 41 percent, compared with 77 percent for Canadians as a whole; and INAC data shows that more than half of the drinking water systems on reserves still pose a health risk to people who use them. In a country as rich as Canada, this disparity is unacceptable.

On the surface, it may appear that the government simply needs to work harder to make existing programs work better. However, after 10 years in this job, it has become clear to me that if First Nations communities on reserves are going to see meaningful progress in their well-being, a fundamental change is needed.

In my view, many of the problems faced by First Nations communities on reserves are due to structural impediments that severely limit the delivery of public services and hinder improvements in well-being. In Chapter 4 of this Status Report, we identify and provide details on four such impediments: a lack of clarity about service levels to First Nations, the lack of a legislative base, the lack of an appropriate funding mechanism, and a lack of organizations to support local service delivery.

Real improvement will depend on the full participation of First Nations and the federal government; addressing the structural impediments will be a challenge for both parties. They will have to work together to address many obstacles. Unless they rise to this challenge, however, living conditions may continue to be poorer on First Nations reserves than elsewhere in Canada for generations to come.

## Conclusion

I believe that Canadians have a strong and highly capable public service. In ten years of serving as Auditor General, I have observed many things it does well—an important factor in why most Canadians enjoy an enviable standard of living.

In terms of the future fiscal pressures we face as Canadians, I encourage the federal government to publish longer-term forecasts and to engage Canadians in discussions about choices that will have to be made.

I also encourage the government and First Nations to recognize the need for a changed approach to services on First Nations reserves and to work together to improve the well-being of those communities.

In closing, I thank my Office colleagues for their enthusiasm and commitment and their ability to deal with the many challenges we have faced together. I feel privileged to have worked with people who are so competent and so dedicated to serving Parliament and Canadians. I also acknowledge the excellent cooperation and assistance we received from the departments and agencies we audited, sometimes under trying circumstances. Finally, I want to express appreciation for the work of the committees of Parliament who reviewed our reports in committee hearings. With the continued combined efforts of these groups, I am confident that our democratic institutions will remain strong.







**Main Points—Chapters 1 to 6**





# Financial Management and Control and Risk Management

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## Chapter 1 Main Points

### What we examined

Financial control and risk management are central to managing any organization effectively. To the extent that they are done well, they can contribute to an organization's ability to safeguard its assets, use its resources economically and efficiently, and produce accurate and reliable financial information. Reliable information is key to developing a complete and accurate picture of financial performance.

In our April 2003 Report we observed that federal departments we had selected for audit were in the early stages of implementing integrated risk management and that much remained to be done. For example, departments needed to complete their analysis of risk, including assessing their tolerance for risk. We also noted that departments needed more guidance from the Treasury Board of Canada Secretariat on the steps involved in integrated risk management.

Our May 2006 Report noted that departments selected for that audit had made some progress in resolving financial control weaknesses and improving their financial management competencies. However, we noted that unless they also improved their financial controls, the quality of information used for many key decisions would be at risk. We also noted that most financial information used for budgeting and decision making was based on the cash method of accounting, which provided a less accurate and complete picture of a department's financial situation than the accrual method.

In this follow-up audit we examined government's progress in acting on commitments made in response to our previous concerns. Our audit included the Treasury Board of Canada Secretariat (the Secretariat) which includes the Office of the Comptroller General, and seven large federal departments, namely: Agriculture and Agri-Food Canada, Department of Finance Canada, Foreign Affairs and International Trade Canada, Human Resources and Skills Development Canada, Indian and Northern Affairs Canada, Transport Canada, and Veterans Affairs Canada.

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

**Why it's important**

Canadians expect the government to be well managed and to be accountable for the safeguarding of public assets and the stewardship—efficient, effective, and economical use—of public funds. Effective financial controls and risk management are vital to reduce the risk that the government may not achieve these objectives.

**What we found**

- Overall, the Treasury Board of Canada Secretariat and departments have made satisfactory progress in acting on their previous commitments, in particular, with respect to developing policies, frameworks, and relevant guidance on internal controls, and implementing risk management measures. Departments have still not fully assessed their internal control systems to identify and address weaknesses; and, according to their action plans, this work will take years to complete. In addition, the Office of the Comptroller General (OCG) has yet to establish processes for monitoring the completion of these assessments or for assessing actions taken by departments to address significant internal control issues. There is also a long-standing issue that has not been sufficiently addressed—namely, accrual-based budgeting and appropriations.
- The Treasury Board of Canada Secretariat, through the Office of the Comptroller General, has demonstrated leadership by developing a new and strengthened financial management policy suite, clarifying roles and responsibilities, and supporting deputy heads in their role as accounting officers as set out in the *Financial Administration Act*. Most of the selected departments told us they found the Secretariat's initiatives and approach to be helpful. However, there is more work to be done to improve the Secretariat's monitoring of the implementation of these policies so that it can appropriately assess departments' performance in achieving the policy goals.
- Each of the selected departments has developed a corporate risk profile that summarizes an assessment of the department's key risks, with processes in place to update these profiles regularly. The integration of risk into planning, reporting, and decision making has improved.
- Financial human resource capacity has improved since our last report. The Office of the Comptroller General has put in place several measures to enhance capacity, including guidelines on the qualifications of chief financial officers, mandatory training courses for financial staff, promotion of professional accounting designations for mid-level financial officers and financial managers, staffing initiatives, and forums and exchanges on best practices.

Departments are working to maintain and strengthen their workforce by recruiting, training, and developing the appropriate number of financial officers and managers with the required skills, competencies, and experience. Departments are at various stages in the process of putting in place strategies to address the anticipated turnover of senior financial executives.

- The government has not completed its evaluation of accrual-based budgeting and accrual-based appropriations and has not yet decided if it intends to fully adopt either or both of these approaches. It has taken what it considers the needed action related to accrual-based budgeting. However, it is our view that these actions are not sufficient or appropriate to attain accrual-based budgeting at the departmental level. At this point no decision on whether to adopt accrual-based appropriations has been made.

**The departments and the Secretariat have responded.** The departments and the Secretariat agree with all of the recommendations. Their detailed responses follow the recommendations throughout the chapter.



# Large Information Technology Projects

## Chapter 2 Main Points

### What we examined

Large information technology (IT) projects involve more than introducing new hardware and software and systems. These projects can introduce new processes and practices—new ways of doing business—that also need to be successfully implemented before organizations can take advantage of potential efficiencies and savings. When successful, these projects can change the way that departments carry out their work and improve services to Canadians. Because large IT projects are complex and costly, they usually involve long planning and development times and require significant investments (on average, over three years and more than \$70 million).

In 2006, we looked at seven large IT projects and found that only two of them met all of our audit criteria for well-managed projects. We found that five of the seven projects had proceeded even though their business cases were incomplete or out of date or contained information that could not be supported. In addition, four of the projects were undertaken by departments that lacked the required skills and experience to manage them. Although by 2006 the Treasury Board of Canada Secretariat had established a framework of best practices for managing IT projects, many of the problems identified some nine years earlier had persisted. In 2006, we also found that limited progress had been made since our previous audit in 1997.

For this status report, we examined the progress made since 2006 by the four departments that had not met all of our criteria in 2006. We also selected a new project, approved by the Treasury Board since 2006, in order to assess the government's progress in the way it approves and manages large IT projects.

In our 2006 audit, we were denied access to information by the Secretariat, which prevented us from completing our review of its challenge role in support of oversight of large IT projects by Treasury Board ministers. In this audit, we were able to review information that demonstrated the role played by the Secretariat.

Audit work for this chapter was substantially completed on 29 October 2010.

**Why it's important**

The federal government relies on information technology systems to provide many programs and services to Canadians. Large IT projects are inherently complex, expensive, and risky. Since 2002, the federal government has approved funding of \$7.5 billion for new business projects making significant use of information technology. In the four audits we performed since 1995, the projects audited have a history of cost overruns and delays, and of not delivering what had been planned originally.

**What we found**

- Overall, the government has made unsatisfactory progress on its commitments in response to our 2006 recommendations. Although some improvements have been made, progress has been unsatisfactory in the important areas of governance and project business cases. Only two of the five projects we looked at, the Temporary Resident Biometrics Project and Integrated Revenue Collections systems, met most of our criteria for well-managed projects.
- In order to increase the likelihood of success, departments have significantly reduced the scope of the projects and considerably extended their timelines. In the area of project governance, the Expenditure Management Information System and Global Case Management System have had important deliverables deferred without full analysis of the impacts and costs of not completing these projects. In three of the five projects examined, the project business cases did not identify measurable benefits or the benefits have not been measured. For example, the 2007 business case for the Secure Channel no longer quantifies the financial benefits.
- In three of the four projects we examined, departments adequately assessed their capacity to manage the projects and demonstrated that they were ready to accept the business transformation that came with them; in three of the four projects, departments have done an adequate job of managing projects risks.
- The Secretariat has met the commitments it made in response to our recommendations we addressed to it. Since 2007, it has completed a policy suite renewal, which has led to new policies, standards, and guidance that will directly impact information technology projects by the end of the five-year implementation period. The Secretariat has been actively challenging departments in their preparation of their IT project submissions; recently (September 2010) it also submitted its first semi-annual report to Treasury Board ministers summarizing the health of large IT projects across government. That report provided a snapshot of 12 ongoing projects with a total value of

\$2.4 billion. However, it is too early to assess whether these measures will have a significant impact on the management of large IT projects by departments.

**The organizations have responded.** The organizations agree with all of the recommendations. Their detailed responses follow the recommendations throughout the report.





# Internal Audit

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## Chapter 3 Main Points

### What we examined

In November 2004, we reported considerable variation among six federal organizations in the extent to which their internal audit activity met the international standards for the professional practice of internal auditing issued by the Institute of Internal Auditors. We also reported the extent to which they complied with the Treasury Board Policy on Internal Audit. We found that the Treasury Board of Canada Secretariat had yet to establish and fund a strategy that would enable it to meet the requirements of the Policy and the expectations of the internal audit community. We made a number of recommendations aimed at improving the quality of internal audit across government.

Our 2004 report noted that, effective 1 June 2004, the government had re-established the Office of the Comptroller General to strengthen comptrollership and oversight across the federal government. The Comptroller General's key duties included setting or reviewing internal auditing standards and policies of the Government of Canada, providing leadership to ensure and enforce appropriate internal controls, and promoting sound resource stewardship at all levels across the federal government.

For this status report, we examined the extent of progress made by the government in acting upon the commitments it made in response to the observations and recommendations of our 2004 report. We looked at whether independent audit committees had been established in the 24 largest departments and agencies that represent about 95 percent of the government's total assets, liabilities, revenues, and expenses. We assessed the practices and procedures used by a sample of internal audit activities. We also looked at whether the Office of the Comptroller General provided appropriate oversight and guidance to the internal audit activity in departments.

Audit work for this chapter was substantially completed on 28 November 2010.

### Why it's important

Internal audit is an important element of good governance. An effective internal audit activity can provide senior management with

objective, independent assurance that the organization's financial, administrative, and operational controls and management practices are effective. It can also suggest improvements that may be needed.

### What we found

- The government has made satisfactory progress in acting upon the commitments it made in response to the observations and recommendations of our 2004 audit.
- Independent departmental audit committees have been established in the 24 large departments; the majority of their members are from outside the federal public administration and have the collective skills and experience required to provide deputy heads of departments with objective advice and recommendations. Departmental audit committees are at varying stages in developing their practices and procedures. Some committees have been in effect for three years and others less than one year. We noted that the Canada Revenue Agency established its audit committee in 1999. We have also noted the positive impact that established departmental audit committees are having in contributing to stronger internal audit in government.
- The government has strengthened its internal audit capacity since our last audit in 2004. While few internal audit activities in departments have undergone an external quality assessment review, our own review of a sample of internal audit activities found that they generally or partially conformed to policy requirements and to the standards of the Institute of Internal Auditors. Internal audit reports we reviewed met those standards and requirements. We noted that the strong senior management support for internal audit, coupled with the impact of departmental audit committees has been accompanied by a strengthened internal audit capacity. Senior management has indicated that it has a greater appreciation of the role that internal audit can and should play within an organization.
- The Office of the Comptroller General has provided direction and guidance to the internal audit and departmental audit committee communities through the establishment of a sound policy framework and related guidance. We noted, for example, orientation material that included roles, responsibilities, and expectations of audit committee members. The Office of the Comptroller General has also developed tools and guidance for the internal audit community, such as risk-based audit plans and guidance on core controls.

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



# Programs for First Nations on Reserves

## Chapter 4 Main Points

### What we examined

The federal government supports numerous services to First Nations members on reserves that are similar to those provided by provincial and municipal governments to people off reserves. These services range from education and social development programs to land management and economic development, housing, provision of potable water, and provision of benefits to First Nations members under treaties and other agreements.

In several audits over the past decade, we have identified issues of particular importance to the lives and well-being of First Nations and Inuit. In this follow-up audit, we examined the government's progress toward achieving the commitments it made to address significant observations and recommendations from seven of those reports, issued between 2002 and 2008. We focused on the areas of education, water quality, housing, child and family services, land claim agreements, and reporting requirements.

Our audit included the roles that Indian and Northern Affairs Canada (INAC), Health Canada, the Canada Mortgage and Housing Corporation (CMHC), and the Treasury Board of Canada Secretariat play in the management of programs to improve the lives of First Nations and Inuit.

Audit work for this chapter was substantially completed on 1 November 2010.

### Why it's important

According to the Report of the Royal Commission on Aboriginal Peoples (1996), Canada's First Nations reserves experience long-standing challenges such as ill health, insufficient and unsafe housing, high unemployment, polluted water supplies, inadequate education, poverty, and family breakdown. The federal government supports programs that can improve the lives of people who live on reserves. However, despite the billions of federal dollars spent each year on programs to address the social and economic challenges on First Nations reserves, conditions there remain significantly below the national average.

**What we found**

- Despite considerable efforts and concrete actions in some areas, federal organizations have not made satisfactory progress on commitments made in response to several recommendations from our previous audits. INAC has just begun implementing a strategy to close the education gap. The Department has not defined what is meant by its policy of providing child and family services that are reasonably comparable to what exists in the provinces. Nor has it developed and implemented a plan to communicate to other federal organizations what specific obligations they have under land claim agreements or monitored their results. INAC and Health Canada do not ensure that drinking water is tested on a regular basis. INAC, Health Canada, and the Canada Mortgage and Housing Corporation have developed a strategy for dealing with mould in housing, but it is not comprehensive as it focuses on education rather than remediation and provides no new funding.
- INAC has implemented commitments it made in response to some of our recommendations. For example, it has taken steps to monitor progress toward the objectives of comprehensive land claim agreements, and has put in place a system to track and monitor progress on all federal commitments contained in the agreements. Along with Health Canada, INAC has developed draft legislation related to drinking water on reserves. In addition, the Department recently agreed with several provinces and First Nations on frameworks to improve child and family services on reserves, but it will likely be several years before meaningful results are realized.
- Notwithstanding the considerable efforts made, conditions have generally not improved for First Nations in each of the areas subject to our audit. The education gap between First Nations living on reserves and the general Canadian population has widened, the shortage of adequate housing on reserves has increased, comparability of child and family services is not ensured, and the reporting requirements on First Nations remain burdensome.
- Broader concerns that we believe have inhibited progress include the lack of clarity about service levels on First Nations reserves, lack of a legislative base to fund service delivery on reserves, a lack of an appropriate funding mechanism, and a lack of organizations that could support local service delivery. There is a risk that living conditions on many First Nations reserves will remain significantly below national averages, with little prospect of a brighter future, until these concerns are addressed.

**The Department has responded.** The Department agrees with our recommendation. Its detailed response follows the recommendation.



# National Police Services— Royal Canadian Mounted Police

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## Chapter 5 Main Points

### What we examined

The Royal Canadian Mounted Police (RCMP) provides Canada's law enforcement community with specialized national police services such as forensic analyses of criminal evidence, criminal records information, identification services, technological support, learning opportunities, and the collection and analysis of criminal information and intelligence.

This follow-up audit assessed the progress that the federal government and the RCMP have made toward keeping commitments to improve certain national police services, including their timeliness, made in response to our audits in 2000, 2004, and 2007; those audits noted significant delays in the delivery of these services. We focused on four of the national police services: Forensic Laboratory Services, the National DNA Data Bank, Criminal Intelligence Service Canada, and Canadian Criminal Real Time Identification Services. The DNA Data Bank has not been the subject of a previous audit by this office.

We also followed up on previous audit observations concerning the governance of national police services as a whole and the approach to funding them.

Audit work for this chapter was substantially completed on 1 November 2010.

### Why it's important

Jurisdictional limits on individual police forces, the division of investigative responsibility when crime crosses these jurisdictional lines, and constraints on funds and manpower limit the ability of any single police force to carry out complex investigations. Given the RCMP's federal and contractual policing responsibilities, provincial and municipal police forces often rely on the RCMP to provide highly specialized police support services. The aim of providing national police services is to enable and sustain uniform access to information that supports public safety and the administration of justice to all Canadians, particularly where such services may not be within the resources of individual jurisdictions.

**What we found**

- The federal government and the Royal Canadian Mounted Police have made unsatisfactory progress on commitments made in response to recommendations in our 2000, 2004, and 2007 reports regarding national police services. The RCMP is still providing national police services to other levels of government and law enforcement organizations without clarifying which services should be provided; how they should be funded; and how provincial, territorial, and municipal partners should be engaged within the national police services governance framework. In the absence of formal agreements, the accountability of the RCMP and other partners for the delivery of these services has not been clearly established, nor has how they are to be sustained over the long term.
- The RCMP has not determined the detailed transactional costs of providing each of its national police services. Accurate costing information is essential to efficiently manage services and resources. In addition, because of financial pressures, the RCMP is finding it difficult to deliver national police services and also fulfill its other obligations. In light of existing resource constraints, it is difficult without adequate cost information to negotiate agreements on which national police services will be provided and which are priorities.
- While changes in the approach to managing Forensic Laboratory Services have increased the RCMP's focus on clients' needs and reduced turnaround times, other services have not shown similar improvement. For example, backlogs and delays in updating criminal record information have significantly increased—from 5 months in 2000 to 14 months today. In addition, technological upgrades to critical systems requiring significant investments are facing challenges or have been delayed. At the same time, the demand for national police services is growing and straining the RCMP's ability to deliver in a timely way.

**The RCMP and Public Safety Canada have responded.** The RCMP and Public Safety Canada agree with all of the recommendations. Their detailed responses follow the recommendations throughout the chapter.



# Regulating Medical Devices— Health Canada

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## Chapter 6 Main Points

### What we examined

The term “medical devices” encompasses a wide range of medical, surgical, and dental products and instruments used to diagnose, treat, and prevent diseases and other physical ailments. They range from basic items, such as bandages, to complex devices such as pacemakers and diagnostic ultrasound systems.

As required under the *Food and Drugs Act*, Health Canada regulates the safety and effectiveness of all medical devices marketed in Canada. It does this through a combination of scientific review, monitoring, compliance, and enforcement activities, both before and after the devices reach the Canadian marketplace. The Department works toward ensuring that the public has timely access to safe and effective medical devices, and that those who need to know about related safety concerns are informed of them in a timely manner.

In March 2004 we reported concerns about the continued viability of the Medical Devices Program, given the increasing complexity and number of devices available in Canada and the resources allocated to the Program. We concluded that the Program was not sustainable with the resources it had. We made similar observations in our November 2006 Report.

In this audit, we examined Health Canada’s progress in meeting commitments it made in response to selected recommendations from our previous reports. In particular, we examined the timeliness of the Department’s review of applications to allow or deny medical devices to be sold in Canada. We also examined how it manages the risks related to medical devices already available on the Canadian market and how it meets its obligations for medical devices. In addition, we looked at international regulatory cooperation.

Audit work for this chapter was substantially completed on 29 October 2010.

### Why it’s important

Medical devices play an important role in all stages of the delivery of quality health care, from the most basic procedures, such as monitoring blood pressure and body temperature, to complex surgeries.



All are meant to improve the health and well-being of patients by helping to prevent, diagnose, and treat disease, to reduce pain and suffering, and to extend and save lives. Medical devices are increasing in number and complexity, due in part to medical and technological advances.

Close to 1.4 million different medical devices are currently on the Canadian market. Canadians rely on Health Canada for assurance that available medical devices are safe and effective. Users of medical devices also rely on Health Canada to promptly inform them of safety concerns related to medical devices that are in use.

### What we found

- Overall, Health Canada has made unsatisfactory progress toward meeting commitments it made in response to recommendations in our 2004 and 2006 reports. Although it has accomplished much in some areas, the Department is not meeting its obligations under the Medical Devices Program, mostly at the pre-market stage. For example, more than 45 percent of the time it does not meet its service standards for timely review of medical device submissions, thus delaying Canadians' access to the health benefits of these devices. According to Health Canada, this problem is due to a funding shortfall caused in part by rapid growth in medical device technology and increasingly complex submissions.
- Health Canada does not know if it has allocated too much or not enough resources to post-market activities such as inspections and surveillance. The Department has not established what levels of activity are needed to protect the health and safety of Canadians. In addition, while the Department has identified risks associated with medical devices already available on the Canadian market, it has yet to determine whether the risks that the inspections and the review of incident reports are designed to address have been adequately mitigated.
- Health Canada recently developed strategies to increase cooperation at the pre-market stage with regulatory bodies in other countries. While we acknowledge the significant challenges involved, progress to date is unsatisfactory. The work has not taken advantage of foreign resources, information, and knowledge and has not yet improved regulatory performance.
- Health Canada has taken significant actions to meet some commitments made in response to other recommendations from previous reports. A major accomplishment was making the Medical Devices Program more sustainable than in previous years. The Department increased its funding to the Program and expects to



eliminate the remaining funding shortfall by implementing new user fees starting in the 2011–12 fiscal year. Another significant accomplishment has been establishing a national inspection program to assess compliance with the *Food and Drugs Act* and Regulations. The Department also increased its capacity to identify safety risks associated with medical devices on the market.

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





Appendix



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## **Appendix** 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, no later than 31 December of each year, 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. The Act also requires the Auditor General of Canada to audit the accuracy of the report on the timing of tabling and to present the results in her annual report to the House of Commons.

The President of the Treasury Board's report on the timing of tabling is included in the *Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada 2010*, which was tabled on 8 December 2010.

At the time that our October 2010 report was going to print, we were unable to include the results of the above-noted audit because the President of the Treasury Board's report had not yet been finalized. Our Auditor's report was subsequently appended to the President's report and is reproduced in this report to Parliament.

## Auditors' Report

To the House of Commons:

As required by subsection 152(2) of the *Financial Administration Act*, I have audited, for the year ended 31 July 2010, the information contained in the report “*Tabling of Crown Corporations' Reports in Parliament*” included in the *Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada 2010*. The information contained in the report is the responsibility of the President of the Treasury Board. My responsibility is to express an opinion on the information contained in the report based on my audit.

I conducted my audit in accordance with the standards for assurance engagements established by The Canadian Institute of Chartered Accountants. Those standards require that I plan and perform an audit to obtain reasonable assurance as to whether the information contained in the report is free of significant misstatement. My audit included examining, on a test basis, evidence supporting the dates and other disclosures provided in the report.

In my opinion, the information contained in the report “*Tabling of Crown Corporations' Reports in Parliament*” is accurate, in all significant respects, with the section “*Deadlines for tabling in Parliament and results achieved*” contained within the report.



Lucie Cardinal, CA  
Principal  
for the Auditor General of Canada

Ottawa, Canada  
15 November 2010

# Status Report of the Auditor General of Canada to the House of Commons—2011

## Main Table of Contents

### **Matters of Special Importance Main Points—Chapters 1 to 6 Appendix**

<b>Chapter 1</b>	Financial Management and Control and Risk Management
<b>Chapter 2</b>	Large Information Technology Projects
<b>Chapter 3</b>	Internal Audit
<b>Chapter 4</b>	Programs for First Nations on Reserves
<b>Chapter 5</b>	National Police Services—Royal Canadian Mounted Police
<b>Chapter 6</b>	Regulating Medical Devices—Health Canada
<b>Chapter 7</b>	Special Examinations of Crown Corporations—2010

