



Fall 2015

Reports of the Auditor General of Canada

REPORT 2

Controlling Exports at the Border



Office of the Auditor General of Canada

OAG

Performance audit reports

This report presents the results of a performance audit conducted by the Office of the Auditor General of Canada under the authority of the *Auditor General Act*.

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- report both positive and negative findings,
- conclude against the established audit objectives, and
- make recommendations for improvement when there are significant differences between criteria and assessed performance.

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Production of our Fall 2015 reports was completed before the government announced changes to names of some departments. The name Foreign Affairs, Trade and Development Canada was changed to Global Affairs Canada. There was no impact to our audit work and findings.

Introduction

Background

Importance of exports to the Canadian economy

2.1 Exports are vital to Canada's economy and prosperity. In 2014, Canada's export of goods totalled \$529 billion, making up 27 percent of Canada's gross domestic product. The challenge for government is to control exports effectively while facilitating the legitimate trade upon which Canadian prosperity depends.

Government of Canada's control of exports

2.2 The Government of Canada controls exports to achieve a range of policy objectives, including

- protecting Canadians' safety and security by preventing potentially hostile nations or terrorists from obtaining weapons and related technologies that could be used to attack Canada or its allies;
- providing access to markets for Canadian goods by ensuring that those goods meet standards agreed to by our trading partners; and
- implementing international agreements that limit activities considered harmful to global interests, such as trade in hazardous waste or endangered species.

2.3 While most controls focus on the type of good, there are also controls over exporting to certain individuals or countries that are subject to **sanctions**. Sanctions are important to enforcing international norms and laws.

2.4 Canada also has laws that help fight organized crime by preventing the export of illegal goods, such as illegal drugs or property obtained through crime, including, for example, stolen vehicles.

2.5 To legitimately export a controlled good, an exporter may require an export permit or other form of authorization from the relevant government department or agency.

Canada Border Services Agency's role

2.6 The Canada Border Services Agency (the Agency) is Canada's last line of defence to prevent goods that contravene Canada's export laws from leaving the country. Yet generally, exporters do not need the Agency's approval before goods leave the country. As a result, goods move through the export process unhindered unless the Agency takes deliberate steps to

Sanctions—A variety of measures imposed by the government to restrict or prohibit trade, financial transactions, or other economic activity between Canada and specific countries, organizations, or individuals.

identify, locate, and examine them. This is in contrast to the requirements for imports, where the Agency is expected to release shipments before they enter Canada. Where exports are concerned, the Agency has discretion in terms of when to exercise its authority to examine shipments and how much effort to expend.

2.7 Export control activities are carried out by a combination of fully dedicated staff and staff who also have other customs functions, such as examining commercial imports. The Agency does not track the number of border services officers used for export control. We estimate that in the 2014–15 fiscal year, fewer than 1 percent of the Agency’s full-time equivalents were dedicated to export control activities, although other staff undertook such activities from time to time.

2.8 Canadian export controls have increased over time as Canada has entered into international agreements and enacted export laws. In 2012, in an effort to better inform the decisions it makes on how best to exercise its discretion and allocate its limited resources, the Agency established three nationwide priorities for export examinations. These priorities are partly aligned with its risk assessments, but also reflect the Agency’s obligation to assist other government departments that issue permits or other forms of export authorization (Exhibit 2.1).

Exhibit 2.1 The Canada Border Services Agency’s priorities for export examinations

Counter-proliferation: preventing the export of goods that contribute to the proliferation of weapons of mass destruction. This supports a Government of Canada national security priority, and helps fulfill the Canada Border Services Agency’s statutory obligations under the *Export and Import Permits Act* with respect to controlling military goods and weapons technologies.

Property obtained through crime: preventing the export of property obtained through crime, mainly stolen vehicles. This supports the Government of Canada’s efforts to combat organized crime and vehicle theft in Canadian communities. In 2010, the Canada Border Services Agency committed to using new powers provided by an amendment to the *Criminal Code* to help prevent the export of stolen vehicles on a risk-management basis, using its existing resources.

Export legislation of other federal government departments and agencies: carrying out control activities identified in agreements with those organizations.

Role of other government departments

2.9 Several other government departments also participate in controlling exports by administering and enforcing export legislation or providing information and intelligence. For example, Foreign Affairs, Trade and Development Canada issues export permits under the *Export and Import Permits Act* and assists the Canada Border Services Agency in determining the control status of detained export shipments. Statistics Canada operates the Canadian Automated Export Declaration system, which provides the Agency with electronic export declarations submitted by exporters.

Focus of the audit

2.10 This audit focused on whether the Canada Border Services Agency (the Agency) and its key federal partners had the necessary information, practices, and controls at the border to enable the Agency to implement its enforcement priorities, prevent the export of goods that contravened Canada's export laws, and facilitate legitimate trade.

2.11 The audit examined export controls for the commercial shipment of goods. Exports destined for the United States were excluded from the audit scope because the Agency plays little role in controlling them. Exporters generally do not have to submit an export declaration for goods shipped to the United States.

2.12 More details about the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this report (see pages 17–21).

Findings, Recommendations, and Responses

Selecting and examining shipments for non-compliance

Overall finding



2.13 Overall, we found that the Canada Border Services Agency (the Agency) did not fully have what it needed to carry out its enforcement priorities, due to weaknesses in its export authorities, information, practices, and controls. As a result, some goods that did not comply with Canada's export control laws were leaving the country.

2.14 The Agency did not review all export declarations and did not examine many targeted high-risk shipments. The Agency relied on export declarations as a key source of information to identify high-risk shipments, but we found that it was not able to review all declarations. Where the Agency did review declarations, its efforts to target high-risk shipments for examination had some success. For example, the Agency prevented the illegal export of approximately 700 stolen cars between April 2013 and December 2014. However, during the period of our audit, the Agency did not examine approximately 20 percent of the high-risk shipments that had been identified by its centralized targeting units.

2.15 Some exports are exempt from the requirement to be declared to the Agency and the Agency has limited authority to examine undeclared exports. For example, shipments under \$2,000 are generally not required to be declared. This hampers the Agency's ability to assess risks and prevent certain non-compliant exports. For example, illegal drugs were being exported from Canada, but the Agency has not set this as a priority, due in part to authority constraints.

2.16 This is important because addressing these weaknesses and limitations would enable the Agency to prevent more non-compliant shipments from being exported, thereby better protecting Canada and its allies, fighting organized crime, and meeting Canada's international obligations.

Context

2.17 Under the *Customs Act* and its regulations,

- exporters must report to the Agency, with exceptions, the goods they want to export;
- carriers must report all goods, with exceptions, that they export; and
- the Agency has the authority to examine reported goods and, in specific circumstances, non-reported goods.

2.18 The Agency also has powers and obligations under other acts of Parliament. These include the *Export and Import Permits Act*, which gives the Agency authorities to enforce controls over weapons technologies, among other things; and the *Special Economic Measures Act*, which gives the Agency authority to enforce economic sanctions. As well, the *Criminal Code* enables the Agency to prevent the export of property obtained through crime.

2.19 The Agency analyzes information on shipments about to be exported, to identify (or target) shipments at high risk of containing goods that contravene Canadian laws. The Agency recommends that its staff at ports of exit examine these high-risk shipments.

The Canada Border Services Agency could not review all export declarations

What we found

2.20 We found that the Agency was not able to review all export declarations, yet these documents are a key source of information used by the Agency to target high-risk shipments.

2.21 Our analysis supporting this finding presents what we examined and discusses

- volume of declarations,
- paper declarations,
- time frames for completing risk assessments, and
- lack of an automated risk identification tool.

Why this finding matters

2.22 This finding matters because there is a risk that the Agency is failing to prevent goods that contravene Canadian laws from leaving the country, due to limits on its capacity to review export declarations.

Recommendation

2.23 Our recommendation in this area of examination appears at paragraph 2.33.

Analysis to support this finding

2.24 **What we examined.** We examined the systems and practices the Agency used to review export declarations to identify high-risk shipments for examination.

2.25 **Volume of declarations.** In 2014, the Agency received data on about 787,500 electronic declarations submitted to the Canadian Automated Export Declaration (CAED) system. With its tools and staff, the Agency's central counter-proliferation targeting unit was unable to review all declarations; as a result, it may be missing opportunities to identify high-risk shipments.

2.26 **Paper declarations.** Customs regulations allow exporters to submit declarations by using paper forms. During 2014, the Agency received at least 44,000 paper declarations, representing about 5 percent of all export declarations. The Agency receives paper declarations at local offices, but does not always review them to identify high-risk shipments, nor does it generally check them against the watch-lists that are used to identify high-risk shipments among the electronically submitted declarations. We noted that several exporters on these lists had submitted paper declarations.

2.27 One factor that limited the Agency's ability to review paper declarations was that exporters shipping goods that did not require export permits could submit their declarations to any Agency office, including offices not located at the intended port of exit. We estimate that 17 percent of paper declarations submitted during the 2014 calendar year were submitted at an Agency office different from the port of exit. As a result, the border services officers who decide what shipments to examine may not receive declarations for all shipments leaving their locations.

2.28 At the time of our audit, the Agency was considering regulatory changes to make electronic reporting mandatory. Eliminating paper declarations would make it easier for the Agency to target high-risk shipments. It would also reduce costs at Statistics Canada, since data from paper declarations must be entered manually into its export statistics database, at an estimated annual cost of \$285,000.

2.29 **Time frames for completing risk assessments.** Exporters must submit their export declarations at least 2 hours before their shipments are loaded on planes and at least 48 hours before loading onto ships. The time frames make it particularly challenging for the Agency to review the declarations, target shipments to examine, and ensure that a shipment is stopped, if necessary, before leaving the country by plane. Changes to the time frames would require regulatory change.

2.30 **Lack of an automated risk identification tool.** The Canada Border Services Agency currently obtains electronic declaration information from the CAED system operated by Statistics Canada. This system collects data submitted by exporters, but does not have the capacity to automatically identify declarations that may be high-risk so that targeting units can focus their reviews. For example, the Agency must manually determine whether declared goods have the required permits. The assessment process is inefficient.

2.31 Since the 2009–10 fiscal year, there have been at least three plans to close and replace the CAED system. Statistics Canada's latest deadline to shut down the system is January 2017. In the short term, the Canada Border Services Agency's strategy is to replace the CAED system with essentially the same functionality as before; in the longer term, its intent is to install enhancements to improve targeting. At the time of our audit, the Agency had allocated some funding to replace the CAED system, but had not yet determined the total amount required for its first phase, which it believed would be in the range of several million dollars.

2.32 Statistics Canada told us that because there is a risk that the Canada Border Services Agency will not deliver a new system by 2017, Statistics Canada plans to spend \$140,000 on a contingency plan to maintain a system after 2017 and will continue to provide export data to the Agency. If no electronic export declaration system is available for exporters to report, then the Agency's ability to assess export shipments will be further reduced. In addition, Statistics Canada will be challenged to produce export statistics.

2.33 **Recommendation.** The Canada Border Services Agency should ensure that it can continue to receive the timely export declaration information that it needs for export control, and that system changes at least maintain the current level of review of declarations.

The Agency's response. Agreed. The Canada Border Services Agency will follow its project management and service life cycle management frameworks and work collaboratively with Statistics Canada to develop a solution for export reporting with a view to maintaining the current level of review of declarations. The intent is to complete this in advance of the decommissioning of the Canadian Automated Export Declaration system.

Not all high-risk shipments were examined

What we found

2.34 We found that the Agency had implemented processes to select high-risk shipments for counter-proliferation and stolen vehicles. These processes were effective on some measures, but we found that about one in five high-risk shipments identified by the Agency's centralized targeting units was not examined at the port of exit, for a variety of reasons. We also found that the Agency's efforts to identify shipments that contravene

other government departments' requirements were not tracked, hampering the Agency's ability to assess effectiveness.

2.35 Our analysis supporting this finding presents what we examined and discusses

- targeting for counter-proliferation,
- targeting for stolen vehicles,
- targeting for other government department requirements, and
- staffing levels.

Why this finding matters

2.36 This finding matters because the Agency needs information and practices that enable it to target higher-risk shipments in a manner that maximizes the effectiveness of its limited resources for conducting export examinations.

Recommendations

2.37 Our recommendations in this area of examination appear at paragraphs 2.49, 2.50, and 2.51.

Analysis to support this finding

2.38 **What we examined.** We examined whether the Agency's offices at ports of exit were successful in carrying out examinations of targeted shipments in the Agency's priority areas.

2.39 **Targeting for counter-proliferation.** The Agency operates a centralized counter-proliferation targeting unit that identifies high-risk shipments to examine, based on information drawn from several sources, including export declarations and its federal intelligence partners. As well, some of the Agency's offices located at ports of exit select shipments to examine, and prioritize counter-proliferation.

2.40 We found that these efforts had achieved some success. For example, 29 percent of high-risk shipments identified by the centralized targeting unit had some degree of non-compliance. While the majority of the non-compliance was minor, the Agency prevented the export of several shipments that were cause for national security concern. However, we found that the Agency did not examine another 17 percent of the targets selected by the targeting unit during the period of our audit. As the Agency did not track its reasons for not examining these targets, we asked officials to provide explanations. We were told that about one third of targets were not examined because the Agency's local office received information about the targets too late—that is, after the shipments had already left or been loaded on planes and ships. Other reasons for not examining targets included not enough staff to handle the workload, being unable to find shipments, and carriers' letting the shipments leave before the Agency could examine them.

2.41 We also found that the border services officers at ports of exit who selected shipments to examine sometimes duplicated the work of the centralized targeting unit, but without having all the relevant risk assessment information.

2.42 **Targeting for stolen vehicles.** At the time of our audit, the Agency operated another centralized targeting unit that focused on identifying shipments with a high risk of containing stolen cars. This unit reviewed data provided by railway companies about shipments moving by train to Canadian marine ports for export by ship. The unit identified high-risk shipments, based in part on information from its federal law enforcement partners. When the unit identified a high-risk shipment, it would recommend that the Agency's office located at the relevant marine port examine it.

2.43 We found that targeting by this unit resulted in the Agency's finding approximately 100 stolen vehicles during the period of our audit; however, opportunities to find more were missed because 20 percent of targeted shipments were not examined. As with the counter-proliferation targets, some targeted shipments were not examined because they were already loaded on ships or had left Canada by the time the information was received or could be acted upon. We were told that other shipments were not examined because the Agency's office responsible for examining them at the port of exit believed that the analysis provided by the centralized targeting unit was insufficient to demonstrate that the shipment was a credible high risk.

2.44 Of note, at one marine port but not at others, the Agency operated a local targeting unit that was particularly successful at finding stolen vehicles; it found hundreds of stolen cars annually, a number far greater than that obtained through centralized targeting. While this local unit used some of the same information as the centralized targeting unit did, it also used different analytical methods and had access to different sources of information. Through a combination of local efforts like this and centralized targeting, the Agency found approximately 700 stolen cars between April 2013 and December 2014.

2.45 **Targeting for other government department requirements.** In contrast to its processes for counter-proliferation targeting and targeting for stolen vehicles, we found that the Agency did not conduct its own targeting to detect non-compliant shipments with respect to other government department requirements. Instead, officials explained to us that the Agency acted on requests from these departments to target shipments. There was no mechanism to track these requests; therefore, the Agency did not know whether its efforts were effective. As well, the Agency did not have an assessment of the risks of shipments not complying with other departments' legislation. Having a better idea of the risks would enable the Agency to improve control activities in this area.

2.46 **Staffing levels.** Agency officials told us that one reason for not examining targets was not having staff available at the time needed to do so. We found that the Agency did not continue its usual level of export control activities during temporary staff reductions, such as vacation, sick leave, or reassignment to higher-priority import control duties. We found that at one port of exit, no export control examinations were conducted when the assigned border services officer was on vacation. As another example, due to staffing fluctuations, the centralized unit that reviews rail shipments had once gone longer than a month without any targeting.

2.47 We also found some systematic gaps in coverage. For example, we found that the Agency did not conduct any examinations at one large Canada Post centre for processing parcels exported from Canada. We were told that this was due to insufficient staff and a need to focus on examining items entering Canada, not because there was no risk that non-compliant exports were being made through that location.

2.48 We also found that the Agency did not always conduct targeting and examinations during all hours and days when export shipments move. This meant there was a risk that non-compliant shipments were exported undetected. Agency officials also informed us that, partly as a response to staffing levels, the counter-proliferation targeting unit had reduced the number of shipments that it had been recommending for examination by the Agency's local offices.

2.49 **Recommendation.** The Canada Border Services Agency should confirm the causes of targets' not being examined and should develop an action plan to address the issue.

The Agency's response. Agreed. The Canada Border Services Agency will implement a consistent process to record export targets and their examination results in order to confirm the causes of targets not examined. The Agency will develop procedures and guidelines to reduce the proportion of targeted high-risk shipments not examined.

2.50 **Recommendation.** The Canada Border Services Agency should develop processes to assess risks, measure its effectiveness in acting on its priorities, and respond to priorities and targets identified through risk assessments by other government departments.

The Agency's response. Agreed. The Canada Border Services Agency has processes in place to assess export risks related to its mandate. For the export program, it is the responsibility of the many other government departments (OGDs) to assess risks and provide targets to the Agency on goods they control. The Agency will work with OGDs to improve the provision of export targets to the Agency by March 2016. The Agency will also work with OGDs to improve reporting on results to enable them to better measure the effectiveness of the targets provided by September 2016.

2.51 **Recommendation.** The Canada Border Services Agency should take steps to ensure that gaps in coverage for export examinations are not predictable.

The Agency's response. Agreed. Working within existing resources, the Canada Border Services Agency will take measures to mitigate predictable gaps in coverage within its front-line operations.

The Canada Border Services Agency's ability to examine non-reported shipments was limited

What we found

2.52 We found that the Agency had limited information, capacity, and authority to review and examine shipments that were not reported on export declarations.

2.53 Our analysis supporting this finding presents what we examined and discusses

- control of non-reported shipments.

Why this finding matters

2.54 This finding matters because there is a risk that exporters of non-compliant shipments may evade detection. Weaknesses in risk assessment mean that the Agency may not be aware of goods being illegally exported and may not take appropriate action.

Recommendation

2.55 Our recommendation in this area of examination appears at paragraph 2.62.

Analysis to support this finding

2.56 **What we examined.** We examined how the Agency handles non-reported shipments—that is, shipments that are not reported on export declarations.

2.57 **Control of non-reported shipments.** According to the *Reporting of Exported Goods Regulations*, under the *Customs Act*, exporters do not need to report certain shipments to the Agency. For example, shipments under \$2,000 are generally not required to be declared. The Regulations do require transportation companies to report all of their cargo prior to departure. However, the Regulations permit transportation companies that have entered into agreements with the Agency to provide their cargo reports after the goods have left Canada. Many transportation companies, such as airlines, courier companies, and vessel lines, have made these agreements. As a result, the Agency receives little formal, advance information about shipments that are not reported by exporters.

2.58 The Agency's control of non-reported shipments depended on the level of effort and the approach taken by the Agency's offices located at ports of exit. We found that capacity and control practices varied among locations. In addition, under the *Customs Act*, border services officers could examine such shipments only if they identified signs of non-compliance; they could not simply open parcels at random. Cargo reports from transportation companies may help identify such signs, but under their agreements with the Agency, many transportation companies are not required to provide this type of information to the Agency in advance of export.

2.59 We found that limitations on the Agency's authority to examine non-reported shipments hindered its ability to act on identified risks and limited its ability to identify changing risks and levels of non-compliance.

2.60 The Agency had identified **illegal drugs** being exported out of Canada as a high-risk area; it made several drug seizures during the period of our audit. According to the government's National Anti-Drug Strategy, preventing illegal drugs from leaving the country helps combat organized crime. But Agency officials told us that the limits on their examination authorities reduced their effectiveness in preventing the export of illegal drugs. This limited authority, together with limited resources, resulted in the Agency's not setting export of illegal drugs as an examination priority.

2.61 The random examination of export shipments is an important tool to assess risks. The Agency initiated pilot projects to conduct random examinations of shipments in 2014. We found that, as with the targeted examinations discussed in paragraphs 2.40 and 2.43, the Agency faced challenges in conducting these examinations because it had difficulty finding selected shipments and did not have staff available to conduct examinations. As well, many examinations were superficial: Border services officers looked only at the export declaration paperwork and did not examine the actual shipments. In addition, the Agency did not have the authority to conduct random examinations of non-reported shipments.

2.62 **Recommendation.** The Canada Border Services Agency should develop a consistent process for identifying and examining high-risk, non-reported shipments.

***The Agency's response.** Agreed. The Canada Border Services Agency will develop a consistent process for officers to identify and examine high-risk non-reported shipments within the scope of the Agency's legislative export authorities by March 2016.*

Illegal drugs—Substances listed under the 1996 *Controlled Drugs and Substances Act*, including heroin, cocaine, marijuana, and synthetic substances, such as lysergic acid diethylamide (LSD) and ecstasy.

Minimizing the impact on legitimate trade

Overall finding



2.63 Overall, we found that the number of export shipments that the Canada Border Services Agency (the Agency) placed on hold or detained was very small compared with total exports. Delays caused by detentions had little overall negative impact on Canadian trade. However, we found that the Agency was sometimes slow to take action on, or to release, held or detained goods. For example, about a quarter of compliant containers were held for examination for longer than a week before being released. While nearly half of the legitimate exporters we surveyed who had had goods temporarily detained reported experiencing little or no impact, 11 percent of exporters whose goods were detained for more than a week reported experiencing a major impact.

2.64 We also found that Foreign Affairs, Trade and Development Canada (the Department) issued export permits for strategic and military goods and technology within its established service standards.

2.65 This is important because Canada's export controls are not intended to hamper legitimate trade. Export control activities must, therefore, be administered in a manner that minimizes the impact on legitimate trade.

Context

2.66 Under the *Canada Border Services Agency Act*, the Canada Border Services Agency's mandate includes facilitating the free flow of goods. However, to ensure that exported goods comply with Canada's laws, the Agency must stop and examine some shipments at the border, resulting in possible delays and increased costs.

2.67 The Agency requires operators, such as marine port terminal operators or airlines, to put export shipments targeted for examination on hold so that they do not leave the country before border services officers can examine them. The Agency may then formally detain a shipment if there are indicators that the shipment may not comply with export control requirements.

2.68 The Agency may consult with other government departments to determine the control status of detained goods. The Agency, or the other government department, may require additional documentation from the exporter in order to make this determination. Exporters can minimize the delay by responding quickly to these requests. Once the Agency determines that the goods are compliant, the Agency informs the operators that the goods may be exported.

2.69 Having their shipments placed on hold or detained creates costs for exporters. They may pay additional container rental or warehousing costs, transportation costs to present the goods to the Agency, and costs related to delayed delivery of shipments to their customers.

2.70 The process of issuing permits for controlled goods can also have an impact on the timeliness of exports. Under the *Export and Import Permits Act*, Foreign Affairs, Trade and Development Canada must issue a permit before goods related to counter-proliferation (referred to as strategic and military goods and technology) can be exported. Factors such as the characteristics, origin, or destination of the goods or technology being exported affect the decision to approve or deny a permit.

Some shipments were delayed longer than necessary

What we found

2.71 We found that the number of export shipments that the Agency placed on hold or detained was very small compared with total exports, and delays caused by these detentions had little overall negative impact on Canadian trade. However, we found that the Agency was sometimes slow to take action on, or to release, held or detained goods. Eleven percent of exporters we surveyed whose goods were detained for more than a week reported experiencing a major impact.

2.72 Our analysis supporting this finding presents what we examined and discusses

- detained shipments awaiting assessment after examination,
- impact of detained shipments on exporters, and
- shipments on hold awaiting examination.

Why this finding matters

2.73 This finding matters because it costs exporters time and money when the export of their goods is delayed at the border.

Recommendation

2.74 Our recommendation in this area of examination appears at paragraph 2.82.

Analysis to support this finding

2.75 **What we examined.** We examined the Agency's records of shipments detained or held, to determine whether there were unnecessary administrative delays in examining or releasing them. We also conducted a survey of exporters who had had their goods temporarily detained and then released without penalty, to determine whether detention delays had a significant unintended negative impact.

2.76 **Detained shipments awaiting assessment after examination.** During the period of our audit, compared with the total number of export declarations, few shipments were subject to formal detentions by the Agency. Even fewer—approximately 300—were legitimate shipments that were subsequently released for export without enforcement action and more than 75 percent of these shipments were detained for more than

seven days. We reviewed a representative sample of 44 detained legitimate shipments and found 5 cases (11 percent) that the Agency did not process in a timely manner.

2.77 For about two thirds of the sample detentions, the Agency asked Foreign Affairs, Trade and Development Canada (the Department) to determine whether the goods were controlled under the *Export and Import Permits Act* or sanctions laws. We did not find any unnecessary delays in the Department's assessment of these cases, though referring shipments to the Department increased the length of time by which shipments were delayed.

2.78 **Impact of detained shipments on exporters.** We surveyed the exporters responsible for the 300 released shipments. Of the 151 respondents, nearly half (70) indicated that they had experienced little or no impact. In 11 percent of cases (16), exporters said there had been a major impact, including lost sales and contracts worth tens to hundreds of thousands of dollars. All of the shipments experiencing this level of impact had been detained for more than seven days.

2.79 **Shipments on hold awaiting examination.** Full information on how often and for how long legitimate shipments were placed on hold was not available. This is because, unlike data on detentions, data on holds was not recorded by the Agency's national systems, and tracking at the Agency office level was inconsistent and incomplete. Therefore, the total number of holds is unknown, but it represented a small proportion of overall exports.

2.80 Some data was available for shipments being exported from the marine ports of Montréal and Halifax. For approximately 810 containers held during 2014 and subsequently released for export, the majority were held for four days or less. However, about 26 percent were held for more than seven days.

2.81 The data did not explain why holds could take so long. An additional challenge for exporters whose goods are placed on hold is that the Agency does not advise them that their shipments are on hold, which is not the case when shipments are detained.

2.82 **Recommendation.** The Canada Border Services Agency should conduct an assessment of how often and for how long export shipments are placed on hold, and should use the results to determine whether a service standard and notification process for exporters is required, to ensure that it is facilitating the free flow of goods.

The Agency's response. Agreed. The Canada Border Services Agency will conduct a review, to be completed by July 2016, of the frequency and length of time that shipments are placed in "hold" status prior to examination. The results of this review will determine whether a service standard or notification process is required, and if necessary, the Agency will develop and implement it by December 2016.

Foreign Affairs, Trade and Development Canada issued most export permits for strategic and military goods and technology within its processing time standards

What we found

2.83 We found that Foreign Affairs, Trade and Development Canada (the Department) issued most export permits for strategic and military goods and technology within the time frames shown in its published service standards.

2.84 Our analysis supporting this finding presents what we examined, and discusses

- timeliness for processing export permits.

Why this finding matters

2.85 This finding matters because meeting service standards enables exporters to anticipate the time required to obtain necessary export permits.

Recommendations

2.86 We made no recommendations in this area of examination.

Analysis to support this finding

2.87 **What we examined.** We examined how long it takes the Department to process export permit applications for strategic goods and military goods and technology controlled under the *Export and Import Permits Act*.

2.88 **Timeliness for processing export permits.** The Department's service standards for processing export permit applications for strategic goods controlled under the *Export and Import Permits Act* are 10 days for straightforward applications and 40 days for complex applications, provided that the exporter has submitted all the required information. The Department's target for the 2014–15 fiscal year was to meet these standards 90 percent of the time. We found that during the 2014–15 fiscal year, the Department exceeded this target, meeting its service standards 98 percent of the time, and processed a total of 7,207 permit applications.

Conclusion

2.89 We concluded that the Canada Border Services Agency (the Agency) did not fully have the necessary authorities, information, practices, and controls to implement its enforcement priorities and prevent the export of goods that contravene Canada's export laws. As a result, some non-compliant shipments were leaving the country.

2.90 The Agency's key federal partners provided information and assistance to support the Agency in implementing its enforcement priorities and prevent the export of goods that contravene Canada's export laws.

2.91 We further concluded that, overall, the Agency and its key federal partners had the necessary information, practices, and controls to enable the Agency to facilitate legitimate export trade. However, the Agency was sometimes slow to take action on or release held or detained goods.

About the Audit

The Office of the Auditor General's responsibility was to conduct an independent examination of export control activities at the border to provide objective information, advice, and assurance to assist Parliament in its scrutiny of the government's management of resources and programs.

All of the audit work in this report was conducted in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Canada Handbook—Assurance. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

As part of our regular audit process, we obtained management's confirmation that the findings in this report are factually based.

Objectives

The objective of the audit was to determine whether the Canada Border Services Agency (the Agency) and its key federal partners had the necessary information, practices, and controls at the border to enable the Agency to implement its enforcement priorities, prevent the export of goods that contravene Canada's export laws, and facilitate legitimate trade.

Scope and approach

We examined whether the Agency implemented its export examination priorities and had systems and practices in place to identify and examine high-risk shipments. We examined the Agency's use of electronic and paper export declarations to identify non-compliant exports. We examined the efforts that the Agency and Statistics Canada took together in replacing the Canadian Automated Export Declaration system. We examined the Agency's progress in addressing selected weaknesses in its export control activities since it launched an export control improvement initiative in 2014.

We examined whether the Agency completed its assessment of the shipments it temporarily detains at ports of exit within a reasonable period of time. We also examined the time required for Foreign Affairs, Trade and Development Canada (the Department) to provide assessments of whether detained shipments complied with the *Export and Import Permits Act* and sanction laws. We conducted a survey of exporters whose export shipments were temporarily detained by the Agency, to determine what impact, if any, these delays had on their businesses.

Our audit examined whether the Department issued export permits for strategic and military goods and technology under the Act in a timely manner; and we used representative sampling to examine export permit applications, to assess the accuracy of the Department's permit processing time data.

As part of our audit, we visited several marine ports and airports where the Agency undertook export control activities, to observe export control operations, interview officials, and collect data. We met officials of several other federal government departments involved with issuing export permits and other forms of export authorization, enforcing export laws, and providing information and intelligence related to export control. We also met with representatives of several associations involved in export industries to obtain industry views on how well export controls have been functioning.

For certain audit tests, results were based on representative sampling. Where probability sampling was used, sample sizes were sufficient to report on the sampled population with a confidence level of 90 percent and a margin of error of +10 percent.

Our audit did not examine controls over exports destined for the United States or exports that transit under bond from Canada through the United States to other countries. This was because the Agency plays little role in controlling these exports. Exporters generally do not have to submit an export declaration for goods going to the United States. Our audit focused on controls over commercial shipments; we did not examine controls over items being carried out of Canada by individual travellers.

We did not examine the Agency’s application of administrative monetary penalties or criminal investigation operations. As our audit focus was on activities undertaken by the Agency, we did not examine activities undertaken by other government departments that contribute to controlling non-compliant exports. Our audit did not examine the accuracy of export trade statistics that Statistics Canada compiled from exporter data provided by the Agency.

Criteria

Criteria	Sources
<p>To determine whether the Canada Border Services Agency (the Agency) and its key federal partners have the necessary information, practices, and controls at the border to enable the Agency to implement its enforcement priorities, prevent the export of goods that contravene Canada’s export laws, and facilitate legitimate trade, we used the following criteria:</p>	
<p>The Agency’s action plans address weaknesses and gaps identified by the Agency in key controls of its export control program.</p> <p>The Agency’s action plans describe the desired objectives and timelines for action.</p>	<ul style="list-style-type: none"> • CBSA Evaluation Charter, Canada Border Services Agency • Guide for the Review of Evaluation Reports, Centre of Excellence for Evaluation, Treasury Board of Canada Secretariat • Standard on Evaluation for the Government of Canada, Treasury Board, 2009 • Export Framework, Canada Border Services Agency, 2014 • Guide to Integrated Risk Management, Treasury Board of Canada Secretariat
<p>The Agency implements action plans in a timely manner.</p>	<ul style="list-style-type: none"> • Directive on the Evaluation Function, Treasury Board

Criteria	Sources
To determine whether the Canada Border Services Agency (the Agency) and its key federal partners have the necessary information, practices, and controls at the border to enable the Agency to implement its enforcement priorities, prevent the export of goods that contravene Canada's export laws, and facilitate legitimate trade, we used the following criteria: (continued)	
<p>The Agency has a risk-based approach to detect goods being exported in contravention of Canada's export laws.</p>	<ul style="list-style-type: none"> • Framework for the Management of Risk, Treasury Board • Guide to Integrated Risk Management, Treasury Board of Canada Secretariat • Policy on Management, Resources and Results Structures, Treasury Board • Customs Enforcement Manual, Canada Border Services Agency • Export Framework, Canada Border Services Agency, 2014 • Memorandum D20-1-1 Export Reporting, Canada Border Services Agency • Counter Proliferation Operations in the Canada Border Services Agency: Strategy for Change, Canada Border Services Agency • Export Programs Improvement Initiative: Overview of Export Risk Controls and Program Integrity Action Plan, Canada Border Services Agency
<p>The Agency receives pertinent and timely information on export shipments to allow it to make sound decisions to detect and prevent the export of goods that contravene Canada's export laws.</p>	<ul style="list-style-type: none"> • Policy on Management, Resources and Results Structures, Treasury Board • <i>Customs Act</i> • <i>Reporting of Exported Goods Regulations</i> • Memorandum D20-1-1 Export Reporting, Canada Border Services Agency
<p>The Agency conducts its targeting effectively.</p>	<ul style="list-style-type: none"> • Policy on Management, Resources and Results Structures, Treasury Board • Statement of Interdiction Principles, The Proliferation Security Initiative • <i>Customs Act</i> • <i>Reporting of Exported Goods Regulations</i> • Memorandum D20-1-1 Export Reporting, Canada Border Services Agency

Criteria	Sources
To determine whether the Canada Border Services Agency (the Agency) and its key federal partners have the necessary information, practices, and controls at the border to enable the Agency to implement its enforcement priorities, prevent the export of goods that contravene Canada's export laws, and facilitate legitimate trade, we used the following criteria: (continued)	
Foreign Affairs, Trade and Development Canada issues export permits promptly to minimize negative impacts on exporters.	<ul style="list-style-type: none"> • <i>Our Service Pledge</i>, Foreign Affairs, Trade and Development Canada • Export Controls Handbook, Foreign Affairs, Trade and Development Canada • Annual Report to Parliament on the Administration of the <i>Export and Import Permits Act</i>, Foreign Affairs, Trade and Development Canada, 2012 • Policy on Service, Treasury Board • Guideline on Service Standards, Treasury Board of Canada Secretariat
The Agency determines its enforcement action on detained goods in a timely manner to minimize negative impacts on legitimate exports.	<ul style="list-style-type: none"> • <i>Canada Border Services Agency Act</i> • Customs Enforcement Manual, Canada Border Services Agency • Memorandum D20-1-1 Export Reporting, Canada Border Services Agency • Policy on Service, Treasury Board • Guideline on Service Standards, Treasury Board of Canada Secretariat
Foreign Affairs, Trade and Development Canada responds to the Agency's referrals on detained goods in a timely manner to minimize the negative impact on legitimate exports.	<ul style="list-style-type: none"> • <i>Canada Border Services Agency Act</i> • Export Framework, Canada Border Services Agency, 2014 • Customs Enforcement Manual, Canada Border Services Agency • Memorandum D20-1-1 Export Reporting, Canada Border Services Agency

Management of Foreign Affairs, Trade and Development Canada; Public Safety Canada; the Canadian Security Intelligence Service; the Royal Canadian Mounted Police; and Statistics Canada reviewed and accepted the suitability of the criteria used in the audit. The Canada Border Services Agency did not accept the suitability of the criteria. The Agency disagreed with our examining its export controls without taking into account, as a line of enquiry, the Government of Canada's governance framework and overall accountability for controlling exports.

Period covered by the audit

The audit covered the period between April 2013 and December 2014. Audit work for this report was completed on 20 August 2015.

Audit team

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List of Recommendations

The following is a list of recommendations found in this report. The number in front of the recommendation indicates the paragraph where it appears in the report. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Selecting and examining shipments for non-compliance	
<p>2.33 The Canada Border Services Agency should ensure that it can continue to receive the timely export declaration information that it needs for export control, and that system changes at least maintain the current level of review of declarations. (2.20–2.32)</p>	<p>The Agency's response. Agreed. The Canada Border Services Agency will follow its project management and service life cycle management frameworks and work collaboratively with Statistics Canada to develop a solution for export reporting with a view to maintaining the current level of review of declarations. The intent is to complete this in advance of the decommissioning of the Canadian Automated Export Declaration system.</p>
<p>2.49 The Canada Border Services Agency should confirm the causes of targets' not being examined and should develop an action plan to address the issue. (2.34–2.48)</p>	<p>The Agency's response. Agreed. The Canada Border Services Agency will implement a consistent process to record export targets and their examination results in order to confirm the causes of targets not examined. The Agency will develop procedures and guidelines to reduce the proportion of targeted high-risk shipments not examined.</p>
<p>2.50 The Canada Border Services Agency should develop processes to assess risks, measure its effectiveness in acting on its priorities, and respond to priorities and targets identified through risk assessments by other government departments. (2.34–2.48)</p>	<p>The Agency's response. Agreed. The Canada Border Services Agency has processes in place to assess export risks related to its mandate. For the export program, it is the responsibility of the many other government departments (OGDs) to assess risks and provide targets to the Agency on goods they control. The Agency will work with OGDs to improve the provision of export targets to the Agency by March 2016. The Agency will also work with OGDs to improve reporting on results to enable them to better measure the effectiveness of the targets provided by September 2016.</p>
<p>2.51 The Canada Border Services Agency should take steps to ensure that gaps in coverage for export examinations are not predictable. (2.34–2.48)</p>	<p>The Agency's response. Agreed. Working within existing resources, the Canada Border Services Agency will take measures to mitigate predictable gaps in coverage within its front-line operations.</p>
<p>2.62 The Canada Border Services Agency should develop a consistent process for identifying and examining high-risk, non-reported shipments. (2.52–2.61)</p>	<p>The Agency's response. Agreed. The Canada Border Services Agency will develop a consistent process for officers to identify and examine high-risk non-reported shipments within the scope of the Agency's legislative export authorities by March 2016.</p>

Recommendation	Response
<p>Minimizing the impact on legitimate trade</p>	
<p>2.82 The Canada Border Services Agency should conduct an assessment of how often and for how long export shipments are placed on hold, and should use the results to determine whether a service standard and notification process for exporters is required, to ensure that it is facilitating the free flow of goods. (2.71–2.81)</p>	<p>The Agency’s response. Agreed. The Canada Border Services Agency will conduct a review, to be completed by July 2016, of the frequency and length of time that shipments are placed in “hold” status prior to examination. The results of this review will determine whether a service standard or notification process is required, and if necessary, the Agency will develop and implement it by December 2016.</p>

