



Pacific Pilotage Authority

Special Examination Report—2016



Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

OAG

Special examination reports

Special examinations are a form of performance audit that is conducted within Crown corporations. The Office of the Auditor General of Canada audits most, but not all, Crown corporations.

The scope of special examinations is set out in the *Financial Administration Act*. A special examination considers whether a Crown corporation's systems and practices provide reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

More details about the audit objective, scope, approach, systems and practices examined, and sources of criteria are in About the Audit at the end of this report.

The Report is available on our website at www.oag-bvg.gc.ca.

Ce document est également publié en français.

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22 March 2016

To the Board of Directors of the Pacific Pilotage Authority:

We have completed the special examination of the Pacific Pilotage Authority in accordance with the plan presented to the Audit Committee of the Board of Directors on 28 July 2015. As required by Section 139 of the *Financial Administration Act* (FAA), we are pleased to provide the attached final special examination report to the Board of Directors.

We will table this report in Parliament shortly after it has been made public by the Pacific Pilotage Authority.

We will be pleased to respond to any comments or questions you may have concerning our report at your meeting on 5 April 2016.

I would like to take this opportunity to express my appreciation to the Board members, management, and the Authority's staff for the excellent cooperation and assistance offered to us during the examination.

Yours sincerely,

Terrance DeJong, CPA, CA
Assistant Auditor General

Attach.

Table of Contents

Special Examination Opinion	1
No significant deficiencies	1
Introduction	3
Background	3
Focus of the audit	4
Findings, Recommendations, and Responses	5
Corporate management practices	5
The Corporation had in place good corporate management practices but improvements were needed	5
Management of pilotage services	15
The Corporation had in place good management of pilotage services but improvements were needed	15
Conclusion	23
About the Audit	24
List of Recommendations	27

Special Examination Opinion

No significant deficiencies

Opinion

To the Board of Directors of the Pacific Pilotage Authority

1. In my opinion, based on the criteria established, there is reasonable assurance that during the period covered by the examination there were no significant deficiencies in the Pacific Pilotage Authority's systems and practices that we selected for examination. The Corporation has maintained these systems and practices in a manner that provides it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

Findings that support the opinion

2. **Corporate management practices.** Overall, we found that the Corporation had in place elements of good corporate management practices for governance, strategic planning, risk management, performance reporting, and human resource management. However, improvements were needed in four areas:

- Board members' processes for reviewing and confirming their independence in fulfilling their responsibilities,
- documentation of resource needs for strategic planning,
- risk assessment of the service delivery model, and
- documentation of compensation guidelines for management and administrative staff.

3. **Management of pilotage services.** Overall, we found that the Corporation had in place elements of good management of pilotage services for the purpose of managing pilots and pilotage operations. However, improvements were needed in three areas:

- processes for pilot resource planning with respect to future requirements for pilotage services,
- completeness of pilot performance assessments, and
- performance of periodic reviews of the compulsory pilotage area under the Corporation's control.

Findings, recommendations, and responses

4. The rest of the report provides an overview of the Corporation and more detailed information on our findings and recommendations. The Corporation agrees with all of the recommendations. Its detailed responses follow the recommendations throughout the report.

**What the Corporation
is required to do**

5. Under section 131 of the *Financial Administration Act* (FAA), the Corporation is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.

6. Section 138 of the FAA also requires the Corporation to have a special examination of these systems and practices carried out at least once every 10 years.

**What the Office of
the Auditor General is
responsible for**

7. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination—from April 2015 to November 2015—there were no significant deficiencies in the Pacific Pilotage Authority's systems and practices that we selected for examination.

Signature and date

A handwritten signature in black ink, reading "Terrance DeJong". The signature is fluid and cursive, with the first name "Terrance" and last name "DeJong" clearly distinguishable.

Terrance DeJong, CPA, CA
Assistant Auditor General
for the Auditor General of Canada

10 February 2016
Ottawa, Canada

Introduction

Background

Role and mandate

8. The Pacific Pilotage Authority is a federal Crown corporation established in 1972 under the *Pilotage Act*. It is a Crown corporation listed in Schedule III, Part I, of the *Financial Administration Act* (FAA). It reports to Parliament through the Minister of Transport.

9. The Corporation's mandate is to establish, operate, maintain, and administer in the interests of safety an efficient pilotage service within the regions set out for the Corporation, on a basis of financial self-sufficiency. The *Pilotage Act* grants a monopoly to the Corporation to provide pilotage services in the coastal waters of British Columbia extending approximately two nautical miles from every major point of land, and along the Fraser River.

10. The *Pilotage Act* gives the Corporation the power to make regulations subject to the approval of the **Governor in Council**. The Corporation is responsible, among other things, for

- establishing compulsory pilotage areas;
- prescribing the ships or classes of ships that are subject to compulsory pilotage;
- prescribing the circumstances under which compulsory pilotage may be waived;
- prescribing pilot qualifications, as well as classes of pilot's licences and of pilotage certificates that may be issued; and
- prescribing fair and reasonable tariffs of pilotage charges, which are fixed at a level that permits the Corporation to operate on a self-sustaining financial basis.

Nature of business and operating environment

11. At the end of 2015, the Corporation employed 59 full-time employees, including 7 Fraser River pilots, 11 dispatchers, 26 launch personnel, and 15 management and administrative personnel. The Corporation had long-term collective agreements with three unions. Approximately 100 marine pilots provided coastal pilotage services to the Corporation through a contract with British Columbia Coast Pilots Ltd., a private company of which those pilots were the shareholders.

Governor in Council—The Governor General, acting on the advice of the Privy Council, as the formal executive body that gives legal effect to those decisions of Cabinet that are to have the force of law.

12. The Corporation's services involve piloting vessels of over 350 gross tons or pleasure craft of over 500 gross tons while they are travelling in the compulsory areas. While travelling in these areas, vessels must be under the conduct of a pilot authorized by the Corporation. In 2015, the Corporation conducted more than 11,780 coastal and 1,080 Fraser River pilotage assignments. It reported only one incident, classified as having the lowest impact.
13. The Corporation dispatches pilots to the vessels by means of launch boats and crews. In 2015, the Corporation began introducing pilot transfer via helicopter in selected areas.
14. The Corporation is responsible for training apprentices and current pilots, at a cost of close to \$1.6 million in 2015. It also issues licences and pilotage certificates.
15. Since 1972, British Columbia Coast Pilots Ltd. has supplied pilots to the Corporation under a contract. The Corporation charges the shipping industry for pilotage services through tariffs that are approved by the Governor in Council after a consultation process. While the charges must be fair and reasonable, they also must be set at a level sufficient to fund the Corporation's operations on a self-sustaining financial basis. The Corporation's annual revenues and expenses vary from year to year. In 2015, its earned revenue was about \$73.0 million and costs were \$77.4 million; in 2014, the Corporation's revenue was \$74.7 million and costs were \$78.2 million. The Corporation had planned the losses to draw down its surplus.

Focus of the audit

16. Our objective for this audit was to determine whether the systems and practices we selected for examination at the Pacific Pilotage Authority were providing it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.
17. Based on our assessment of risks in the area of corporate management practices, we selected the following systems and practices for examination:
 - corporate governance;
 - strategic planning, risk management, and performance reporting; and
 - human resource management.
18. Based on our assessment of risks in the area of management of pilotage services, we selected the following systems and practices for examination:
 - management of pilots, and
 - management of pilotage operations.

19. More details about the audit objective, scope, approach, systems and practices examined, and sources of criteria are in **About the Audit** at the end of this report (see pages 24–26).

Findings, Recommendations, and Responses

Corporate management practices

The Corporation had in place good corporate management practices but improvements were needed

Overall finding



20. Overall, we found that the Corporation had in place elements of good corporate management practices for governance, strategic planning, risk management, performance reporting, and human resource management. However, improvements were needed in four areas:

- Board members' processes for reviewing and confirming their independence in fulfilling their responsibilities,
- documentation of resource needs for strategic planning,
- risk assessment of the service delivery model, and
- documentation of compensation guidelines for management and administrative staff.

21. This is important because corporate management practices work together to help ensure that the Corporation can fulfill its mandate and meet the applicable requirements outlined in the *Financial Administration Act* (FAA). Improvement in the first area is needed to promote compliance with conflict-of-interest measures set out in the FAA and the *Conflict of Interest Act*. Improvements in the remaining areas are needed to support allocation of the Corporation's resources to high-priority strategic matters and to promote transparency and accountability.

22. Our analysis supporting this finding discusses

- corporate governance;
- strategic planning, risk management, and performance reporting; and
- human resource management.

Context

23. The Corporation has a Board of Directors composed of seven members: the Chairperson; two active pilots representing British Columbia Coast Pilots Ltd. (BCCP), the Corporation's service provider; two representatives of the shipping industry, the Corporation's customers; and two representatives of the public interest. The Board is supported by an Audit Committee, a Governance and Nominating Committee, and a Human Resources and Compensation Committee. Pilot representatives do not sit on the Audit Committee. There are four other operational committees chaired by a member of the Board that focus on pilot training, safety in operations, risk management, and **boarding station** safety.

24. Strategic planning and risk management are essential for the Corporation in setting its long- and short-term objectives, as well as for allocating resources to achieve its objectives. The Corporation is facing strategic challenges that may bring significant changes to its current business model. These include

- assessing and implementing the use of helicopters for transferring marine pilots on and off ships;
- assessing and forecasting the long-term demand for and supply of pilotage services; and
- maintaining financial self-sustainability.

25. Corporate strategic planning also includes assessing and adjusting the Corporation's direction in response to the risks and challenges in its changing strategic environment. Risk management is critical to how the Corporation delivers safe, reliable, and efficient pilotage services. It is also of key importance in the Corporation's allocation of resources to mitigate high-priority risks. Performance reporting enables the Corporation to demonstrate the extent to which it delivers safe, reliable, and efficient pilotage services.

Recommendations

26. Our recommendations in this area of examination appear at paragraphs 30, 34, 37 and 41.

Analysis to support this finding

27. **Corporate governance.** We found that the Corporation had in place the elements of good corporate governance. However, we found weaknesses in Board independence with respect to a code of conduct and conflict-of-interest guidelines (Exhibit 1).

Boarding station—Designated meeting spot in the waters off the coast of British Columbia, from which pilots are transferred by boat to or from vessels requiring pilotage services.

Exhibit 1 Corporate governance













Systems and practices	Criteria	Key findings	Assessment against the criteria
Board performance evaluation	Practices are in place to assess the performance of the Board, its committees, and its members.	The Board regularly assessed its performance, as well as that of its Audit Committee and its directors. It used a transparent mechanism to report the assessment results within the Board.	
Board independence	The Board functions independently from management, individual Board members follow a code of conduct and conflict-of-interest guidelines, and mechanisms are in place to ensure they remain independent in fulfilling their role on the Board.	The Board functioned independently of management in its decision making by holding regular in camera sessions without management. Board members were informed of their obligations under the <i>Conflict of Interest Act</i> . Weaknesses No specific code of conduct applied to Board members. The Board had no consistent approach for disclosure of potential conflicts of interest.	
Board structure	Roles, responsibilities, authorities, and accountabilities for all parties in the governance framework have been defined and implemented.	Roles and responsibilities of the Board and its committees were clearly defined and understood. The Board structure, including the four operational committees, reflected the nature and complexity of the Corporation's business and responsibilities.	
Communications	The Board maintains effective communication with external partners and stakeholders, the responsible Minister, and the public in the delivery of its mandate.	The Board had ongoing communications with the responsible Minister, the shipping industry, government, the public, and other stakeholders. The Board continued to develop a collaborative working relationship with British Columbia Coast Pilots Ltd.	
Legend—Assessment against the criteria  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			

Exhibit 1 Corporate governance (continued)

Systems and practices	Criteria	Key findings	Assessment against the criteria
Board oversight and decision making	The Board has the necessary information to interpret the Corporation's legislative and public policy mandate, to provide management with strategic direction, and to oversee the Corporation's activities and its accountability.	<p>The Board set strategic direction and ensured it was aligned with the Corporation's mandate and governing legislation.</p> <p>The Chief Executive Officer's performance objectives were aligned with the strategic objectives, and he was evaluated against those objectives yearly.</p> <p>The Board received appropriate and timely information for key strategic decisions.</p> <p>Board members challenged management in the decision-making process.</p>	
Internal audit	The internal audit function, through the Audit Committee, provides an independent and objective view on risk and internal controls that contribute to the Board's oversight responsibilities.	Through the Audit Committee, the internal audit function provided an independent and objective view of risks and internal controls that contributed to the Board's oversight responsibilities.	
Legend—Assessment against the criteria  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			

28. **Weaknesses—Board independence.** The Corporation developed a code of conduct for employees, clarifying circumstances and relationships that could lead to potential conflicts of interest. However, the Board did not elect to have this code apply to Board members to promote compliance with the conflict-of-interest measures set out in the *Conflict of Interest Act*. There was no Board protocol for Board members to disclose conflicts of interest on an ongoing basis through, for example, a yearly declaration or a standing item on the agenda of Board meetings during the period covered by the audit. However, Board members had included disclosure of conflict of interest as a standing item on their meeting agendas up to April 2014.

29. These weaknesses matter because, through a long-standing practice, the Minister of Transport appointed directors who were representatives of pilots employed by the service provider (BCCP) as well as representatives of the shipping industry, the Corporation's customer. Particularly in the case of these directors, there is a risk of real, potential, or perceived conflicts of interest since they oversee amendments to regulations, collective bargaining, changes in the contract with BCCP, and requests for tariff changes. It is important for the Board to put in place systems and practices to mitigate the risk of non-compliance with measures set out in the *Conflict of Interest Act* as well as the FAA.

30. **Recommendation.** The Board should strengthen its independence practices by implementing conflict-of-interest processes and improving documentation of them. To ensure each director's ongoing compliance with applicable requirements, the Board should adopt formal processes clarifying the circumstances and relationships that could lead to real, potential, or perceived conflicts of interest.

The Corporation's response. Agreed. The Board members of the Pacific Pilotage Authority are apprised of this requirement when assuming the directorship during their orientation.

The Corporation has started implementing written conflict-of-interest processes and procedures for the directors, starting with the first Board and Audit Committee meetings in 2016. The orientation process will also be reviewed to ensure that sufficient emphasis is placed upon the Board members' fiduciary responsibility and the need to comply with the Conflict of Interest Act.

31. **Strategic planning, risk management and performance reporting.** We found that the Corporation had sound systems and practices in strategic planning, risk management, and performance reporting. However, we found a weakness in strategic and operational planning processes related to estimating required resources, as well as a weakness in the completeness of risk identification related to the contractual model for delivering pilotage services (Exhibit 2).

Exhibit 2 Strategic planning, risk management, and performance reporting










Systems and practices	Criteria	Key findings	Assessment against the criteria
<p>Strategic and operational planning processes, including</p> <ul style="list-style-type: none"> • establishing tariffs, • updating compulsory pilotage areas, • determining the location of boarding stations, • contracting with British Columbia Coast Pilots Ltd. 	<p>Strategic planning process takes into consideration the internal and external environment, organizational strengths and weaknesses, and identified risks.</p> <p>Strategic direction is clearly defined and communicated, and is congruent with government priorities and the Corporation's mandate.</p> <p>Operational plans are aligned with the strategic direction, and contain sufficient and appropriate information to guide management action.</p>	<p>The Corporation analyzed the internal and external environment, and used risk in its planning.</p> <p>The strategic direction was aligned with the Corporation's mandate and enabling legislation, and with the government's direction.</p> <p>An accountability process was in place to monitor implementation of the strategic plan.</p> <p>The Corporation had processes for establishing tariffs to ensure that it would be financially self-sustaining. The Corporation also had systems and practices for determining the location of boarding stations and managing its service provider contracts.</p> <p>The Corporation aligned its operational plans with its strategic direction, and communicated the plans to employees and stakeholders.</p> <p>Weakness</p> <p>Although detailed analyses of projects were conducted, the strategic management action plan did not specify the financial and other resources required for actions in support of the Corporation's strategic priorities.</p>	
<p>Legend—Assessment against the criteria</p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

Exhibit 2 Strategic planning, risk management, and performance reporting (continued)

Systems and practices	Criteria	Key findings	Assessment against the criteria
Risk identification, measurement, mitigation, and reporting	<p>The Corporation identifies the potential risks that need to be managed to achieve its strategic and operational objectives.</p> <p>The Corporation defines responses to the risks it faces.</p> <p>There is appropriate information provided to senior management and to the Board in order for them to manage/monitor risks and to update related mitigation strategies.</p>	<p>The Corporation identified its key risks and the related mitigation measures that would allow it to achieve its strategic and operational objectives.</p> <p>The Corporation prioritized risks and assessed them according to their potential impact and likelihood.</p> <p>The Corporation identified which staff members were accountable within the organization for implementing systems and practices to mitigate risks.</p> <p>The Board, the Enterprise Risk Management Committee, and management formally monitored and reported on risks.</p> <p>Weakness</p> <p>While the Corporation has identified some specific risks related to managing pilot service delivery through British Columbia Coast Pilots Ltd., it has not assessed and documented all of the risks inherent in this contractual service delivery model.</p>	
Performance measurement and reporting	<p>The Corporation collects performance indicator data that measures its success in achieving its objectives set out in the strategic and operational plans.</p> <p>The performance reports communicate key performance information to management, the Board, and the public.</p> <p>Management uses performance information to identify and address performance shortcomings.</p>	<p>The Corporation collected data in line with its strategic objectives.</p> <p>It reported performance information to management, the Board, and the public.</p> <p>Management had detailed performance information regarding safety and used the information in decision making.</p>	
<p>Legend—Assessment against the criteria</p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

32. **Weakness—Strategic and operational planning processes.** The Corporation identified strategic priorities, along with actions to support the achievement of priorities. In the management action plan, the Corporation reported progress on these actions, as well as responsibilities and timelines. However, for each of the actions, the management action plan did not indicate the financial or human resources required, or the degree of effort likely to be involved. Detailed analyses were found, however, at the project level.

33. This weakness matters because a realistic assessment of the resources needed and available, together with a reliable estimate of associated costs, enables an organization to establish and achieve strategic priorities.

34. **Recommendation.** The Corporation should estimate the resources needed to carry out actions in support of its strategic priorities, and should include those estimates in its management and Board reporting.

The Corporation's response. Agreed. The Corporation has processes in place to allocate resources against its strategic initiatives. We agree, however, that it would be beneficial to add columns in the management action plan that identify the resources, both human and financial, and the degree of effort that will be required.

The 2016 Management Action Plan and all plans going forward will be amended to include the following fields:

- *estimated staff time, in weeks;*
- *estimated financial cost, and whether it is a capital or operational expense; and*
- *any third-party costs and subject-matter-expert input required, such as consultants or specialty services.*

35. **Weakness—Risk identification, measurement, mitigation, and reporting.** The Corporation has a service delivery contract with British Columbia Coast Pilots Ltd. for all coastal pilotage services. This contract has been in place since 1972, in accordance with the *Pilotage Act*. In 2015, BCCP pilots conducted more than 90 percent of pilotage assignments and the Corporation paid BCCP close to \$51 million. BCCP delivers pilotage services to the Corporation through its service delivery contract, as well as other letters of understanding. We found that the Corporation had assessed a few specific risks related to its working relationship with BCCP, such as the financial impacts of the volume of assignments and the procedures for training pilots. However, the Corporation had not prepared a complete, documented assessment of the risks inherent in the contractual model of service delivery.

36. This weakness matters because the Corporation relies almost entirely on a contract with its service provider to deliver safe, reliable, and efficient pilotage services. Consequently, operational and financial risks in this contractual relationship may exist for which the Corporation has not

developed appropriate mitigation measures. In addition, the Corporation could benefit from an assessment of the service delivery model in use as it enters into contract discussions in 2016.

37. **Recommendation.** The Corporation should identify, assess, and mitigate all of the risks it faces in fulfilling its mandate for safe, reliable, and efficient pilotage services through its contractual service provider.

The Corporation's response. *Agreed. The Corporation has a robust enterprise risk management process already in place. As part of the ongoing review of risks facing the Corporation, we commit to adding the following into the risk register, commencing at the April 2016 Enterprise Risk Management Committee meeting:*

- *An in-depth review undertaken in 2016 to identify, assess, and mitigate (where possible) all the risks associated with a single-contractor relationship, including but not limited to human resource impacts, financial impacts, and labour relations impact.*

38. **Human resource management.** We found that the Corporation had sound systems and practices for managing its staff. However, we found a weakness in compensation and performance management with respect to compensation guidelines (Exhibit 3).

Exhibit 3 Human resource management










Systems and practices	Criteria	Key findings	Assessment against the criteria
Strategic and human resource planning processes	Human resource strategy planning is carried out to assess and meet workforce needs in support of the corporate objectives.	The Corporation had a human resource planning process in place. This included tools to assess its overall future human resource needs in the case of staff and management.	
Succession planning	Succession planning for key positions in the organization is performed in order to ensure the achievement of corporate objectives.	Succession strategies for the Chief Executive Officer were put in place.	
Legend—Assessment against the criteria  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			

Exhibit 3 Human resource management (continued)

Systems and practices	Criteria	Key findings	Assessment against the criteria
Compensation and performance management	<p>Employee performance is assessed against objectives that are aligned with corporate objectives, such that good performance is recognized and corrective action is taken to address poor performance.</p> <p>A compensation policy is in place and contributes to attract, retain, and reward pilots (employees of British Columbia Coast Pilots Ltd. and of the Corporation) who are required to achieve the corporate mandate.</p>	<p>The Corporation had a compensation policy in place for management, and it used comparative studies to define the management salary structure.</p> <p>Information on management compensation was provided to the Board.</p> <p>Performance appraisals of management and staff were duly documented.</p> <p>Weakness</p> <p>The Corporation did not have guidelines explaining how the results of yearly performance appraisals were to be translated into salary and performance pay for managers and administrative staff.</p>	
<p>Legend—Assessment against the criteria</p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

39. **Weakness—Compensation and performance management.**

The Corporation had a policy in place for performance management, establishing salary structures based on comparative studies. It conducted yearly assessments of managers and administrative staff, documented the assessments, and established performance ratings for each individual. However, the Corporation did not have clear guidelines indicating the link between a particular performance rating level obtained by an individual and the salary increase and performance pay to which that person would be entitled.

40. This weakness matters because it is a good management practice for an organization to be transparent with employees in the way that salary and performance pay reflect the results of yearly performance appraisals. Documented processes enable the organization to ensure objectivity and transparency in its compensation practices.

41. **Recommendation.** The Corporation should put in place guidelines that explain how performance appraisal results translate into annual increases in salary and performance pay for managers and administrative staff.

The Corporation's response. Agreed. The Corporation will put in place a document that will clearly identify how annual performance ratings translate into movement through the ranges or results in performance pay. The Corporation will then link annual performance reviews to this performance scale.

The draft document will be approved by the Human Resources and Compensation Committee of the Board of Directors by August 2016 and will be in place for the management performance reviews in September 2016.

Management of pilotage services

The Corporation had in place good management of pilotage services but improvements were needed

Overall finding



42. Overall, we found that the Corporation had in place elements of good management of pilotage services for the purpose of managing pilots and pilotage operations. However, improvements were needed in three areas:

- processes for pilot resource planning with respect to future requirements for pilotage services,
- completeness of pilot performance assessments, and
- performance of periodic reviews of the compulsory pilotage area under the Corporation's control.

43. This is important because the Corporation is responsible for achieving its mandate, but its ability to do so depends largely on its contract and collaboration with a service provider, British Columbia Coast Pilots Ltd. (BCCP). The Corporation has a responsibility to ensure that it has the right processes in place for the delivery of pilotage services, at a reasonable cost and with competent pilots. In 1999, Transport Canada endorsed a recommendation made by the Canadian Transportation Agency in its report on outstanding pilotage issues. The Agency recommended a periodic review of compulsory pilotage areas, and the Corporation has a responsibility to ensure that it respects the recommendation. Improvements in these areas would help ensure that the Corporation can fulfill its mandate and related requirements.

44. Our analysis supporting this finding discusses

- management of pilots, and
- management of pilotage operations.

Context

45. The Corporation has a service delivery contract with British Columbia Coast Pilots Ltd. for pilotage in coastal waters. This agreement will expire in 2016. Under the *Pilotage Act*, BCCP must provide pilots when requested by the Corporation for assignment to vessels. The current contract with BCCP sets out the provisions for negotiating the terms of a new contract. Negotiations can be subject to mediation and arbitration in the event of a dispute.

46. The Corporation designs and delivers pre- and post-licensing training for pilots. Training rules are detailed in the *Pacific Pilotage Regulations* and documented in the Corporation's Pilot Quality Assurance Program. The training is a lengthy, multi-staged process. The apprenticeship period is usually 9 to 10 months, after which the pilot is licensed. A pilot attains "unrestricted status" by the end of the sixth year of being licensed; this means that the pilot can provide pilotage services for vessels of any size. The Corporation's Pilot Training and Examination Committee is mandated to conduct pilot examinations. The committee reviews the ongoing training of apprentices and active pilots.

47. The Corporation transports pilots to and from the vessels for which they provide pilotage services. For this purpose, the Corporation manages a small network of boarding stations (offshore meeting points). The Corporation owns some pilot boats and employs their crews; it also has pilot boats under contract to it. The Corporation manages pilot dispatch processes and pilot scheduling. It also pays for each pilot's travel and accommodation.








Recommendations

48. Our recommendations in this area of examination appear at paragraphs 52, 55 and 59.

Analysis to support this finding

49. **Management of pilots.** We found that the Corporation had in place systems and practices for sound management of pilots. However, we found a weakness in pilot resource planning with respect to future requirements for pilotage services. We also found weaknesses in processes for assessing pilot performance (Exhibit 4).

Exhibit 4 Management of pilots

Systems and practices	Criteria	Key findings	Assessment against the criteria
Pilot resource planning	Human resource strategy planning is carried out to assess and meet workforce needs in support of the corporate objectives.	Weakness The systems and practices for assessing the future requirements for pilotage services, and consequently establishing an optimum number of pilots, were not under the sole control of the Corporation. The final result as defined in the contract with British Columbia Coast Pilots Ltd. (BCCP) was subject to negotiation, mediation, and possible arbitration.	
Pilot training and development	A training and development program is in place and enables the acquisition, maintenance, and development of skills and competencies needed to carry out required work and meet objectives.	The Corporation implemented a Pilot Quality Assurance Program for coastal pilots and Fraser River pilots. The Pilot Training and Examination Committee reviewed the ongoing training of active pilots.	
Pilot staffing	Recruitment of staff is performed in a way to ensure a competent workforce.	The Corporation performed pilot recruitment through its Pilot Familiarization Program. To fill openings for apprentice pilots, the Corporation offered pilot entry examinations and established an eligibility list of candidates who had passed the examination. It kept the list up to date.	
Pilot performance management and assessment	Employee (pilot) performance is assessed against objectives that are aligned with corporate objectives, such that good performance is recognized, and corrective action is taken to address poor performance.	For its performance appraisal process, the Corporation requested and received confirmation that each pilot underwent a medical examination every two years. Weaknesses The Corporation had limited performance assessment information for the coastal pilots working through BCCP since the performance assessment was voluntary until recently. The Corporation had not assigned a clear role and responsibility for reviewing and following up on the information provided in all pilot performance assessments.	
Legend—Assessment against the criteria  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			

50. **Weakness—Pilot resource planning.** Although the Corporation had tools for assessing its future requirements for pilotage services, the number of pilots identified to meet the demand was dependent on the outcome of negotiations with BCCP. The final number did not rest solely with the Corporation, but had to reflect as well the position of BCCP or, potentially, an arbitrator. The systems and practices in place, however, did not ensure that the identified number of pilots would be sufficient to meet the Corporation's long-term demand for delivery of pilotage services at a reasonable cost.

51. This weakness matters because the Corporation has a responsibility to ensure safe and efficient pilotage services on a self-sustaining financial basis. To do this, the Corporation needs to have assurance that BCCP can supply a sufficient number of qualified pilots at a reasonable cost to fulfill the Corporation's current and future needs for pilotage services. The Corporation also needs to be able to assess future pilotage services so that it can adequately train sufficient pilots.

52. **Recommendation.** The Corporation should work with British Columbia Coast Pilots Ltd. (BCCP) to develop ongoing processes that address both short- and long-term demand for pilotage services, at a reasonable cost.

The Corporation's response. Agreed. One of the risks to the Corporation is the cost of calling pilots back from time off in order to fill the gap if there are insufficient pilots on the board for the day to meet the demand.

The Corporation and BCCP have recently taken steps to manage the issue of pilot numbers and related costs, both in the medium and long term. In addition, BCCP has hired an external firm to provide recommendations on pilot staffing to the company for implementation by 1 June 2016.

53. **Weaknesses—Pilot performance management and assessment.** The Corporation had limited performance assessment information on BCCP pilots because the assessments were voluntary until very recently. This issue was noted in a 1999 report to the Minister of Transport, prepared by the Canadian Transportation Agency on outstanding pilotage issues, as well as in our 2008 Special Examination Report on the Corporation. In addition, the Corporation did not define how it managed its oversight responsibility for collecting and taking action on the information from the assessments of pilot performance.

54. These weaknesses matter because complete performance assessment information on pilots would better enable the Corporation to adjust its training for the purpose of maintaining pilots' skills and competencies. Performance assessment information is crucial for maintaining safety in pilotage activities.

55. **Recommendation.** The Corporation should ensure it receives from British Columbia Coast Pilots Ltd. complete, reliable, and timely information on pilot performance. The Corporation should also assign a role and responsibility for reviewing pilots' performance information, with the aim of ensuring proper oversight and follow-up actions as needed.

***The Corporation's response.** Agreed. The Corporation has processes in place that allow the master of a vessel to provide feedback regarding the pilot's operational skills and competencies. As well, recently, pilots have started being assessed against the processes and effective use of the Bridge Resource Management (BRM) principles in accordance with the International Maritime Organization Resolution IMO A960. In order to ensure that the assessments are being done routinely and the Corporation is receiving the information from BCCP in a timely fashion, we will do the following commencing in 2016:*

- *All evaluation reports will be sent to the Corporation within 10 business days of the assessment's being completed.*
- *The Pilot Training and Examination Committee (PTEC) will review all assessments on an annual basis, looking for areas of concern.*
- *PTEC will determine what, if any, additional training will be required for a specific pilot with identified concerns.*

56. **Management of pilotage operations.** We found that the Corporation had in place systems and practices for the safe, reliable, and efficient delivery of pilotage operations. However, we found a weakness in the way the Corporation met the requirement for assessing the compulsory areas (Exhibit 5).

57. **Weakness—Compulsory areas and ships requiring pilotage.** Under the *Pilotage Act*, the Corporation was responsible for establishing compulsory pilotage areas. The Minister of Transport endorsed a recommendation made by the Canadian Transportation Agency in its report on outstanding pilotage issues. The Agency recommended

Exhibit 5 Management of pilotage operations






Systems and practices	Criteria	Key findings	Assessment against the criteria
Compulsory areas and ships requiring pilotage	The Corporation has systems and practices enabling it to provide safe, reliable, and efficient marine pilotage and related services in the area of establishing compulsory pilotage areas and prescribing the ships or classes of ships that are subject to compulsory pilotage.	<p>The Corporation continually monitored factors that might indicate changes in the compulsory area, such as maritime traffic, types of accidents, and stakeholder feedback.</p> <p>Weakness</p> <p>The Corporation did not conduct a review of the compulsory pilotage area every five years to assess possible changes that might affect navigational risks as recommended by the Canadian Transportation Agency in 1999.</p>	
Pilot dispatching	The Corporation has systems and practices enabling it to provide safe, reliable, and efficient marine pilotage and related services in the area of dispatching and pilot assignment.	<p>The Corporation documented the entire dispatch process.</p> <p>It ensured ongoing availability of its scheduling systems through its Emergency Plan, which included business resumption and disaster recovery procedures.</p> <p>The Corporation used key performance measures to monitor the quality of pilotage services.</p> <p>To improve its services, the Corporation tracked complaints from its clients and identified actions as needed.</p>	
Legend—Assessment against the criteria  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			

Exhibit 5 Management of pilotage operations (continued)










Systems and practices	Criteria	Key findings	Assessment against the criteria
Pilot boarding stations—boats, crews, pilot boarding procedures	The Corporation has systems and practices enabling it to provide safe, reliable, and efficient marine pilotage and related services in the area of boarding station management and pilot boarding services.	<p>The Corporation documented all procedures involved in pilot boarding operations.</p> <p>Regular inspections indicated that the pilot launch boats met regulatory requirements.</p> <p>The Corporation developed and monitored ongoing routines for inspecting the maintenance level of pilot boats and crews.</p> <p>The Corporation's Pilot Launch and Transportation Safety Committee was established to oversee the overall operation of pilot boarding processes.</p> <p>Pilot boat crews met the specified qualifications and had the physical capacity defined by the Corporation.</p> <p>The Corporation obtained assurance that its contractor met all key standards related to pilot boarding services.</p> <p>The Corporation monitored accidents occurring at the time of pilots' transfer to or from a vessel, and prepared accident reports.</p>	
Contingency planning for accidents	The Corporation has systems and practices enabling it to provide safe, reliable, and efficient marine pilotage and related services in the area of incident and accident contingency planning processes.	<p>The Corporation developed an emergency plan to minimize damage or disruption to its employees, its property, and its operations.</p> <p>The Corporation regularly updated its emergency plan and communicated it to staff members. The Corporation conducted emergency preparedness activities with stakeholders.</p> <p>The <i>Pacific Pilotage Regulations</i>, together with internal documents, established the systems and practices required for investigating incidents.</p>	
Legend—Assessment against the criteria  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			

Exhibit 5 Management of pilotage operations (continued)

Systems and practices	Criteria	Key findings	Assessment against the criteria
Relations with customers and stakeholders	The Corporation has systems and practices enabling it to provide safe, reliable, and efficient marine pilotage and related services in the area of consultation and relations.	<p>A detailed protocol was in place for communication between the Corporation, its customers, and marine stakeholders.</p> <p>The Corporation regularly surveyed its customers. Generally, customers were satisfied.</p> <p>The Corporation conducted studies to improve the quality of its services to the shipping industry.</p>	
Legend—Assessment against the criteria  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			

recurrent five-year reviews to assess changes in factors and circumstances in the compulsory pilotage areas. In 2005, the Corporation provided its first review and noted that it would perform another review after five years. Since then, however, the Corporation did not conduct a review of compulsory areas.

58. This weakness matters because factors such as safety, environmental protection, ship standards, and traffic patterns can change, introducing new risks. The compulsory pilotage area established by the Corporation in 1972 covered the entire coastline of British Columbia and the Fraser River. It has not been modified significantly since then.

59. **Recommendation.** The Corporation should conduct a review every five years of the compulsory pilotage area under its responsibility.

The Corporation's response. *Agreed. This was one of the requirements under the Ministerial Review of Outstanding Pilotage Issues, published in 1999. A full review of the complete coast was completed in 2005, as required, and took three people four months to complete. The Corporation agrees that this was not redone as required in 2010 and 2015, largely as a result of the financial situation and the need to cut costs wherever we could. This decision was supported by the industry we serve. We agree, however, that we were obliged to complete a review every five years as per the ministerial review. The Corporation will perform the assessment unless, through discussions with the Minister of Transport in 2016, the requirement is waived.*

Conclusion

60. We concluded that, based on the criteria established, there is reasonable assurance that during the period covered by the examination there were no significant deficiencies in the Pacific Pilotage Authority's systems and practices that we selected for examination. The Corporation has maintained these systems and practices in a manner that provides it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

About the Audit

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.

Objective

Under section 138 of the *Financial Administration Act* (FAA), federal Crown corporations are subject to a special examination once every 10 years. Special examinations of Crown corporations are a form of performance audit where the objective is set by the FAA.

The Auditor General provides an opinion on the corporation's systems and practices examined. Special examinations answer the question: Do the Corporation's systems and practices provide reasonable assurance that assets are safeguarded and controlled, resources are managed economically and efficiently, and operations are carried out effectively?

A significant deficiency is reported when there is a major weakness in the Corporation's key systems and practices that could prevent it from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. The opinion for this special examination is found on page 1 of this report.

Scope and approach

The scope of our audit was the Pacific Pilotage Authority, a federal Crown corporation. In performing our work, we reviewed documents and interviewed members of the Board of Directors, senior management, and employees of the Corporation.

Systems and practices examined and criteria

At the start of this special examination, we presented the Corporation's audit committee with an audit plan that identified the systems and practices, and related criteria, that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively.

Our audit criteria were selected for this examination in consultation with the Corporation. They were based on our experience with performance auditing—in particular with our special examinations of Crown corporations—and on our knowledge of the subject matter. Management reviewed and accepted the suitability of the criteria used in the special examination. The systems and practices examined and criteria are presented throughout the report in the exhibits.

Sources of criteria

Corporate governance

OECD Guidelines on Corporate Governance of State-Owned Enterprises, Organisation for Economic Co-operation and Development, 2015

Review of the Governance Framework for Canada's Crown Corporations—Report to Parliament, Treasury Board of Canada Secretariat, 2005

IPPF Practice Guide: Assessing Organizational Governance in the Private Sector, The Institute of Internal Auditors, July 2012

IPPF Practice Guide: Assessing Organizational Governance in the Public Sector, The Institute of Internal Auditors, October 2014

20 Questions Directors Should Ask about Crown Corporation Governance, Canadian Institute of Chartered Accountants, 2007

Strategic planning, risk management, and performance reporting

Review of the Governance Framework for Canada's Crown Corporations—Report to Parliament, Treasury Board of Canada Secretariat, 2005

20 Questions Directors Should Ask about Strategy, Chartered Professional Accountants of Canada, 2012

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

Recommended Practice Guideline: Reporting Service Performance Information, International Public Sector Accounting Standards Board, 2015

Human resource management

Ultimate HR Manual, Human Resource Professionals Association and CCH Canadian Limited

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013

Policy Framework for People Management, Treasury Board of Canada Secretariat, July 2010

Pilotage Act

Pacific Pilotage Regulations

Directive on Performance Management, Treasury Board of Canada Secretariat, April 2014

Performance Management Program for Chief Executive Officers of Crown Corporations—Guidelines, Privy Council Office, December 2014

Management of pilotage services

Pilotage Act

Pacific Pilotage Regulations

Pacific Pilotage Tariff Regulations

Summary of the Corporate Plan 2015 to 2019, Pacific Pilotage Authority

Financial Administration Act

Period covered by the audit

The special examination covered the systems and practices that were in place between April 2015 and November 2015. However, to gain a more complete understanding of the significant systems and practices, we also examined certain matters that preceded the starting date of the special examination.

Internal audit

In carrying out the special examination, we did not rely on any internal audits.

Audit team

Assistant Auditor General: Terrance DeJong

Principal: Mary M. Riopelle

Director: Patrick Polan

Josée Maltais

Terra Tanious

Esther Oommen

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
Corporate management practices	
<p>30. The Board should strengthen its independence practices by implementing conflict-of-interest processes and improving documentation of them. To ensure each director's ongoing compliance with applicable requirements, the Board should adopt formal processes clarifying the circumstances and relationships that could lead to real, potential, or perceived conflicts of interest. (27–29)</p>	<p>The Corporation's response. Agreed. The Board members of the Pacific Pilotage Authority are apprised of this requirement when assuming the directorship during their orientation.</p> <p>The Corporation has started implementing written conflict-of-interest processes and procedures for the directors, starting with the first Board and Audit Committee meetings in 2016. The orientation process will also be reviewed to ensure that sufficient emphasis is placed upon the Board members' fiduciary responsibility and the need to comply with the <i>Conflict of Interest Act</i>.</p>
<p>34. The Corporation should estimate the resources needed to carry out actions in support of its strategic priorities, and should include those estimates in its management and Board reporting. (31–33)</p>	<p>The Corporation's response. Agreed. The Corporation has processes in place to allocate resources against its strategic initiatives. We agree, however, that it would be beneficial to add columns in the management action plan that identify the resources, both human and financial, and the degree of effort that will be required.</p> <p>The 2016 Management Action Plan and all plans going forward will be amended to include the following fields:</p> <ul style="list-style-type: none"> • estimated staff time, in weeks; • estimated financial cost, and whether it is a capital or operational expense; and • any third-party costs and subject-matter-expert input required, such as consultants or specialty services.
<p>37. The Corporation should identify, assess, and mitigate all of the risks it faces in fulfilling its mandate for safe, reliable, and efficient pilotage services through its contractual service provider. (31, 35–36)</p>	<p>The Corporation's response. Agreed. The Corporation has a robust enterprise risk management process already in place. As part of the ongoing review of risks facing the Corporation, we commit to adding the following into the risk register, commencing at the April 2016 Enterprise Risk Management Committee meeting:</p> <ul style="list-style-type: none"> • An in-depth review undertaken in 2016 to identify, assess, and mitigate (where possible) all the risks associated with a single-contractor relationship, including but not limited to human resource impacts, financial impacts, and labour relations impact.

Recommendation	Response
<p>41. The Corporation should put in place guidelines that explain how performance appraisal results translate into annual increases in salary and performance pay for managers and administrative staff. (38–40)</p>	<p>The Corporation's response. Agreed. The Corporation will put in place a document that will clearly identify how annual performance ratings translate into movement through the ranges or results in performance pay. The Corporation will then link annual performance reviews to this performance scale.</p> <p>The draft document will be approved by the Human Resources and Compensation Committee of the Board of Directors by August 2016 and will be in place for the management performance reviews in September 2016.</p>
<p>Management of pilotage services</p>	
<p>52. The Corporation should work with British Columbia Coast Pilots Ltd. (BCCP) to develop ongoing processes that address both short- and long-term demand for pilotage services, at a reasonable cost. (49–51)</p>	<p>The Corporation's response. Agreed. One of the risks to the Corporation is the cost of calling pilots back from time off in order to fill the gap if there are insufficient pilots on the board for the day to meet the demand.</p> <p>The Corporation and BCCP have recently taken steps to manage the issue of pilot numbers and related costs, both in the medium and long term. In addition, BCCP has hired an external firm to provide recommendations on pilot staffing to the company for implementation by 1 June 2016.</p>
<p>55. The Corporation should ensure it receives from British Columbia Coast Pilots Ltd. complete, reliable, and timely information on pilot performance. The Corporation should also assign a role and responsibility for reviewing pilots' performance information, with the aim of ensuring proper oversight and follow-up actions as needed. (49, 53–54)</p>	<p>The Corporation's response. Agreed. The Corporation has processes in place that allow the master of a vessel to provide feedback regarding the pilot's operational skills and competencies. As well, recently, pilots have started being assessed against the processes and effective use of the Bridge Resource Management (BRM) principles in accordance with the International Maritime Organization Resolution IMO A960. In order to ensure that the assessments are being done routinely and the Corporation is receiving the information from BCCP in a timely fashion, we will do the following commencing in 2016:</p> <ul style="list-style-type: none"> • All evaluation reports will be sent to the Corporation within 10 business days of the assessment's being completed. • The Pilot Training and Examination Committee (PTEC) will review all assessments on an annual basis, looking for areas of concern. • PTEC will determine what, if any, additional training will be required for a specific pilot with identified concerns.
<p>59. The Corporation should conduct a review every five years of the compulsory pilotage area under its responsibility. (56–58)</p>	<p>The Corporation's response. Agreed. This was one of the requirements under the <i>Ministerial Review of Outstanding Pilotage Issues</i>, published in 1999. A full review of the complete coast was completed in 2005, as required, and took three people four months to complete. The Corporation agrees that this was not redone as required in 2010 and 2015, largely as a result of the financial situation and the need to cut costs wherever we could. This decision was supported by the industry we serve. We agree, however, that we were obliged to complete a review every five years as per the ministerial review. The Corporation will perform the assessment unless, through discussions with the Minister of Transport in 2016, the requirement is waived.</p>