

2008



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

MAY

Chapter 8
Special Examinations of Crown Corporations—
An Overview



Office of the Auditor General of Canada

The May 2008 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 8, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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Ce document est également publié en français.

© Minister of Public Works and Government Services Canada 2008
Cat. No. FA1-2008/1-8E
ISBN 978-0-662-48528-5



Chapter

8

Special Examinations
of Crown Corporations
An Overview

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Special Examinations of Crown Corporations

An Overview

Main Points

What we examined

Crown corporations form a significant part of the federal public sector. Federal Crown corporations employ about 90,000 people, manage more than \$185 billion in assets, and have long-term liabilities of about \$145 billion. These distinct legal entities, wholly owned by the government, are used to deliver important public programs. They operate in many sectors of the Canadian economy, including transportation, energy and resources, agriculture and fisheries, financial services, culture, and government services.

At least once every five years, Crown corporations, wholly owned directly by the Government of Canada (parent Crown corporations), that fall under the *Financial Administration Act* (FAA) undergo a special examination—which is a type of performance audit that the Auditor General of Canada carries out, as sole examiner in most cases and as joint examiner in a few cases. By February 2008, 44 Crown corporations were subject to the special examination requirement of the FAA.

In this chapter, we provide an overview of our special examination practice drawn from the special examinations we carried out between December 2002 and February 2008. We also look at the impact of legislative and other changes since December 2000 when we last reported to Parliament on our special examination practice. Finally, we provide summaries of the key findings of the 11 special examinations reported since January 2006.

Why it's important

A special examination is an important accountability mechanism. It provides independent assurance to the board of directors of a Crown corporation that systems and practices are in place to ensure that the corporation's assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.

Any major weakness in the corporation's key systems and practices that could prevent it from achieving its objectives is reported by the examiner as a significant deficiency.

What we found

- Fewer than 25 percent of the 37 special examinations covered in our overview found that the systems and practices examined had significant deficiencies. This is an improvement over our 2000 Report, when we noted that 48 percent of special examinations found significant deficiencies.
- The significant deficiencies identified by the special examinations covered in this overview related most often to problems in carrying out the corporation's mandate. The underlying causes were funding issues, a lack of strategic direction or clear expectations, or major gaps in the corporation's performance information.
- Special examination reports also bring opportunities for improvement to a board's attention. Special examinations have most often found those opportunities to be in the areas of corporate governance (including corporate and strategic planning), performance measurement, risk management, operations, and human resources management.
- In the March 2004 Budget, the government announced its intention to introduce a requirement that Crown corporations post special examination reports of the Auditor General on their websites. All of our special examination reports since then have been posted by the Crown corporations examined. These public reports represent an opportunity for Parliament to understand how the corporations operate and to increase accountability.
- Following a recommendation in the government's 2005 review of Crown corporation governance, Parliament amended the *Financial Administration Act* to increase the number of Crown corporations subject to special examination and to have the Office of the Auditor General carry out the examinations. The review recommended a more flexible system that would schedule the frequency of special examinations based on the level of risk inherent in the corporation's operations and that would require the tabling of special examination reports in Parliament. The Treasury Board of Canada Secretariat has informed us that the government is developing proposed legislative amendments that would provide for a more flexible risk-based approach to scheduling special examinations and would formally require that Crown corporations release reports to the public.

Introduction

Importance of Crown corporations

8.1 Crown corporations are distinct legal entities. There are two types of Crown corporations: those that are wholly owned directly by the Government of Canada (parent Crown corporations) and those that are wholly owned by other Crown corporations (subsidiaries). They operate in many sectors of the Canadian economy, including transportation, energy, agriculture and fisheries, financial services, culture, and government services. Crown corporations vary widely in size and in the level of financial support they receive from the government.

8.2 As of 31 July 2007, federal Crown corporations employed some 90,000 people, managed more than \$185 billion in assets, and had long-term liabilities of about \$145 billion. During the 2006–07 fiscal year, these corporations received a total of about \$5 billion in parliamentary funding.

8.3 Crown corporations have more autonomy than most other government entities, in part because they have commercial objectives as well as public policy objectives. A board of directors oversees the management of each corporation and holds management responsible for the corporation's performance. The board of a parent Crown corporation is, in turn, accountable to Parliament through the responsible minister.

8.4 Under Part X of the *Financial Administration Act* (FAA), the Auditor General is appointed to conduct independent audits of the annual financial statements of each Crown corporation, either on her own or with a private sector audit firm, unless she waives the appointment.

Role of special examinations

8.5 Each parent Crown corporation that is subject to Part X of the FAA is required to have a **special examination** conducted at least once every five years. A special examination is normally carried out by the auditor or joint auditors of the Crown corporation. It provides an independent opinion on whether there is reasonable assurance that a Crown corporation has systems and practices in place to ensure that

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

A **special examination** is a type of performance audit that strengthens corporate accountability.

8.6 A special examination report can contain one of three opinions. One conclusion is that there was reasonable assurance that there were no “significant deficiencies” in the systems and practices to achieve the objectives above. Another is that there is one or more significant deficiency. In addition, in rare situations, the examiner may find there is no reasonable assurance that a corporation’s systems and practices achieve the objectives.

8.7 Under the FAA, special examinations are reported to the board of directors of a Crown corporation. The legislation also permits the examiner, after consulting the board of directors, to bring information from the special examination to the attention of the appropriate minister. After consulting the board and the appropriate minister, the examiner may also require that the corporation bring such information to Parliament’s attention, by including the information in its annual report.

8.8 Virtually all parent Crown corporations, and those directed to act as parent Crown corporations, are now subject to special examinations under the FAA. The Bank of Canada and the Canada Pension Plan Investment Board have unique governance structures and do not fall under FAA special examination requirements. However, the Canada Pension Plan Investment Board is required under its own act to undergo a special examination, at least once every six years.

8.9 The scope of a special examination covers both the parent Crown corporation and all of its wholly owned subsidiaries. By February 2008, 44 Crown corporations were subject to special examinations under the FAA. Exhibit 8.1 lists these corporations as well as two corporations that are no longer subject to a special examination: the Queens Quay West Land Corporation, which was recently dissolved, and the Cape Breton Growth Fund Corporation, which is no longer directed to act as a parent Crown corporation.

8.10 Special examinations provide an opinion on the operations of a Crown corporation for a specific period of time. Our work in this area is ongoing to meet the five-year reporting requirement established by Parliament. By February 2008, special examinations of the following corporations were in progress, and the reports are expected to be completed in 2008:

- Canada Council for the Arts,
- Canada Mortgage and Housing Corporation,
- Defence Construction (1951) Limited,

- Federal Bridge Corporation Limited,
- Great Lakes Pilotage Authority,
- International Development Research Centre,
- Parc Downsview Park Inc., and
- VIA Rail Canada Inc.

8.11 The legislation requiring special examinations was initially passed in 1984. We last reported on the results of our special examinations in the December 2000 Report of the Auditor General, Chapter 18. Now that special examinations are becoming publicly available, we intend to annually publish brief summaries of recently issued reports in the Auditor's General Report to Parliament.

Focus of the chapter

8.12 In this chapter, we provide information about the Office's special examination practice. In particular, we describe the

- increase in the number of Crown corporations subject to a special examination by the Office of the Auditor General;
- increased public reporting of special examination results by Crown corporations; and
- changes in Crown corporation governance, proposed or implemented by the government, that directly affect our special examination practice.

8.13 We also provide information about and a statistical summary of key results from special examinations that we reported between December 2002 and 29 February 2008. Where more than one special examination was issued for a Crown corporation in that period, this chapter reports on the most recent one. We report on the results from 37 special examinations.

8.14 In addition, the Appendix contains the key findings of recent special examination reports—issued between January 2006 and February 2008—that have been made public by Crown corporations.

8.15 More details about the chapter's objective, scope, and approach are in **About the Chapter** at the end of this chapter.

Exhibit 8.1 Crown corporations that are or have been recently subject to special examination by the Office of the Auditor General (OAG)

	Crown corporation	Date report was issued to the Board of directors	Examiner(s)	Report made public	Significant deficiencies found
1	Atlantic Pilotage Authority	13 June 2007	OAG	Yes	No
2	Atomic Energy of Canada Limited	28 August 2007	OAG	Yes	Yes
3	Blue Water Bridge Authority	17 September 2007	OAG	Yes	Yes
4	Business Development Bank of Canada	15 July 2004	Joint: OAG and KPMG	Yes	No
5	Canada Council for the Arts	First became subject to special examination in June 2005	N/A	N/A	N/A
6	Canada Deposit Insurance Corporation	23 November 2004	OAG	Yes	No
7	Canada Development Investment Corporation	23 February 2004	Joint: OAG and KPMG	N/A (report issued before the government announced its intention to introduce new corporate governance rules)	No
8	Canada Lands Company Limited	5 June 2006	OAG	Yes	No
9	Canada Mortgage and Housing Corporation	31 May 2004	Joint: OAG and Mallette	Yes	No
10	Canada Post Corporation	First became subject to special examination by OAG in June 2005	Previous examinations carried out by a private sector auditor		
11	Canadian Air Transport Security Authority	5 December 2006	OAG	Yes	Yes
12	Canadian Broadcasting Corporation	21 November 2005	OAG	Yes	Yes
13	Canadian Commercial Corporation	13 September 2004	OAG	Yes	Yes
14	Canadian Dairy Commission	29 June 2005	OAG	Yes	No
15	Canadian Museum of Civilization Corporation	10 March 2006	OAG	Yes	No
16	Canadian Museum of Nature	21 February 2007	OAG	Yes	No
17	Canadian Race Relations Foundation	First became subject to special examination in June 2005	N/A	N/A	N/A
18	Canadian Tourism Commission	11 April 2006	OAG	Yes	Yes
19	Cape Breton Development Corporation	18 February 2008	OAG	Yes	No
20	Cape Breton Growth Fund Corporation	28 November 2005	OAG	Yes	No
21	Corporation for the Mitigation of Mackenzie Gas Project Impacts	New Crown corporation created in 2006	N/A	N/A	N/A
22	Defence Construction (1951) Limited	30 May 2003	OAG	Yes	No
23	Enterprise Cape Breton Corporation	13 October 2004	OAG	Yes	No

Exhibit 8.1 Crown corporations that are or have been recently subject to special examination by the Office of the Auditor General (OAG) (continued)

	Crown corporation	Date report was issued to the Board of directors	Examiner(s)	Report made public	Significant deficiencies found
24	Export Development Canada	8 July 2004	OAG	Yes	No
25	Farm Credit Canada	11 September 2007	OAG	Yes	No
26	Federal Bridge Corporation Limited	25 July 2003	OAG	Yes	No
27	First Nations Statistical Institute	New Crown corporation created in 2006	N/A	N/A	N/A
28	Freshwater Fish Marketing Corporation	3 March 2005	OAG	Yes	No
29	Great Lakes Pilotage Authority	23 December 2002	OAG	N/A (report issued before the government announced its intention to introduce new corporate governance rules)	No
30	International Development Research Centre	5 March 2003 (at the request of the Corporation, before being required in June 2005)	OAG	Yes	No
31	Laurentian Pilotage Authority	15 July 2005	OAG	Yes	Yes
32	Marine Atlantic Inc.	27 August 2004	OAG	Yes	Yes
33	National Arts Centre Corporation	First became subject to special examination in June 2005	OAG (in 1998, at request of the Corporation)	N/A	N/A
34	National Capital Commission	1 November 2007	OAG	Yes	No
35	National Gallery of Canada	14 April 2005	OAG	Yes	No
36	National Museum of Science and Technology	3 June 2005	OAG	Yes	No
37	Old Port of Montréal Corporation Inc.	22 June 2005	OAG	Yes	Yes
38	Pacific Pilotage Authority	21 November 2003	OAG	Yes	No
39	Parc Downsview Park Inc.	First became subject to special examination by OAG in 2003 (designated parent)	N/A	N/A	N/A
40	Public Sector Pension Investment Board	First became subject to special examination by OAG in June 2005	Previous examinations carried out by a private sector auditor		
41	Queens Quay West Land Corporation	27 September 2005	OAG	N/A (Corporation dissolved 31 March 2006)	No
42	Ridley Terminals Inc.	6 December 2005	OAG	Yes	No
43	Royal Canadian Mint	25 May 2005	OAG	Yes	No
44	Standards Council of Canada	6 October 2004	OAG	Yes	No
45	Telefilm Canada	First became subject to special examination in June 2005	N/A	N/A	N/A

Exhibit 8.1 Crown corporations that are or have been recently subject to special examination by the Office of the Auditor General (OAG) (continued)

Crown corporation		Date report was issued to the Board of directors	Examiner(s)	Report made public	Significant deficiencies found
46	VIA Rail Canada Inc.	28 May 2003	OAG	N/A (report issued before the government announced its intention to introduce new corporate governance rules)	No

Observations

Increasing the number of special examinations

8.16 The number of Crown corporations subject to special examinations by the Auditor General has risen from 31 to 44—an increase of more than 40 percent—since our last report, in December 2000. The increase is due to legislative changes and an increase in the number of parent Crown corporations.

Legislative changes have led to more special examinations by the Office of the Auditor General

8.17 In June 2005, Parliament amended the *Financial Administration Act*. As a result, five Crown corporations (Canada Council for the Arts, the Canadian Broadcasting Corporation, the International Development Research Centre, the National Arts Centre Corporation, and Telefilm Canada) are now subject to special examinations under the FAA.

8.18 We had conducted special examinations of some of these corporations before they were subject to examination under the FAA. For example:

- The Canadian Broadcasting Corporation was previously subject to special examinations under the *Broadcasting Act*.
- In 2003, we conducted a special examination of the International Development Research Centre, at the request of the Corporation.
- In 1998, we conducted a special examination of the National Arts Centre Corporation, at the request of the Corporation.

8.19 Before the 2005 FAA amendments, the financial statements of certain Crown corporations were audited by private sector auditors. Since the amendments, the Office of the Auditor General is appointed the auditor or joint auditor of all Crown corporations (except the Bank

of Canada and the Canada Pension Plan Investment Board) unless the Auditor General waives the appointment.

8.20 Since the external auditor also normally carries out the special examination of a Crown corporation, the number of special examinations carried out by the Office of the Auditor General has increased. We are now conducting special examinations (as examiner or joint examiner) of the Canada Post Corporation and the Public Sector Pension Investment Board; both were previously examined by private sector auditors. As part of the 2005 amendments to the FAA, the Canadian Race Relations Foundation became subject to the special examination requirements, and we were appointed as auditor.

An increase in the number of parent Crown corporations has led to more special examinations

8.21 Since our December 2000 report, the number of parent Crown corporations has increased.

8.22 Parliament has authorized the creation of the following four parent Crown corporations:

- Canadian Air Transport Security Authority,
- Canadian Tourism Commission,
- Corporation for the Mitigation of Mackenzie Gas Project Impacts (not yet active), and
- First Nations Statistical Institute.

8.23 There were also changes in the status of Crown corporations as parent corporations. The Blue Water Bridge Authority was designated a parent Crown corporation in 2002. In addition, two subsidiary corporations—Parc Downsview Park Inc., a subsidiary of Canada Lands Company Limited, and the Cape Breton Growth Fund Corporation, a subsidiary of Enterprise Cape Breton Corporation—were directed to act as parent Crown corporations under the FAA.

8.24 However, the order directing Cape Breton Growth Fund Corporation to act as a parent Crown corporation was revoked by the government on 7 June 2007. One parent Crown corporation, Queens Quay West Land Corporation, was dissolved on 31 March 2006.

Making reports public

Crown corporations are posting reports from the Auditor General on their websites

8.25 As part of measures designed to strengthen management and accountability, in the March 2004 Budget, the Government of Canada

announced that it intended to introduce new corporate governance rules that would require Crown corporations to post special examination reports from the Auditor General on their websites. Since then, all 29 special examination reports the Office has issued to Crown corporations (that are still active) have been made public by the individual corporations (Exhibit 8.1).

8.26 The special examination for Queens Quay West Land Corporation is not public because the corporation was dissolved. Four Crown corporations posted special examination reports on their websites before the March 2004 Budget (Defence Construction (1951) Limited, Federal Bridge Corporation Limited, the International Development Research Centre, and Pacific Pilotage Authority).

8.27 Unlike our performance audits of federal departments and agencies, special examinations have rarely been the subject of parliamentary hearings. The public release of many special examinations provides an opportunity for committees to hold Crown corporations accountable.

8.28 We have only been able to identify three occasions in the last 10 years when special examination reports were the focus of a parliamentary hearing:

- In February 1999, the Auditor General appeared before the House of Commons Standing Committee on Canadian Heritage to discuss the findings of a 1998 special examination of the National Arts Centre Corporation that had been requested by the Board of Trustees of that organization.
- In May 2007, the Auditor General appeared before the House of Commons Standing Committee on Canadian Heritage to discuss the findings of the 2005 special examination of the Canadian Broadcasting Corporation.
- In early 2008, the Auditor General appeared before the House of Commons Standing Committee on Natural Resources during the committee's hearings on Atomic Energy of Canada Limited.

Changing governance expectations

The government has implemented measures intended to strengthen Crown corporation governance

8.29 In February 2004, the government announced that it would undertake a comprehensive review of the accountability framework for Crown corporations. The government's intention to carry out the review was reiterated in the 2004 Budget, along with an intention to introduce new corporate governance rules. In February 2005, the

government released its report, *Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations*, which proposed 31 measures to strengthen the governance of Crown corporations. The proposed measures will affect all Crown corporations (except the Bank of Canada and the Canada Pension Plan Investment Board, which have their own governance structures).

8.30 The following four measures, proposed in the 2005 review, are directly related to special examinations:

- **Measure 26.** The government proposed amending relevant legislation to allow for the appointment of the Auditor General of Canada as the external auditor or joint auditor for all Crown corporations (except the Bank of Canada and the Canada Pension Plan Investment Board, which have their own governance structures). This measure was enacted in the June 2005 amendments to the *Financial Administration Act*.
- **Measure 27.** The government proposed changes to the legislation to give the Office of the Auditor General of Canada the authority to conduct special examinations of all Crown corporations (except for the Bank of Canada and the Canada Pension Plan Investment Board, which have their own governance structures). This measure was enacted in the June 2005 amendments to the *Financial Administration Act*.
- **Measure 28.** The government proposed establishing a more flexible system for the timing of special examinations, to reflect the level of risk inherent in a corporation's operations. It proposed that all corporations undergo a special examination every eight years, at a minimum, instead of every five years (the current requirement).

We supported increased flexibility in scheduling special examinations, and an increase in the minimum time between special examinations, because it recognized that the risks in and significance of Crown corporation operations varied considerably. Legislation to implement this measure has not yet been introduced.

However, the Treasury Board of Canada Secretariat has informed us that it is developing proposals to amend the legislation. These amendments would provide a more flexible risk-based approach to scheduling special examinations and would require that a special examination be conducted at least once every ten years. The proposed legislation would also provide the Auditor General, the responsible minister,

the board of directors, and the Governor in Council with the authority to require special examinations more frequently.

- **Measure 29.** The government proposed requiring that each special examination report, prepared by the Auditor General, be submitted to the board of directors, the responsible minister, the Treasury Board, and Parliament. The legislative amendment to require tabling of special examination reports in Parliament has not yet been introduced.

However, the Secretariat has informed us that, in order to increase transparency and openness, the government is developing proposals to amend the legislation. These amendments would make the current practice by Crown corporations of voluntarily releasing special examination reports to the public a requirement. The government also proposed developing a protocol to protect the release of sensitive commercial information of Crown corporations when special examinations are published. We do not believe that such a protocol is necessary because we have practices in place to prevent the release of sensitive information.

Summarizing special examination results

Significant deficiency—A major weakness in a Crown corporation’s key systems and practices that could prevent it from having reasonable assurance that its assets were safeguarded and controlled, its resources were managed efficiently and economically, or its operations were carried out effectively.

Special examination reports provide three types of opinions

8.31 A special examination report contains one of three opinions:

- a clean opinion—the examiner found no **significant deficiencies** in the corporation’s systems and practices;
- a clean opinion except for one or more significant deficiencies—major problems that should be of concern to the corporation’s board of directors; or
- an adverse opinion—the corporation’s systems and practices do not ensure that the requirements of Part X of the FAA are met—that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out efficiently.

8.32 The most recent special examination of the following nine Crown corporations reported one or more significant deficiencies:

- Atomic Energy of Canada Limited, 2007 (a summary of this report appears in the Appendix);
- Blue Water Bridge Authority, 2007 (a summary of this report appears in the Appendix);

- Canadian Air Transport Security Authority, 2006 (a summary of this report appears in the Appendix);
- Canadian Broadcasting Corporation, 2005;
- Canadian Commercial Corporation, 2004;
- Canadian Tourism Commission, 2006 (a summary of this report appears in the Appendix);
- Laurentian Pilotage Authority, 2005;
- Marine Atlantic Inc., 2004; and
- Old Port of Montréal Corporation Inc., 2005.

8.33 Between December 2002 and February 2008, the Office of the Auditor General found no significant deficiencies in 76 percent (28 of 37) of the special examinations it reported on. In comparison, in the Office's last report on the special examination practice in December 2000, it found no significant deficiencies in 52 percent (15 of 29) of special examinations.

Some special examinations are reported to the appropriate minister as well as the boards of directors

8.34 The *Financial Administration Act* requires special examinations to be reported to the board of directors of a Crown corporation. After consulting the board of directors, the examiner may bring information from a special examination report to the attention of the appropriate minister. In addition, after consulting the board and the appropriate minister, the examiner may also require that the Corporation bring such information to Parliament's attention by including the information in its annual report.

8.35 The following are examples of when information may be brought to the attention of the appropriate minister or Parliament:

- There is a significant deficiency that is beyond the corporation's ability to address on its own, or there are other issues that do not represent a significant deficiency but that the Auditor General believes should be brought to the responsible minister's attention.
- Significant deficiencies noted in a previous special examination have not been adequately addressed.
- Several significant deficiencies have been identified in a corporation's systems and practices.

8.36 Between December 2002 and February 2008, we sent special examination reports for the following corporations to the responsible minister:

- Atomic Energy of Canada Limited, 2007 (a summary of this report appears in the Appendix);
- Blue Water Bridge Authority, 2007 (a summary of this report appears in the Appendix);
- Canadian Air Transport Security Authority, 2006 (a summary of this report appears in the Appendix);
- Farm Credit Canada, 2007 (a summary of this report appears in the Appendix);
- Laurentian Pilotage Authority, 2005;
- National Capital Commission, 2007 (a summary of this report appears in the Appendix); and
- Old Port of Montréal Corporation Inc., 2005.

8.37 When a special examination report is sent to the responsible minister, the Auditor General offers to meet with that minister to explain the context and significance of our findings.

8.38 We did not require Crown corporations to bring any of the 37 special examinations reports discussed in this chapter to the attention of Parliament. However, most Crown corporations have made these reports available to the public (Exhibit 8.1).

Significant deficiencies included challenges in meeting corporate mandates

8.39 Of the nine of the special examinations that included one or more significant deficiencies, five reported that the Crown corporation was finding it difficult to meet specific aspects of its corporate mandate. The reasons given for these difficulties included

- funding issues,
- a need for clear strategic direction,
- a need to resolve issues related to the relationship with the government, and
- a lack of information to demonstrate that the mandate is being achieved.

8.40 In our reports, we have noted a number of instances where Crown corporations had major weaknesses, including not having the necessary performance information to support setting performance

targets and monitoring results. Our reports also noted significant deficiencies that were unique to the corporation's operations, including contracting, planning and ensuring accountability for marketing activities, risk management, and implementing change management.

Opportunities for improvement may be identified

8.41 In addition to reporting on significant deficiencies, our special examination reports provide information to boards of directors about other opportunities for improvement (Exhibit 8.2).

8.42 The most common areas where we noted opportunities for improvement were in corporate governance (including corporate and strategic planning), performance measurement, risk management, operations, and human resources. (For specific examples of improvements recommended in our special examinations, see the summaries in the Appendix.)

Exhibit 8.2 Opportunities for improvement identified in the 37 special examinations

Systems and practices (areas)	Number (and percentage) of Crown corporations with opportunities for improvement
Corporate governance	31/37 (84%)
Performance measurement	28/37 (76%)
Risk management	27/37 (73%)
Planning	26/37 (70%)
Human resources	24/37 (65%)
Operations	24/37 (65%)
Environment	18/37 (49%)
Information management / Information technology	18/37 (49%)
Safeguarding/controlling assets	18/37 (49%)
Marketing	15/37 (41%)
Financial management	10/37 (27%)
Internal audit	9/37 (24%)
Contracting	8/37 (22%)
Compliance with authorities	2/37 (5%)
Other	11/37 (30%)

8.43 In our December 2000 summary of our special examination practice, we noted that the most common areas for improvement were corporate and strategic planning, performance measurement and reporting, operations, and human resources management. We continue to regularly report the need to improve these systems and practices, which are fundamental to the management of Crown corporations.

Conclusion

8.44 More than 75 percent of the 37 special examinations that we report on in this chapter had no significant deficiencies in the systems and practices examined. In many cases where significant deficiencies were reported, they could be resolved by the board. However, we brought seven special examinations to the attention of the responsible minister.

8.45 In addition to significant deficiencies, opportunities for improvement to be brought to the attention of boards of directors are included in most of these special examinations. The most common opportunities for improvement are in corporate governance (including corporate and strategic planning), performance measurement, risk management, operations, and human resources. Issues in these areas have often been reported in previous special examinations.

8.46 Since the March 2004 Budget, when the government announced its intention to introduce new corporate governance rules to require that special examination reports from the Auditor General be posted on the Crown corporations' websites, Crown corporations have posted all special examination reports. These public reports represent an opportunity for Parliament to understand the operations of these corporations and increase accountability.

8.47 As a result of the government's 2005 review of Crown corporation governance, measures have been implemented to increase the number of Crown corporations subject to special examination by the Office of the Auditor General. In addition, the review called for the establishment of a more flexible system for scheduling special examinations, based on the level of risk inherent in the corporation's operations and a requirement for Crown corporations to publicly release special examination reports. The government is developing the required legislative amendments that would provide for a more flexible risk-based approach to scheduling special examinations and formalize the current Crown corporation practice of publicly releasing the reports.

About the Chapter

Objective

Our objective was to bring to the attention of Parliament the significant changes in the special examination practice and results of the Office of the Auditor General's special examinations.

Scope and approach

The scope of the chapter included the following:

- Thirty-seven special examinations, where the Auditor General was examiner or joint examiner, reported to boards of directors between December 2002 and February 2008. If more than one special examination was issued to a corporation in this period, we only report on the most recent one.
- Legislative changes that have had an impact on the Office's special examination practice.
- Government announcements and reviews affecting Crown corporation governance and reporting.

The approach to this chapter consisted of summarizing information that already existed. Therefore, this chapter did not require separate criteria. Instead, the approach used was to

- provide information about what a special examination is,
- describe legislative and other changes that have affected the special examination practice since our last report on this practice in December 2000,
- provide overall information about the results of special examinations, and
- summarize the key findings of recent special examinations.

The special examinations summarized in this chapter are those that were reported between 1 January 2006 and 29 February 2008 and that have been made public by Crown corporations.

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Appendix Special examinations that have been reported since January 2006 and have been made public

The following are summaries of the special examinations that have been reported since January 2006 and have been made public. Complete descriptions of our findings are in the special examination reports that are available on each Crown corporation's website. Readers should note that circumstances may have changed since we provided the boards of directors with our special examination reports. In many cases, the corporation has developed an action plan for resolving the issues that we reported.

Atlantic Pilotage Authority—Special Examination Report 2007

What we examined

The Atlantic Pilotage Authority provides licensed marine pilots to ships in Atlantic Canada to assist ship masters and officers in transiting ports, harbours, and waterways. The Authority establishes where pilotage is compulsory, what ships are subject to it, and in what circumstances exemptions from pilotage are granted. It also sets out the conditions for obtaining pilotage licences and certificates.

The Authority reports to Parliament through the Minister of Transport, Infrastructure and Communities. In 2006, the Authority's revenues were about \$14.9 million and its operating expenses about \$15.7 million; it employed 45 pilots and had 10 contracted pilots. Our special examination covered the period between November 2006 and March 2007.

Why it's important

Pilotage contributes to public safety by minimizing accidents and risks to the environment. It is important that the Atlantic Pilotage Authority ensure that ships enter, leave, or transit within the Atlantic Canada pilotage area as safely as possible. It is also important that the rates the Authority charges for pilotage services are fair and reasonable while providing the revenue needed to fund its operations.

What we found

We identified no significant deficiencies in the systems and practices we examined. We noted some progress since our last examination and some areas for improvement.

- The Authority had been able to establish pilotage charges that are fair and reasonable while ensuring its financial self-sufficiency.
- It did not have a formal, comprehensive risk management framework that would assess the likelihood and impact of risks across the entire organization or a strategy to manage these risks.
- Senior management and the Board of Directors clearly understood their roles and responsibilities, and all Board members had received orientation training. The Authority needed to assess the inclusion of employee and industry representatives on the Board, because it created inherent conflict of interest.
- While pilots' qualifications and training were tracked, regular appraisals of their performance were needed.

Atomic Energy of Canada Limited—Special Examination Report 2007

What we examined

Atomic Energy of Canada Limited (the Corporation), which reports to Parliament through the Minister of Natural Resources, is responsible for most nuclear research and development in Canada. It also designs and sells nuclear power reactors and other products, provides related services to nuclear utilities worldwide, and produces a significant portion of medical isotopes used worldwide in the diagnosis and treatment of disease. The Corporation employs more than 4,000 staff. Our special examination covered the period from September 2006 to March 2007.

Why it's important

In a highly regulated nuclear industry, it is important that the Corporation comply with standards and regulations set by regulatory bodies in Canada and abroad. At the same time, it needs to capitalize on the emerging nuclear market, attract new business, and replace some of its aging facilities.

What we found

We found a significant deficiency in the Corporation's ability to resolve three strategic challenges that entail long-term funding requirements and that together would impair its ability to achieve its mandate.

- The first challenge was the completion and licensing of the Dedicated Isotope Facility for the production of medical isotopes, originally planned for November 2000. Completion had been delayed to 2008 and 2009 for the two reactors. At the end of March 2007, significant investments were still needed. Moreover, the regulator had identified technical issues that the Corporation had yet to fully resolve. The second challenge was the development and licensability of the Advanced CANDU Reactor (ACR) in time for the market requirement. Due to market conditions, the Corporation changed its design product to a larger reactor. The design change, more stringent licensing requirements, and an enhanced project management approach resulted in a significant increase in the cost estimates. At the end of March 2007, costs to complete the ACR were estimated at \$400 million. In addition, the regulator withdrew its service of providing the Corporation with a pre-licensing assessment, citing resource constraints, thus putting the Corporation at a competitive disadvantage in marketing the ACR. The third challenge was the replacement of the Corporation's aging facilities at Chalk River Laboratories, Ontario, for which no source had been identified for the significant funding needed.

We found that the Corporation had improved its practices in a number of other areas since our last examination in 2002. It had adequate systems and practices for managing current nuclear wastes and for keeping track of its compliance with environmental regulations.

Blue Water Bridge Authority—Special Examination Report 2007

What we examined

The Blue Water Bridge Authority owns the Canadian portions of the Blue Water Bridge linking Point Edward, Ontario, and Port Huron, Michigan. Its mandate is to operate, maintain, and repair the Canadian portions of the Blue Water Bridge, including the approaches and adjacent structures it owns. The Authority finances its operations mainly with revenues from bridge tolls, and it generated a surplus in both 2005 and 2006. It has 78 employees, and expenses in 2006 totalled \$20.7 million.

The Authority was established in 1964, became a Crown corporation in 2002, and reports to Parliament through the Minister of Transport, Infrastructure and Communities. Our special examination covered the period between September 2006 and March 2007.

Why it's important

The Blue Water Bridge is a major access point for commercial traffic to the south-central United States, handling about 10 percent of Canada's trade with the US. About 3.7 million passenger vehicles and 1.7 million commercial vehicles use the bridge each year.

What we found

We identified a significant deficiency in the Authority's management of a contract for consulting services.

- The Authority paid a US consulting firm about \$7.5 million, over nine years, to promote the Authority's interests to US and Canadian government officials and politicians, and to provide various consulting services. It awarded the contract without competition and without the Board's approval. It did not specify the services to be performed and did not regularly assess the services it received; nor did it inform the Minister of the consultant's US activities. In December 2006, the Authority terminated the contract.

While we found that the Authority has good practices for planning and managing its structures, we noted opportunities for improvement in other areas.

- The Authority needed to develop policies and procedures for contracting with suppliers and monitoring their work; re-establish formal coordination of bridge maintenance activities with its US counterpart; develop an environmental policy setting out goals and activities; improve its strategic planning by identifying relevant objectives, strategies, and performance measures; monitor its performance; and provide more complete performance and strategic information in its corporate plans.
- The Board of Directors needed to exercise closer stewardship, particularly in its relations with the Authority's major stakeholders, in strategic planning, in approving contracts, and in assessing its performance and any impact the number of directors might have on its efficiency.

Canada Lands Company Limited—Special Examination Report 2006

What we examined

Canada Lands Company Limited (Canada Lands) is a self-financing federal Crown corporation that reports to Parliament through the Minister of Transport, Infrastructure and Communities. Its mandate is to create value from federally owned strategic properties no longer required by the government for program purposes. It does this through one of its subsidiaries, Canada Lands Company CLC Limited (referred to in this report as the Corporation).

The Corporation purchases surplus strategic properties from the government at fair market value and then improves, manages, or sells them to produce the optimal benefits for the Government of Canada and local communities. Its real estate division and corporate staff are relatively small—93 employees. Its principal property, the CN Tower in Toronto, operates as a separate division with 452 employees.

The systems and practices of Canada Lands and its subsidiary, the Corporation, were the subject of our special examination, which covered the period from January 2005 to October 2005.

Why it's important

The Corporation has purchased high-profile properties from the government, and the way it manages them determines whether the government will benefit financially and the communities where these properties are located will profit from the economic stimulus of property development, including local employment. Since its creation, it has distributed hundreds of millions of dollars to its shareholder, the Government of Canada.

What we found

We identified no significant deficiencies in the systems and practices that we examined. We noted a number of good practices, some improvements since our previous special examination in 2000, and some areas for further improvement.

- Overall improvements in the land transfer process corrected what our 2000 special examination had identified as a significant deficiency.
- Canada Lands had the core elements of a good governance framework in place, and systems and practices were in place to ensure that the CN Tower is well maintained.
- The Corporation would benefit from better linking corporate objectives and performance reviews; assessing its training needs; using an integrated project management framework, and documenting and formalizing environmental management procedures.

Canadian Air Transport Security Authority—Special Examination Report 2006

What we examined

The Canadian Air Transport Security Authority is responsible for key aviation security services at designated Canadian airports. In the 2005–06 fiscal year, its appropriations for operating and capital expenditures totalled \$425 million, and it had 248 employees. The Authority reports to Parliament through the Minister of Transport, Infrastructure and Communities. Our special examination covered the period between November 2005 and June 2006.

Why it's important

The Authority is responsible for screening passengers, their baggage, and non-passengers entering secure areas to prevent any threat items from being carried onto aircraft. It is important that Canadians have confidence in the Authority's ability to play its key role in securing Canada's air transportation system.

What we found

We issued an adverse opinion on the Authority because of two significant deficiencies identified in the systems and practices that we examined, related to screening operations and its roles and responsibilities.

- The Authority did not have reasonable assurance that screening operations were conducted economically, efficiently, effectively, and in the public interest. The Authority contracts with private sector firms to provide passenger and carry-on baggage screening, but with only 29 Authority managers to oversee screening operations at 89 airports, it had limited oversight. Shortages of screening officers and high turnover rates contributed to additional pressures on the training system. A number of screening providers had to be replaced, for a variety of reasons, which was disruptive to screening operations. Non-passenger screening was another area of concern. The Authority had limited coverage in screening non-passengers at restricted area access points. We also noted weaknesses in the oversight of infiltration tests and the adequacy of performance measures.
- The Authority's mandate limits its roles and responsibilities to implementing specific parts of the aviation security system. However, it did not wish to be constrained by this limited mandate and would have liked to have more control over the way screening operations were conducted, the allocation of screening staff, and the selection of screening equipment. The Authority would have liked to have direct access to intelligence information. This had negatively affected the relationship between the Authority and Transport Canada. Management's efforts spent addressing these differences would have been better directed to the Authority's screening operations.

In other areas of the Authority's operations, we found no significant deficiencies. Since its inception in 2002, the Authority had taken several actions to improve its security measures. By 1 January 2006, it had achieved 100 percent screening of checked luggage for explosives in all 89 designated airports across Canada.

Canadian Museum of Civilization Corporation—Special Examination Report 2006

What we examined

The Canadian Museum of Civilization Corporation comprises the Canadian Museum of Civilization, the Canadian War Museum, and the web-based Virtual Museum of New France. It is responsible for establishing, maintaining, and developing a collection of historical or cultural objects for research and posterity, with special but not exclusive reference to Canada. The Corporation reports to Parliament through the Minister of Canadian Heritage.

At the time of our special examination, the Corporation had about 460 employees. Its operating expenses for the 2005–06 fiscal year totalled about \$72 million. Our examination covered the period from June 2005 to January 2006.

Why it's important

The Canadian Museum of Civilization and the Canadian War Museum are among the most popular cultural institutions in the country. Over the past five years, exhibitions have attracted more than 1.4 million visitors annually. More than 500,000 visitors attended the new Canadian War Museum in the first nine months of its opening in 2005. Both museums play a major role in exposing Canadian and foreign visitors to Canada's social, cultural, and military heritage.

What we found

We identified no significant deficiencies in the systems and practices we examined. We noted progress in many areas since our 2000 special examination. We also noted opportunities for improvement.

- The Corporation made progress in strategic planning and human resource management and in promoting cultural understanding and knowledge among the Canadian public.
- The Corporation would benefit from better monitoring of and reporting on the development of its collections, assessing its long-term contract for information technology services and establishing a related disaster recovery plan, improving its corporate risk management framework, and developing a strategy for broader dissemination of knowledge and information.

Canadian Museum of Nature—Special Examination Report 2007

What we examined

The Canadian Museum of Nature is Canada's natural history museum. It has operations based in the Victoria Memorial Museum Building (a heritage building in Ottawa, Ontario) and collections and administrative operations in Gatineau, Quebec. It is responsible for establishing, maintaining, and developing a collection of natural history objects for research and posterity, with special but not exclusive reference to Canada. It reports to Parliament through the Minister of Canadian Heritage.

In the 2006–07 fiscal year, the Museum's total budget was \$29 million; the Government of Canada had also allocated \$216.6 million over a number of years to renovating the Victoria Building. The Museum had 168 full-time employees for its regular operations and 18 employees dedicated to the Victoria Building renovation. Our special examination covered the period between March and October 2006.

Why it's important

The Museum plays a key role in discovering and describing new species of plants, animals, minerals, and fossils and in understanding their relationship to healthy and changing environments, with a particular expertise in Arctic research. Its national role—to collect, preserve, and disseminate information on natural history issues, on Canada's behalf—makes it the primary source for the public, government, and private sectors to obtain accurate, up-to-date information on Canada's natural history. Furthermore, the Museum is the only federal organization with a mandate from Parliament to hold natural history collections for posterity.

What we found

We identified no significant deficiencies in the systems and practices we examined. We noted progress in many areas since our 2002 special examination and opportunities for improvement in other areas.

- The Museum had made progress in its research management, public education projects, information technology, human resource management practices, and strategic planning. The Victoria Memorial Museum Building Renewal Project was meeting the Museum's needs, and it had an effective management framework in place for the project. In light of its limited resources, it was important that the Museum continue to focus research resources on areas where it would have the most impact.
- The Museum needed to find a long-term solution to increase the funding required for operations, maintenance, and capital projects. It also needed to develop a collection development strategy, and complete its study of target audiences. The Museum would benefit from improved environmental management and stewardship. It had in place many elements of a well-functioning governance framework but needed to make improvements to meet current good governance practices.

Canadian Tourism Commission—Special Examination Report 2006

What we examined

The Canadian Tourism Commission works with provincial and territorial governments and the Canadian tourism industry to promote the industry's interests and to market Canada as a tourist destination. The Commission receives an annual parliamentary appropriation of about \$79 million for program and operating costs; it reports to Parliament through the Minister of Industry. In late 2004, it had 156 employees. Our special examination covered the period between June and November 2005.

Why it's important

Spending in Canada by international and Canadian travellers plays a crucial role in Canada's economy. Total tourism revenue for 2004 was \$57.5 billion. Canada competes with many countries for tourists, and the Commission, which is Canada's national marketing organization, needs solid market research and good systems and practices to fulfil its vision of "compelling the world to explore Canada."

What we found

We identified significant deficiencies in two areas of the Commission's systems and practices that we examined—strategic management and market research planning and accountability.

- In the area of strategic management, we found that its corporate plan and annual report—key documents for accountability—did not demonstrate how the Commission was fulfilling its mandate. A lack of clearly defined performance measures for all key activities made it difficult to report and account for the achievement of corporate objectives.
- In the area of planning and accountability for market research, we found that market research did not clearly meet the Commission's strategic needs. Marketing plans and project files did not always reflect the use of research results, and there was no accountability framework to ensure that individual marketing projects supported corporate objectives. In addition, the Commission did not regularly evaluate completed projects against program goals.

The Commission had additional opportunities for improvement. It needed to conduct risk assessments of major initiatives and projects, carry out quality control of all research activities and periodically assess their value and relevance, and develop systems to safeguard critical records of key information.

Cape Breton Development Corporation—Special Examination Report 2008

What we examined

The Cape Breton Development Corporation was established in 1967 to reorganize and rehabilitate the coal industry on Cape Breton Island. On 28 January 1999, the Government of Canada announced its decision to close the Phalen Colliery. Legislation enacted in June 2000 provided the Corporation with authority to sell its assets and eventually wind up its affairs. Plans for the dissolution of the Corporation have not been finalized and the date for dissolution has yet to be fixed by an order-in-council.

The Corporation reports to Parliament through the Minister of Natural Resources. In the 2006–07 fiscal year, it received \$66 million in government funding. As of 31 March 2007, the Corporation was responsible for managing obligations that totalled about \$470 million.

We examined the Corporation's systems and practices in the management of environmental obligations, compensation obligations, and land divestiture activities. Our examination covered the period from April to November 2007.

Why it's important

As well as disposing of its assets in preparation for its eventual dissolution, the Corporation needs to manage its large legacy obligations, which include payments under the Early Retirement Incentive Plan, workers' compensation claims, and the remediation or reclamation of sites that have suffered environmental damage.

What we found

We found no significant deficiencies in the systems and practices we examined. However, we noted some areas where the Corporation would benefit from improving its practices.

- **Management of environmental obligations.** Since our 2003 special examination, the Corporation had focused significant resources on managing its environmental obligations. It had identified the sites that need remediation and had assessed and remediated a number of environmentally impacted sites, spending \$42 million since 2003. It would have benefited by finalizing its Environmental Management Plan, developing a mine water management plan, and improving its reporting of progress against timelines. In addition, although it had delegated site remediation to Public Works and Government Services Canada, liability still rested with the Corporation. It needed to enhance its site monitoring activities to ensure that all regulatory requirements were met.
- **Compensation obligations.** The Corporation had taken appropriate steps to manage Early Retirement Incentive Plans and workers' compensation obligations effectively and efficiently. While the Workers' Compensation Board of Nova Scotia had engaged a professional actuary to assist it in estimating the Corporation's compensation obligations, the Corporation would have benefited from formal arrangements with an independent actuary to ensure that its obligations were determined adequately from its perspective.
- **Management of land divestiture.** The Corporation had taken appropriate steps to manage the disposal of its properties and to consider the implications of environmental legislation for its property transfers. However, it needed to develop a formal strategic plan for land divestitures that could be used to monitor progress against timelines and targets.

Farm Credit Canada—Special Examination Report 2007

What we examined

Farm Credit Canada (the Corporation) is a financially self-sustaining Crown corporation that provides specialized business and financial services and products to farming operations (including family farms) and to small and medium-sized businesses in rural Canada that are related to farming. Its major focus is on serving the needs of primary producers.

The Corporation has a \$13.2 billion loan portfolio and 1,300 employees, who operate out of 100 offices located primarily in rural Canada. Its head office is in Regina, Saskatchewan, and it reports to Parliament through the Minister of Agriculture and Agri-Food. Our special examination covered the period between February and May 2007.

Why it's important

Farm Credit Canada is Canada's largest agricultural term lender, supporting a broad range of agricultural enterprises across Canada. It lends to all sectors of agriculture and serves more than 43,000 primary producers, suppliers, and processors. The Corporation also serves about 9,000 customers through its partners—agricultural or financial organizations—and delivers training and publications to 50,000 participants and subscribers.

What we found

We found no significant deficiencies in the systems and practices we examined. We identified improvements in a number of areas since our last special examination in 2002. In other areas, we made recommendations to help the Corporation improve further. We also found some issues of concern in a limited number of transactions.

- A limited number of transactions were not supported by complete and adequately documented business cases and/or did not respect contracting policies or practices generally followed in the public sector. The transactions included a significant training initiative, the outsourcing of the management of venture capital investments, the renegotiation and extension of a contract with a service provider (which happened before the end of its existing contract without a competitive bidding process), and certain compensation decisions related to bonuses and employee recognition programs.
- The Corporation was doing well in its lending operations, credit risk and portfolio management, environment and treasury operations, governance, strategic planning, performance reporting, marketing and communication, human resources, integrated risk assessment, and information technology. We did note some areas for improvement.

National Capital Commission—Special Examination Report 2007

What we examined

The National Capital Commission is the steward of federal lands and buildings in the National Capital Region. It is responsible for the care and maintenance of properties that include land, parks, green spaces, several major bridges, and hundreds of kilometres of pathways and parkways. In the 2006–07 fiscal year, the Commission had 450 employees and operating costs of about \$127.6 million. The Commission reports to Parliament through the Minister of Transport, Infrastructure and Communities. Our special examination covered the period between January and June 2007.

Why it's important

In its planning for the use, preservation, and development of heritage buildings and land under its stewardship, the Commission plays an important role in ensuring that Canadians, now and in the future, continue to enjoy and experience the National Capital Region.

What we found

We identified no significant deficiencies in the systems and practices we examined. We noted progress in some areas since our 2002 special examination. We also noted opportunities for improvement.

- The Commission had improved its consultations with those affected by its decisions as well as the information it made available on the results of consultations. However, it had not yet developed a master plan for urban lands in the National Capital Region, and it did not have a well-documented process to help ensure uniformity and consistency in decision-making and clearer reporting on national interest lands.
- The Commission had an environmental management framework for identifying and managing risks on its properties. It had reassessed the condition of the six official residences that it manages and had plans in place to address the most urgent structural needs to ensure the safety of the residents. Significant work remained in order to maintain and preserve the residences.
- The Commission's Board of Directors needed to reassess its present skills and expertise, identify gaps in the competencies it needs, and communicate those gaps to the federal government to consider in making new Board appointments.

Report of the Auditor General of Canada to the House of Commons—May 2008

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