

2008



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

DECEMBER

Matters of Special Importance
Main Points—Chapters 1 to 8
Appendices



Office of the Auditor General of Canada

The December 2008 Report of the Auditor General of Canada comprises Matters of Special Importance—2008, Main Points—Chapters 1 to 8, Appendices, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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Auditor General of Canada
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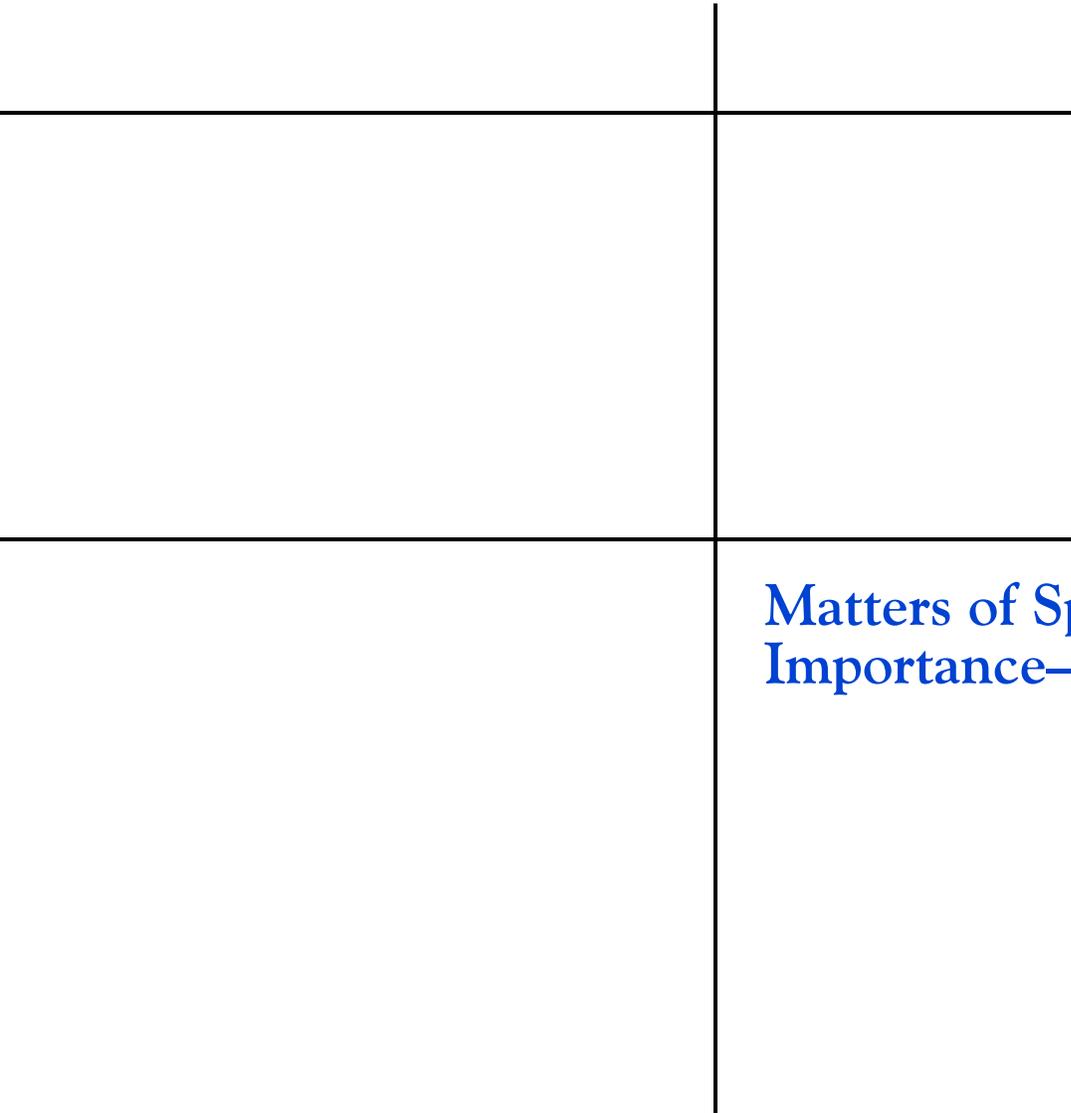
To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith this annual Report of 2008 to the House of Commons, which is to be laid before the House in accordance with the provisions of subsection 7(3) of the *Auditor General Act*.

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

Sheila Fraser, FCA
Auditor General of Canada

OTTAWA, 9 December 2008



**Matters of Special
Importance—2008**

Matters of Special Importance—2008

My Eighth Annual Report



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Sheila Fraser, FCA
Auditor General of Canada

I am pleased to present my fall 2008 Report to the House of Commons. The Commissioner of the Environment and Sustainable Development is also presenting a report today.

It is an exciting time for our environment and sustainable development audit practice, for a number of reasons. We have a new Commissioner, Scott Vaughan, who brings with him an impressive background in sustainable development. In addition, the *Federal Sustainable Development Act* received Royal Assent in June.

The Act requires that a federal sustainable development strategy be developed and implemented. We have pointed out the need for such an overarching federal strategy and are pleased with this development.

This new Act also expands the Commissioner's mandate: He will not only examine whether individual departmental strategies comply with and contribute to the federal strategy, he will also report to Parliament on the fairness of the information in the federal government's progress report on the implementation of its federal strategy.

This Report reflects the diversity and the complexity of the government

The federal government includes hundreds of organizations, from large departments and Crown corporations to small agencies, boards, and commissions. With total spending of approximately \$230 billion in areas ranging from border security to passports, food inspection, statistics, peacekeeping, fisheries, international trade, immigration, and debt management, activities of the federal government touch virtually all aspects of the daily lives of Canadians. In all of these areas, the government also has to take into account the changing needs of society, conflicting priorities, and responsibilities that overlap with those of provincial and municipal governments. The sheer magnitude of operations is impressive—the Canada Revenue Agency (CRA) processes 3 million computer transactions per hour, for example, and Public Works and Government Services Canada (PWGSC) spends more than \$1 billion a year on contracts for professional services.

Our reports to Parliament reflect the diversity of the issues on the federal government's agenda and the sometimes enormous challenges that come with them. Earlier this year, we reported on National Defence's support for overseas deployments, the surveillance of infectious diseases, the detention and removal of individuals by the Canada Border Services Agency, and the management of the First Nations Child and Family Services Program by Indian and Northern Affairs Canada. Today's Report contains a study on federal transfer payments to the provinces and territories, and a chapter on the government's oversight of federal small entities—those with fewer than 500 employees, like the Canadian Radio-television and Telecommunications Commission and the Canadian Human Rights Tribunal. The Report also covers the management of environmental and economic risks to Canada's agriculture and forestry sector, and the economy and efficiency with which food, clothing, and security are provided in federal correctional institutions.

It is to be expected that an organization as large and complex as the federal government does some things very well and has difficulties in other areas. Again this year, our reports showed a range of accomplishments.

Public Works and Government Services Canada followed a fair, open, and transparent process in awarding more than a billion dollars in contracts for the professional services of consultants such as accountants, lawyers, architects, and specialists in data processing (Chapter 3). I am pleased to report that it complied with the applicable acts, regulations, and policies in awarding 95 percent of the publicly tendered contracts and 96 percent of the sole-sourced contracts that we audited. However, we did find a need for improvement in the administration of some contracts after they had been awarded.

The Canada Revenue Agency has done a lot of work in the last two years to improve the way it manages its information technology (IT) systems (Chapter 5). These systems are critical to its ability to administer taxes and benefits and to ensure that tax laws are followed. The Agency operates some of the largest IT systems in the government and spends about \$500 million a year on its applications and infrastructure. We found that in many areas, it is managing its investments well. However, it needs to finish implementing the initiatives it has under way to improve IT project management. It also needs to do more to strengthen its practices in managing its IT investments. We found problems in six of the eight IT projects we examined in detail, including flawed business cases, significant delays, and, in one case, an end product that did not do the job.

The Agency is also making progress in fulfilling several of its new “employer” and staffing responsibilities (Chapter 6) formerly under the Treasury Board and the Public Service Commission. The Agency depends heavily on having a qualified workforce—tax assessors, auditors, IT specialists—in order to administer tax laws. It was granted new human resource authorities in 1999 to give it more autonomy in human resource management in order to better meet its business needs. We found that the Agency has used its new human resources authorities in areas such as job classification, employee compensation, and labour relations. Staffing, however, remains a challenge. Our audit found that staffing processes are confusing and frustrating for employees, and progress in achieving the expected efficiencies has been slow.

The Canadian Food Inspection Agency regulates imports of plants and plant products such as seeds, grain, and field crops, and forest and horticultural commodities (Chapter 4). The thousands of shipments of regulated plants and plant products imported into Canada every year could contain invasive plants, pests, and diseases that can have a serious and often irreversible impact on our ecosystems. Preventing invasive species from entering the country and detecting new species before they become established in Canada are critical to protecting the food supply as well as the agricultural and forestry sectors of the economy and the environment. We examined whether the Agency adequately manages the risks associated with invasive alien plants, pests, and diseases. We found extensive problems in the Agency’s activities that compromise its ability to manage risks to Canada’s plant resources.

Correctional Service Canada (CSC) provides custody and care to more than 14,000 male and female inmates in 58 federal institutions across the country. We examined whether CSC has paid sufficient attention to economy and efficiency (Chapter 7) in providing its security services, and whether it has been economical in purchasing food, clothing, and cleaning products for its institutions. We found that CSC does not analyze the total volume of food and cleaning products that it needs to buy; most purchasing decisions are made by each institution rather than at the national level. This means that CSC misses out on potential savings from buying in larger volumes. In the provision of security, overtime costs have continued to increase in recent years even though the numbers of inmates and violent incidents have remained relatively stable. We found no analysis by CSC to determine whether overtime was more economical than hiring additional staff.

Part of our ongoing work is to look at small federal entities. For this report, we looked at the regime for central oversight of small entities (Chapter 2). Our conclusion—that selected elements

of central agency oversight and coordination are not working well—is in line with a recent report by the Public Accounts Committee. We found that central agencies of government—the Treasury Board of Canada Secretariat, the Canada Public Service Agency, and the Privy Council Office—have not substantively addressed two major and long-standing problems—the reporting burden on small federal organizations and the sharing of administrative services among some of these agencies.

In 2000, the Government of Canada and provincial and territorial governments reached an historic agreement on health that set out a vision, principles, and an action plan for health system renewal. The governments reached two subsequent agreements in 2003 and 2004. The agreements were accompanied by significant increases in federal transfers to the provinces and territories, first ministers jointly recognized the need to be accountable to Canadians through regular public reporting on health system performance and on the results of health system renewal. Federal, provincial, and territorial health ministers agreed to develop and report on indicators that could be compared across jurisdictions and over time in order to measure progress on renewal. In our audit of health indicators (Chapter 8), we were disappointed to find that while Health Canada has met the specific health indicator reporting commitments of the agreements, it has not provided the kind of reporting that First Ministers said Canadians were entitled to receive. Good public reporting should provide information to help Canadians understand and interpret the health indicators. Health Canada's indicator reports did not provide readers with this information, limiting their usefulness to Canadians.

Accountability provisions of transfer payment to the provinces and territories vary considerably

Federal transfers to the provinces and territories make up a significant portion of the federal government's annual spending. They represent a major source of funds for services provided to Canadians in areas such as health, post-secondary education, and social assistance. In the 2006–07 fiscal year, federal transfers amounted to approximately \$50 billion, or just under 23 percent of federal spending.

This report contains a study on the three main types of transfer payments made by the federal government to provinces and territories (Chapter 1). We undertook this study to answer questions that parliamentarians have raised about federal transfers and our Office's mandate to audit them.

The nature and extent of conditions attached to transfer payments vary considerably and have changed over the years. Some transfers have specific conditions that require reporting to the federal government on how the money was spent and to what effect, while others do not.

One type of transfer, carried out through trusts, was introduced by the federal government in 1999. Transfers of this type are earmarked in public announcements by the federal government for specific purposes (for example, police officer recruitment or affordable housing), but there are no conditions that legally obligate provinces and territories to spend the funds for the announced purposes or to report subsequently to the federal government. Federal officials told us that in recent trusts, the federal government has required that provinces and territories publicly announce how they intend to use the funds, on the assumption that their legislative assemblies and citizens will hold them to account for these commitments.

The absence of reporting requirements for trusts could become a dilemma in cases such as the \$1.5-billion Clean Air and Climate Change Trust Fund (discussed in the Commissioner's Report, Chapter 1), where the government includes results expected from the provinces in reporting its own expected results. In reporting under the *Kyoto Protocol Implementation Act*, the federal government said it expected that as a result of the Trust Fund, the provinces and territories would reduce greenhouse gas emissions by 80 megatonnes between 2008 and 2012. Environment Canada has made a claim of expected results even though the nature of this Trust Fund makes it very unlikely that it will be able to report real, measurable, and verifiable results.

We will be reporting in collaboration with the Privacy Commissioner of Canada on how the government manages identity information

The government's ability to deliver some of its largest and most significant programs to Canadians relies on information that allows federal institutions to identify the individuals applying for their services.

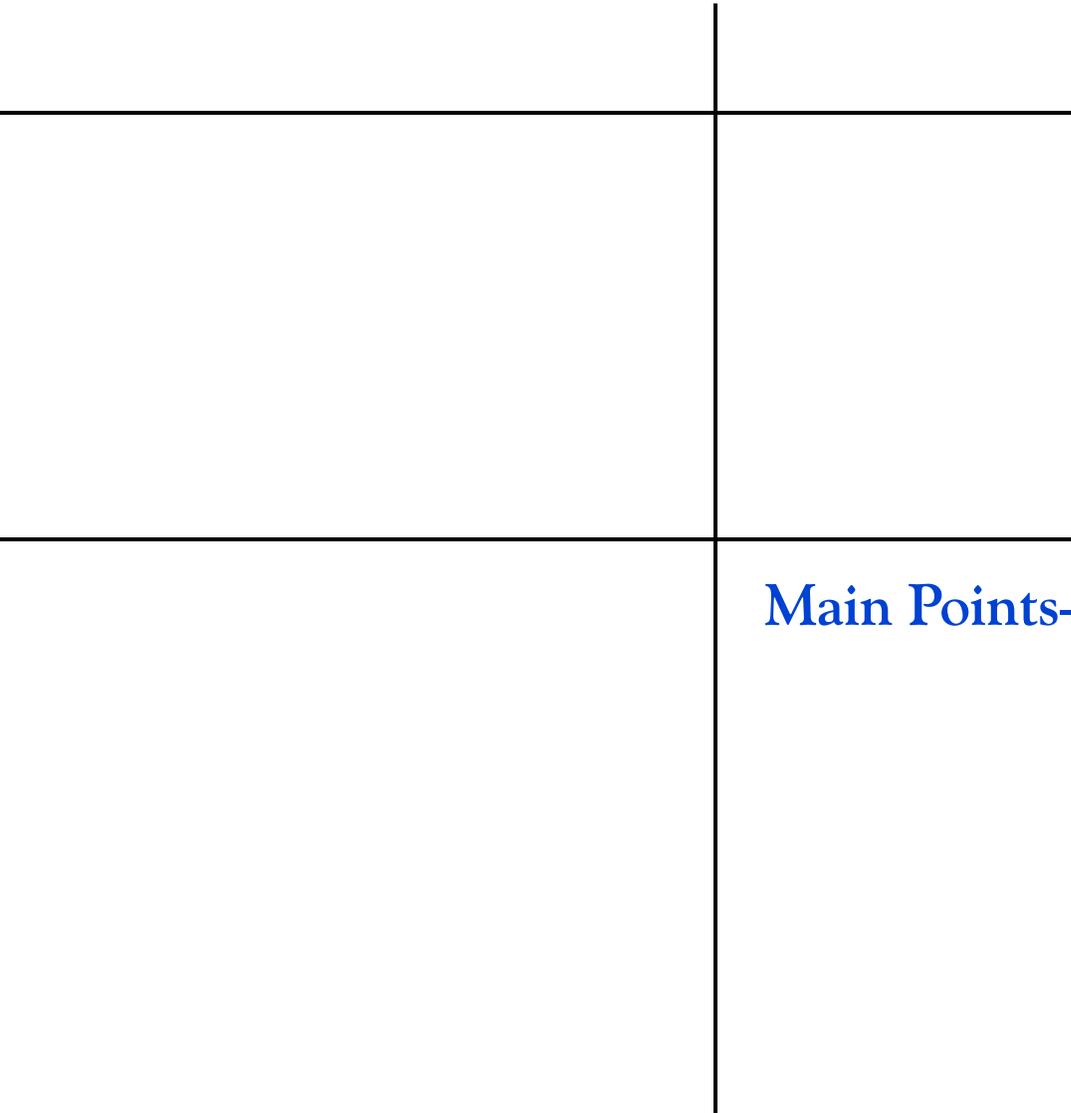
Our Office and the Office of the Privacy Commissioner of Canada carried out concurrent audits of four federal organizations with large databases of identity information. In our audit, we wanted to determine whether the organizations collect only identity information that is relevant to their program needs and use adequate practices to ensure the quality of the information. We also looked at the extent to

which the government has worked to address common problems while respecting privacy and other legal requirements.

Our report and the Privacy Commissioner's report will be tabled in Parliament in the coming weeks.

Conclusion

In closing, I would like to thank my staff for their dedication and professionalism. The range of subjects covered in our performance audit practice and our other audit work provides us with an appreciation of the diverse and complex issues that the government manages on behalf of Canadians. I hope members of Parliament will find this report useful in holding the government to account for its management of public funds.



Main Points—Chapters 1 to 8



A Study of Federal Transfers to Provinces and Territories

Chapter 1 Main Points

What we examined

The federal government uses a number of mechanisms to transfer funds to the provinces and territories for general areas of spending such as health or for specific purposes such as improving infrastructure. In 2006–07, these federal transfers amounted to approximately \$50 billion, or just under 23 percent of federal spending.

Our study examined the three main mechanisms used by the federal government to transfer funds to the provinces and territories. We also looked at the nature and extent of conditions attached to these transfers.

We undertook this study to inform parliamentarians about the federal government's transfers to the provinces and territories. Because this is a study and not an audit, it is descriptive, and does not include recommendations.

As auditors, we recognize that decisions on whether, and to what extent, conditions attached to transfers are policy decisions, often involving sensitive federal-provincial/territorial negotiations. We do not question these decisions.

We did not examine funding arrangements with First Nations, payments to foundations or municipal governments, or transfer payments to individual Canadians.

Why it's important

Federal transfers to the provinces and territories make up a significant portion of the federal government's annual spending. They are a major source of funds for services provided to Canadians in areas such as health, post-secondary education, and housing.

The nature and extent of conditions attached to federal transfers to the provinces and territories varies significantly. While some transfers have specific conditions that recipients must meet, others are unconditional and there is no requirement for a province or territory to report to the federal government on the use of the transferred funds. It is not always clear to parliamentarians which transfers have conditions attached and what the nature and extent of those conditions are.

What we found

- The federal government uses three main mechanisms to transfer funds to the provinces and territories. The first and largest includes four major transfers that recur annually by law and are managed by Finance Canada: the Canada Health Transfer, the Canada Social Transfer, Equalization Program transfers, and Territorial Formula Financing (just over \$42 billion transferred in the 2006–07 fiscal year). The second mechanism involves the transfer of funds by individual federal departments to support specific program areas (just over \$5 billion in 2006–07). Finally, the federal government also transfers funds to the provinces and territories using trusts (just over \$3 billion in 2006–07).
- According to the federal government, the extent of federal accountability for how the provinces and territories spend transferred funds depends on the nature and extent of conditions attached to the transfers. In all cases, the federal government is accountable to Parliament for its decision to use transfers with or without conditions as the best policy choice available in the circumstances.
- Some transfers involve conditions that, for example, obligate recipients to provide the federal government with information on how they spent the transferred funds and to what effect. The federal government must demonstrate that it is monitoring provincial and territorial compliance with these conditions and that it is taking action in cases of non-compliance. Where transfers have limited or no conditions, the provinces and territories have the flexibility to spend the funds according to their own priorities, with no legal obligation to account to the federal government for the spending.
- A significant addition to the transfer mechanisms used by the federal government was its introduction of trusts in 1999. Since then, 23 trusts have been established to transfer almost \$27 billion to the provinces and territories. In each case, the federal government has stated the intended purposes of the trusts in public announcements. Once the eligibility conditions for these trusts have been met, no additional legal conditions obligate provinces and territories to spend the funds for the purposes announced.
- Once the provinces and territories have established their eligibility to draw funds from the trust, they become accountable in principle to their own citizens, not to the federal government, for how they use the funds. In this sense, these trusts are similar to the four major transfers.
- Where transfers have conditions, how well the federal government monitors the conditions is subject to performance audits by our Office and our audit reports are provided to Parliament. For all transfers audited, we ensure that the amount paid is properly recorded in accordance with Public Sector Accounting Board standards.



Governance of Small Federal Entities

Chapter 2 Main Points

What we examined

The federal government includes a variety of organizations, from large departments and Crown corporations to small agencies, boards, and commissions that carry out a wide range of activities, from environmental assessment to transportation safety. While the government defines small entities in a number of ways, for this audit, we considered small entities to be federal organizations with fewer than 500 employees or annual approved expenditures of less than \$300 million.

We examined specific elements of the federal government's regime of governance for small entities—the arrangements by which central agencies of government oversee the management of these entities. We carried out audit work in three central agencies (the Privy Council Office, the Treasury Board of Canada Secretariat (TBS), and the Canada Public Service Agency); in three federal departments with a large number of small entities in their portfolios; and in six small entities including a range of types: quasi-judicial, regulatory, granting, and policy bodies. We did not examine the internal management or program delivery of individual small entities.

This was one in a series of audits of small entities reported by this Office; others have looked at management and control practices and at program delivery. A chapter in our 2009 Status Report will cover Governor in Council appointments to these organizations.

Why it's important

Despite their relatively small size, these organizations can have a significant impact on the health, safety, and quality of life of Canadians. As publicly funded bodies within the government, small entities need to ensure prudence, probity, and effective control over the spending of public funds. Some characteristics of small entities—notably appointment processes, independence, and limited capacity—make it more challenging for them than for much larger federal organizations to respond to the management, control, and reporting requirements of the government's central agencies. Good governance requires effective oversight of the organizations that the federal government controls.

What we found

- In the small entities we examined, some key elements of the governance regime are not working well. For example, there is a lack of practical guidance to departments and agencies on specifically how and in what circumstances portfolio coordination should be practised (a portfolio is a grouping of government entities under the responsibility of a minister). From the perspective of the small entities we audited, this has resulted in an ad hoc approach that depends largely on individuals—communication and interaction with the portfolio department has been inadequate. In addition, the TBS Management Accountability Framework (MAF) is intended as a tool for monitoring management effectiveness in departments and agencies, but better information is needed for TBS to adequately assess financial management and control in small entities. The recent creation of a central internal audit function for small entities is a positive step, potentially allowing for better monitoring by TBS.
- Central agency and statutory reporting requirements place a significant burden on the limited capacity of small entities. The small entities we audited noted the high number of reports required (over 100 each year), their complexity and labour-intensive nature, and doubts about the value added by many of the reports. Five years after the central agencies acknowledge their role with respect to the reporting burden, the actions they have taken have not substantively reduced it. At the time of our audit, the central agencies had initiated action plans and had just created a committee to address the reporting burden across government.
- Given their smaller size, many small entities lack the capacity to build, sustain, and improve internal services such as finance, human resources management, and information technology. Sharing services is a way to address these challenges. Since 2001, various TBS studies have recognized the problems faced by small entities, and the government committed itself to improvement through shared services. Yet little has been done. The Secretariat's proposed initiative for corporate administrative shared services (CASS) in government does not take into account the capacity of small entities and the business risks they face, nor does it include them in CASS over the next three to five years. Several small entities have taken the initiative to share services but, unless central agencies develop a governance framework, the parties could be facing serious risks. Further, the potential for learning and improvement will be limited.

The central agencies have responded. The Treasury Board of Canada Secretariat, the Privy Council Office, and the Canada Public Service Agency agree with all of our recommendations. Their detailed responses follow each recommendation throughout the chapter.



Contracting for Professional Services Public Works and Government Services Canada

Chapter 3 Main Points

What we examined

To help deliver its departmental programs, Public Works and Government Services Canada (PWGSC) uses the professional services of consultants such as accountants, lawyers, architects, engineers, specialists in data processing, and other technical and professional experts.

We examined two random samples—one of publicly tendered contracts and one of sole source contracts—to determine whether PWGSC's contract award process followed the government's contracting regulations and policies. From the Department's expenditure database we also examined a random sample of financial transactions related to contracts to determine whether they were managed appropriately after they were awarded—that is, whether they were administered in compliance with the *Financial Administration Act*, the terms and conditions of the contracts, and the Department's financial and contracting policies. In addition, we assessed whether PWGSC had adequate management controls and monitoring practices in place.

Our conclusions relate only to the management practices and actions of public servants. The rules and regulations we refer to apply to public servants and not to contractors. We did not audit the records of the private sector contractors. Consequently, our conclusions cannot and do not pertain to any practices that contractors followed or to their performance.

Why it's important

PWGSC spends more than \$1 billion annually on contracts for services to support the delivery of its own programs. Therefore, it is essential that officials at PWGSC protect the interests of the Crown by adhering to key principles of contracting that promote competition, fairness, and transparency. This requires sound processes with appropriate segregation of duties, monitored to ensure that they are followed consistently.

What we found

- PWGSC awarded contracts in a fair, open, and transparent manner and fully complied with the applicable acts, regulations, and policies in 95 percent of the publicly tendered contracts and 96 percent of the sole source contracts that we audited.
- In the administration of contracts after they were awarded, there was an administrative deficiency or weakness of some kind in 30 of the 37 transactions examined—that is, the Department’s management controls were not properly applied. Although no single type of problem was pervasive, the number of problems indicates that the controls are not enforced consistently. For example, in some cases, contracts were amended after they were awarded, significantly changing their nature and value; in some cases, the Department did not enforce terms and conditions of contracts.
- In several cases, the same departmental official who undertook the procurement for services also certified that the services were received. This is not consistent with the Treasury Board’s Policy on Delegation of Authorities, which requires that each of the tasks be carried out by separate individuals.
- The Department had extensive, long-term contractual arrangements with some consultants that could create an employer-employee relationship and a risk of liability to the government.
- In three cases, there was evidence indicating that the contractor who was awarded the contract had been involved in developing the search criteria or had written the statement of work for the contract. In one case, PWGSC used the services of a consultant to assist in developing the request for proposal, while at the same time the consultant was subcontracted with the firm that bid on and was awarded the contract. Each case represented a conflict of interest and a violation of the government’s policy that contracting be fair, open, and transparent.

The Department has responded. PWGSC agrees with all the recommendations and is taking action to address the concerns raised in the chapter. It says it is pleased that the audit found it had followed the rules in its contract award process and complied with the government’s rules when awarding contracts for services. The Department’s responses follow each recommendation throughout the chapter.



Managing Risks to Canada's Plant Resources

Canadian Food Inspection Agency

Chapter 4 Main Points

What we examined

The mandate of the Canadian Food Inspection Agency (CFIA) is to safeguard Canada's food supply, protect animals and plants, and support trade and commerce. One of its responsibilities is to regulate imports of plants and plant products. This includes developing import policies and standards, issuing import permits, approving shipments for release, and carrying out import inspections. In the 2006–07 fiscal year, CFIA spent \$65.2 million protecting Canada's crops and forests.

We examined whether the Agency adequately manages the risk that invasive alien plants, seeds, plant pests, and plant diseases could enter or become established in Canada. We looked at how the Agency sets and administers standards, conducts pest surveys and plant health risk assessments, and verifies that imports of plants and plant products meet Canadian requirements. Our audit focused on work done by CFIA staff at headquarters in Ottawa, at the three Import Service Centres (Vancouver, Toronto, and Montreal), and at inspection offices across the country.

Why it's important

Canada's plant resources are critical to the well-being of all Canadians. Invasive alien plants and plant pests can threaten biodiversity and the economy. Experts have concluded that invasive species are the second most serious threat to biodiversity after habitat loss. In their new habitat, invasive alien plants and plant pests may become new predators, competitors, parasites, or diseases and thus threaten domestic species and Canada's plant and plant product production. In 2005, this production was valued at approximately \$100 billion.

There is a general consensus that it costs less to deal with invasive plants, pests, and diseases before they become established. In protecting Canada's plant resources, CFIA must manage the risks associated with changing environmental conditions, the growing globalization of trade, and the increasing diversity of plants and plant products being imported into Canada—currently estimated at around 84,000 shipments a year.

What we found

- The Agency supports its efforts with two key science-based activities—plant health risk assessments and pest surveys. The Agency has difficulty delivering timely assessments; there is a growing backlog of requests for risk assessments—42 at the time of our audit, more than can normally be completed in a year. The yearly pest survey plans of the Plant Health Surveillance Unit are not risk-based and focus almost exclusively on existing invasive plants, pests, and diseases rather than identifying potential new threats before they become established plant health emergencies.
- CFIA's national inspection targets for plant imports are interpreted and applied inconsistently across the country. High-risk imported commodities, which are subject to 100 percent inspection, are sometimes released for distribution without being inspected. Of the 27 approved import application packages we selected where inspection had been necessary, 10 were released for distribution without being inspected; in 6 other cases there was no record of having received the transaction in the inspection office. We were told that inspection of plant imports competes with pest surveys and export certification for inspectors' time and that exports are a higher priority.
- Plant protection programs are not adequately supported by information management and technology, resulting in the need for thousands of faxes sent internally across the Agency each year and the loss of documents. Further, there is no system for tracking imports, and decisions to approve or reject import application packages are based on manual reconciliation of information from a variety of paper and computer sources. There is no systematic mechanism for inspection offices to provide the Agency's Plant Health Division with inspection results, so the Division does not know if the inspection standards it sets are followed and are targeting the right commodities and importers. We first identified the lack of supporting information management in a 1996 audit of the Federal Plant Health Program and there has been little progress since then.
- Overall, the Plant Health Program lacks quality management processes in import-related activities key to keeping invasive alien species from entering and becoming established in Canada. As a result, management has no systematic way of knowing if its procedures are adequately designed and operating effectively. This compromises the Agency's ability to ensure that only shipments representing a low risk of contravening Canada's import requirements are approved for entry into the country. Further, these and other risk-mitigation problems we identified in many key

import-related activities in the Plant Health Program cut across the Agency's three main branches—Science, Policy and Programs, and Operations.

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



Managing Information Technology Investments

Canada Revenue Agency

Chapter 5 Main Points

What we examined

The Canada Revenue Agency collects some \$346 billion in taxes annually on behalf of the Government of Canada, the provinces (except Quebec), the territories, and certain First Nations governments. Processing up to 3.0 million computer transactions per hour, the Agency maintains some of the largest databases in the government and spends about \$500 million annually on information technology (IT) systems, of which \$129 million is recovered from the Canada Border Services Agency. It is currently pursuing a complex set of strategies to transform its business, including increasing the interactive nature of its systems to improve both its own administration and its relations with taxpayers.

We examined whether its systems and practices provide the Agency with reasonable assurance that IT investments are well managed and consistent with its business objectives. We looked at the management framework for IT investments, including the processes for deciding which IT-enabled business projects to invest in and for monitoring progress to ensure that the investments continue to support the Agency's objectives. We examined eight projects to determine whether they had appropriate governance and accountability structures, a comprehensive business case, and adequate management of risk. We also looked at whether expected benefits from the projects were clearly defined, adequately tracked, and properly reported.

Why it's important

The Canada Revenue Agency's information technology systems are critical to its ability to administer taxes, benefits, and related programs and to ensure compliance with federal, provincial, and territorial tax laws. An organization as large and complex as the Agency needs to ensure that it invests in the right IT systems and applications and that its investments deliver the intended value. Its systems are also the main vehicle the Agency has for improving the efficiency and cost-effectiveness of its tax administration activities, and for improving client and taxpayer services.

What we found

- The Agency has made a number of changes in the past two years to significantly improve the management of its IT investments. Through self assessments and internal audits, it has identified needed enhancements. For example, it has implemented a strengthened process for approving and monitoring new project proposals, including a more rigorous project management framework. Since most large IT investments are long-term in nature, and some aspects of the Agency's policies and practices are quite recent, it is too early to evaluate how well the new policies and procedures are working.
- Most of the projects we audited did not follow the Agency's own established project management guidance. Furthermore, in six of the eight projects we examined in detail, we found serious project management problems including business cases missing key elements, significant time delays, and in one case, an end product that was not accepted by the intended user. The Agency believes that its new project management framework will address many of the shortcomings we identified, but it needs to verify this by carrying out future reviews.
- There are still some gaps in the governance of IT investments that need to be addressed. While the Agency recently implemented an improved framework for selecting and managing individual IT projects, it has not enhanced to the same degree its ability to manage its IT investments as a portfolio. Better portfolio management processes and information would help the Agency ensure that its investments are appropriately balanced between those that, for example, renew aging systems, improve compliance efforts, or improve client service. Better information would also help it to determine whether the overall risk of its IT investments is acceptable and whether the initiatives outlined in the Agency's IT investment strategy have been achieved.

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



Use of New Human Resources Authorities

Canada Revenue Agency

Chapter 6 Main Points

What we examined

In 1998, the government identified human resources management (HRM) at the Department of National Revenue as an area requiring significant change. In creating the Canada Customs and Revenue Agency (which later became the Canada Revenue Agency), Parliament empowered the Agency to design and develop its own tailor-made framework and systems to manage human resources. In particular, as a separate agency under the *Public Service Staff Relations Act* (which became the *Public Service Labour Relations Act* in 2003), the Agency took over the “employer” responsibilities from the Treasury Board and staffing authorities from the Public Service Commission of Canada. The Agency’s direct responsibilities for human resources were extended to staffing, classification, compensation, labour relations, collective bargaining, training, and human resources policy development. The key objective was to help make the Agency’s HRM regime more efficient, effective, and responsive to its business needs.

We examined the Agency’s use of its new human resources authorities in the areas of staffing, classification, compensation, and labour relations. We also examined whether the Agency can demonstrate that its management of human resources is more efficient and that it is effective and responsive to the Agency’s business needs.

Why it’s important

The Canada Revenue Agency depends heavily on having a qualified workforce to deliver its tax administration mandate and protect Canada’s tax base. It spends close to \$2.8 billion annually for its workforce of some 43,000 employees—a significant portion of its operating costs. The Agency has said that this workforce must be supported by a responsive human resources management regime that is based on principles and values. One of the government’s goals in creating the Agency was to make it a more efficient and effective organization. It highlighted human resources management as one key area in need of significant change.

What we found

- The Agency faced significant challenges in developing and implementing initiatives to use its new human resources authorities. It is a large, decentralized organization with a long history and a unique culture. It also had no public sector models to follow for some of its initiatives. Having set an ambitious agenda, it has worked to implement that agenda.
- The Agency has used the human resources authorities and flexibility it was granted by Parliament in 1999 to create a human resources management regime that is designed to respond to its specific business needs. For example, it has defined the competencies required to do almost all of its jobs and has updated many work descriptions; it has created distinct occupational groups and implemented three of them successfully; and it has made changes to employee compensation through collective bargaining to be more competitive. Further, it has introduced initiatives to improve labour relations, and union and management representatives told us that those relations are generally harmonious and better than they were in 1999.
- The Agency has had great difficulty implementing a critical part of its new staffing process. The process calls for an objective assessment of employees' competencies when filling vacancies. Due to the size of the workforce and to poor project management in the early years, these assessments are taking a lot longer than anticipated. As a result, the process has not yet resulted in faster staffing actions, one of its main goals. An efficient staffing process is critical in light of the recruitment challenges the Agency expects to face in the coming years. In addition, employees indicated that the process is confusing and frustrating, in part due to the many changes that have been and continue to be made.
- During the development of the initiatives to implement its human resources authorities, the Agency did not determine how it would measure their success. While its recent annual reports indicate that the Agency continues to meet most of its operational objectives, it has difficulty linking that result to the use of its new human resources authorities.

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



Economy and Efficiency of Services

Correctional Service Canada

Chapter 7 Main Points

What we examined

Correctional Service Canada (CSC) is responsible for criminal offenders sentenced by the courts to two years or more in prison. It provides custody and care to 14,500 inmates in 58 federal institutions and 16 community correctional centres. It also supervises offenders after release, through 71 parole offices.

We examined whether CSC management ensures that goods and services for its institutions are procured, managed, and delivered with sufficient attention to economy and efficiency. Specifically, we focused on whether food, clothing, and cleaning products of the desired quality are obtained at the lowest available cost and whether related services are delivered efficiently. We also looked at security services, in particular at whether CSC is efficient in the deployment of correctional officers among institutions, including the use of overtime.

Why it's important

Correctional Service Canada has an obligation to ensure the safety and security of the Canadian public as well as its inmates and staff by preventing inmate escapes as well as violent incidents in its institutions. In addition, it has significant financial responsibilities. It spends about one third of its budget—about \$642 million—on security and food, clothing, and cleaning services. Savings that are achieved through better management of costs can be reinvested in areas that Correctional Service has identified as priorities. At the same time, in its 2007–08 *Report on Plans and Priorities*, CSC said it had exhausted its ability to reallocate existing resources in order to meet its challenges.

What we found

- Correctional Service Canada does not manage its purchasing of food, clothing, and cleaning products in a way to obtain best value at the lowest available cost. Its purchasing processes are behind those of other industries that purchase similar goods in similar volumes. Quantities of food and cleaning products needed for the 58 institutions are not analyzed at the national level; instead, institutions determine the quantities of food and cleaning products they need and carry out much of their own purchasing. This means the Agency is missing opportunities for savings available through higher-volume purchasing. In addition, CSC has not analyzed either

the overall cost of preparing food inside the institutions or whether there are more economical alternatives. While it manages most clothing purchases at the national level, a substantial percentage of purchases are still made locally by institutions.

- Correctional Service Canada is developing a model for a more consistent approach to allocating correctional officers among institutions, by introducing national standards for deployment. The model is based on the estimated minimum number of officers required to maintain a safe and orderly medium security institution. However, this model has not yet been adapted to fit each institution, nor has its potential impact on the need for overtime been assessed.
- Overtime costs have continued to increase in the last six years, significantly exceeding the amount budgeted. At the same time, spending on rehabilitation programs, training, and building maintenance has been less than the budgeted amounts. We were told that some key factors in the use of overtime by officers are unscheduled leave or training, the need to cover duties of vacant or unstaffed positions, the need to escort inmates to hospitals and courts, and the need to keep certain criminal groups away from each other. While we recognize that some overtime is necessary to deliver security services, we found no overall strategy or policy designed to control the use of overtime, and little analysis of the impact of overtime on salary expenses and programs and of whether using overtime is more economical than hiring additional personnel.
- In examining the increased use of overtime, we noted that, in some cases, employees' leave records are not updated consistently to reflect actual leave taken. In the month tested, as many as one third of absences in some institutions were not recorded in the human resources management system. Unrecorded leave allows for the same employee to take additional leave later; overtime is likely to be incurred each time that employee takes unscheduled leave.
- CSC focuses much of its effort on safety and security over economy and efficiency. We found little direction from national headquarters to institutions on how to manage their operations more economically and efficiently. The mandates of senior management committees refer to setting strategic direction and corporate policy and to providing advice, but none of them refers to responsibilities for economy and efficiency, such as establishing expectations, monitoring results, and taking corrective action. None of the performance information currently tracked looks at economy or efficiency of operations. Further, the requirement to manage economically and efficiently is not

included in senior management performance agreements, so there is little incentive for them to do so.

The Agency has responded. The Agency agrees with our recommendations and has committed to implementing corrective action. In some cases, this action has already begun. Its detailed responses follow each recommendation throughout the chapter.



Reporting on Health Indicators

Health Canada

Chapter 8 Main Points

What we examined

In 2000, the Government of Canada and provincial and territorial governments reached an historic agreement on health that set out a vision, principles, and an action plan for health system renewal. The First Ministers' commitments on health also called for improvements in accountability and reporting to Canadians and directed federal, provincial, and territorial health ministers to develop indicators that could be compared across jurisdictions and over time to measure progress on renewal. All jurisdictions later committed to public reporting every two years on a number of health indicators—for example, wait times and patient satisfaction with health services. First Ministers' agreements in 2003 and 2004 further reiterated reporting requirements.

Every two years, Health Canada produces the federal report on comparable health indicators, *Healthy Canadians: A Federal Report on Comparable Health Indicators*, as its response to the federal commitments to health indicator reporting made in the agreements. The report provides selected information on the general Canadian population and on population groups for which the federal government provides health services, such as military personnel and First Nations and Inuit populations. We examined to what extent the Department's reporting on health indicators met the commitments made in the First Ministers' health agreements. We also looked at whether its reporting has improved over time.

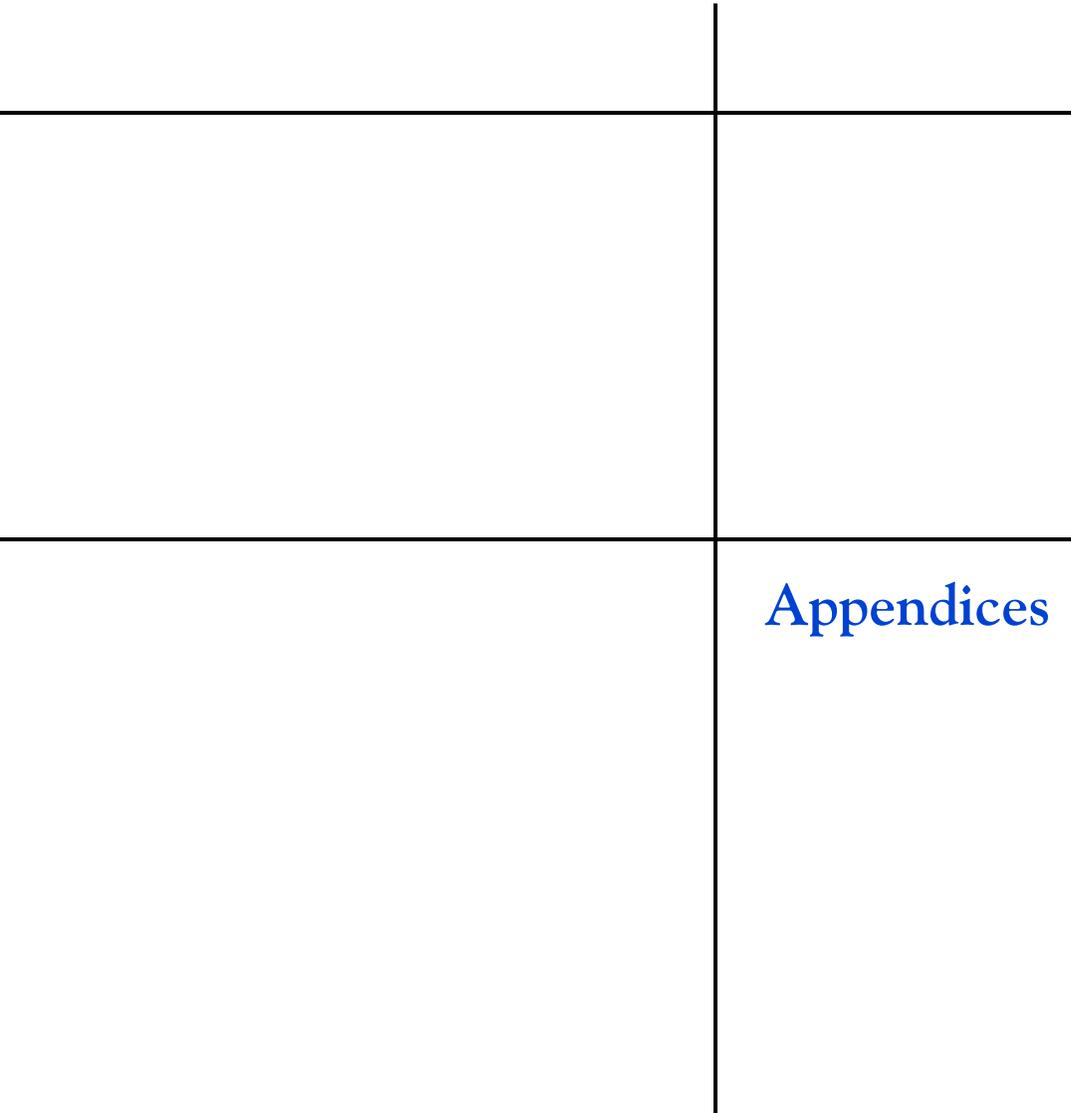
Why it's important

The three federal-provincial-territorial agreements represented an attempt by governments to promote renewal of the health care system. The agreements were accompanied by significant increases in federal transfers of funds to provinces and territories. The First Ministers also committed to improve public reporting to Canadians on the progress of health care renewal. The health indicators reports are an important vehicle for enhancing transparency and accountability. Public reporting by governments promotes accountability in a number of ways—for example, by allowing Canadians to see the extent to which governments are attaining their objectives and goals and assisting individuals, governments, and health care providers to make more informed choices.

What we found

- Health Canada met the specific health indicator reporting obligations that the agreements required of it—including identifying common indicators for reporting with its provincial and territorial counterparts. It has produced a health indicators report every two years.
- The *Healthy Canadians* reports do not fulfill the broader intent of the agreements—to provide the information Canadians need on the progress of health care renewal. The reports provide indicators, such as wait times for diagnostic services, without providing sufficient information to help readers interpret them. There is no discussion of what the indicators say about progress in health renewal. Without interpretation, their ability to inform Canadians is limited.
- Health Canada did not improve its reporting of health indicators in successive reports. The presentation of the information in all three editions of the report was essentially the same, with some modest improvements—despite the fact that Health Canada had received feedback through consultations with Canadians, indicating that their information needs were not being met through the reports.

The Department has responded. The Department agrees with our recommendations. Its detailed responses follow each recommendation throughout the Chapter.



Appendices

Appendix A Auditor General Act

	Short Title
Short title	1. This Act may be cited as the <i>Auditor General Act</i> .
	Interpretation
Definitions	2. In this Act,
“appropriate Minister”	“appropriate Minister” has the meaning assigned by section 2 of the <i>Financial Administration Act</i> ;
“Auditor General”	“Auditor General” means the Auditor General of Canada appointed pursuant to subsection 3(1);
“category I department”	“category I department” means <ol style="list-style-type: none"> (a) any department named in schedule I to the <i>Financial Administration Act</i>, (b) any department in respect of which a direction has been made under subsection 11(3) of the <i>Federal Sustainable Development Act</i>; and (c) any agency set out in the schedule to the <i>Federal Sustainable Development Act</i>.
“Commissioner”	“Commissioner” means the Commissioner of the Environment and Sustainable Development appointed under subsection 15.1(1);
“Crown corporation”	“Crown corporation” has the meaning assigned to that expression by section 83 of the <i>Financial Administration Act</i> ;
“department”	“department” has the meaning assigned to that term by section 2 of the <i>Financial Administration Act</i> ;
“funding agreement”	“funding agreement” has the meaning given to that expression by subsection 42(4) of the <i>Financial Administration Act</i> ;
“recipient”	“recipient” has the meaning given to that expression by subsection 42(4) of the <i>Financial Administration Act</i> ;
“registrar”	“registrar” means the Bank of Canada and a registrar appointed under Part IV of the <i>Financial Administration Act</i> ;

“sustainable development”	“sustainable development” means development that meets the needs of the present without compromising the ability of future generations to meet their own needs;
Control	<p>2.1 (1) For the purpose of paragraph (d) of the definition “recipient” in subsection 42(4) of the <i>Financial Administration Act</i>, a municipality or government controls a corporation with share capital if</p> <p style="padding-left: 40px;">(a) shares of the corporation to which are attached more than fifty per cent of the votes that may be cast to elect directors of the corporation are held, otherwise than by way of security only, by, on behalf of or in trust for that municipality or government; and</p> <p style="padding-left: 40px;">(b) the votes attached to those shares are sufficient, if exercised, to elect a majority of the directors of the corporation.</p>
Control	<p>(2) For the purpose of paragraph (d) of the definition “recipient” in subsection 42(4) of the <i>Financial Administration Act</i>, a corporation without share capital is controlled by a municipality or government if it is able to appoint the majority of the directors of the corporation, whether or not it does so.</p>
Auditor General of Canada	
Appointment	<p>3. (1) The Governor in Council shall, by commission under the Great Seal, appoint an Auditor General of Canada after consultation with the leader of every recognized party in the Senate and House of Commons and approval of the appointment by resolution of the Senate and House of Commons.</p>
Tenure	<p>(1.1) The Auditor General holds office during good behaviour for a term of 10 years but may be removed for cause by the Governor in Council on address of the Senate and House of Commons.</p>
Ceasing to hold office	<p>(2) Despite subsections (1) and (1.1), the Auditor General ceases to hold office on reaching 65 years of age.</p>
Re-appointment	<p>(3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office.</p>
Interim appointment	<p>(4) In the event of the absence or incapacity of the Auditor General or if that office is vacant, the Governor in Council may appoint any qualified auditor to hold that office in the interim for a term not exceeding six months, and that person shall, while holding office, be paid the salary or other remuneration and expenses that may be fixed by the Governor in Council.</p>

- Salary** 4. (1) The Auditor General shall be paid a salary equal to the salary of a puisne judge of the Supreme Court of Canada.
- Pension benefits** (2) The provisions of the *Public Service Superannuation Act*, other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the public service may, by notice in writing given to the President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the *Diplomatic Service (Special) Superannuation Act* in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the *Public Service Superannuation Act* do not apply to him.
- Powers and Duties**
- Examination** 5. The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act.
- Idem** 6. The Auditor General shall examine the several financial statements required by section 64 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.
- Annual and additional reports to the House of Commons** 7. (1) The Auditor General shall report annually to the House of Commons and may make, in addition to any special report made under subsection 8(1) or 19(2) and the Commissioner's report under subsection 23(2), not more than three additional reports in any year to the House of Commons
- (a) on the work of his office; and,
 - (b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Idem

(2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that

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

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

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

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

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

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

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

Inquiry and report	<p>7.1 (1) The Auditor General may, with respect to a recipient under any funding agreement, inquire into whether</p> <ul style="list-style-type: none"> (a) the recipient has failed to fulfil its obligations under any funding agreement; (b) money the recipient has received under any funding agreement has been used without due regard to economy and efficiency; (c) the recipient has failed to establish satisfactory procedures to measure and report on the effectiveness of its activities in relation to the objectives for which it received funding under any funding agreement; (d) the recipient has failed to faithfully and properly maintain accounts and essential records in relation to any amount it has received under any funding agreement; or (e) money the recipient has received under any funding agreement has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development.
Report	<p>(2) The Auditor General may set out his or her conclusions in respect of an inquiry into any matter referred to in subsection (1) in the annual report, or in any of the three additional reports, referred to in subsection 7(1). The Auditor General may also set out in that report anything emerging from the inquiry that he or she considers to be of significance and of a nature that should be brought to the attention of the House of Commons.</p>
Special report to the House of Commons	<p>8. (1) The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in the opinion of the Auditor General, should not be deferred until the presentation of the next report under subsection 7(1).</p>
Submission of reports to Speaker and tabling in the House of Commons	<p>(2) Each special report of the Auditor General to the House of Commons made under subsection (1) or 19(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.</p>

Idem	<p>9. The Auditor General shall</p> <p>(a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require, and</p> <p>(b) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the <i>Financial Administration Act</i>,</p> <p>and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities.</p>
Improper retention of public money	<p>10. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board.</p>
Inquiry and report	<p>11. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought.</p>
Advisory powers	<p>12. The Auditor General may advise appropriate officers and employees in the federal public administration of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board.</p> <p>Access to Information</p>
Access to information	<p>13. (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his or her responsibilities and he or she is also entitled to require and receive from members of the federal public administration such information, reports and explanations as he or she considers necessary for that purpose.</p>
Stationing of officers in departments	<p>(2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.</p>

Oath of secrecy	(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.
Inquiries	(4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the <i>Inquiries Act</i> .
Reliance on audit reports of Crown corporations	14. (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.
Auditor General may request information	(2) The Auditor General may request a Crown corporation to obtain and furnish him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.
Direction of the Governor in Council	(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada.
Staff of the Auditor General	
Officers, etc.	15. (1) The officers and employees that are necessary to enable the Auditor General to perform his or her duties are to be appointed in accordance with the <i>Public Service Employment Act</i> and, subject to subsections (2) to (5), the provisions of that Act apply to those officers and employees.
Public Service Employment Act—employer and deputy head	(2) The Auditor General may exercise the powers and perform the functions of the employer and deputy head under the <i>Public Service Employment Act</i> within the meaning of those terms in subsection 2(1) of that Act.

Public Service Employment Act —Commission	(3) The Auditor General may, in the manner and subject to the terms and conditions that the Public Service Commission directs, exercise the powers and perform the functions of that Commission under the <i>Public Service Employment Act</i> , other than its powers and functions in relation to the hearing of allegations by a candidate under sections 118 and 119 of that Act and its power to make regulations.
Delegation	(4) The Auditor General may authorize any person employed in his or her office to exercise and perform, in any manner and subject to any terms and conditions that he or she directs, any of his or her powers and functions under subsections (2) and (3).
Sub-delegation	(5) Any person authorized under subsection (4) may, subject to and in accordance with the authorization, authorize one or more persons under that person's jurisdiction to exercise any power or perform any function to which the authorization relates.
Appointment of Commissioner	15.1 (1) The Auditor General shall, in accordance with the <i>Public Service Employment Act</i> , appoint a senior officer to be called the Commissioner of the Environment and Sustainable Development who shall report directly to the Auditor General.
Commissioner's duties	(2) The Commissioner shall assist the Auditor General in performing the duties of the Auditor General set out in this Act that relate to the environment and sustainable development.
Responsibility for human resources management	16. The Auditor General is authorized, in respect of persons appointed in his or her office, to exercise the powers and perform the functions of the Treasury Board that relate to human resources management within the meaning of paragraph 7(1)(e) and section 11.1 of the <i>Financial Administration Act</i> , as well as those of deputy heads under subsection 12(2) of that Act, as that subsection reads without regard to any terms and conditions that the Governor in Council may direct, including the determination of terms and conditions of employment and the responsibility for employer and employee relations.
Delegation	16.1 (1) The Auditor General may authorize any person employed in his or her office to exercise and perform, in any manner and subject to any terms and conditions that he or she directs, any of his or her powers and functions in relation to human resources management.
Sub-delegation	(2) Any person authorized under subsection (1) may, subject to and in accordance with the authorization, authorize one or more persons under that person's jurisdiction to exercise any power or perform any function to which the authorization relates.

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

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

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

Immunities

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

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

Defamation (2) For the purposes of any law relating to defamation,

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

Estimates

- Estimates** 19. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.
- Special report** (2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office.
- Appropriation allotments** 20. The provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General.

Audit of the Office of the Auditor General

- Audit of the office of the Auditor General** 21. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons.
- Submission of reports and tabling** (2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting.

Sustainable Development

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

- (g) preventing pollution; and
- (h) respect for nature and the needs of future generations.
- Petitions received** 22. (1) Where the Auditor General receives a petition in writing from a resident of Canada about an environmental matter in the context of sustainable development that is the responsibility of a category I department, the Auditor General shall make a record of the petition and forward the petition within fifteen days after the day on which it is received to the appropriate Minister for the department.
- Acknowledgement to be sent** (2) Within fifteen days after the day on which the Minister receives the petition from the Auditor General, the Minister shall send to the person who made the petition an acknowledgement of receipt of the petition and shall send a copy of the acknowledgement to the Auditor General.
- Minister to respond** (3) The Minister shall consider the petition and send to the person who made it a reply that responds to it, and shall send a copy of the reply to the Auditor General, within
- (a) one hundred and twenty days after the day on which the Minister receives the petition from the Auditor General; or
- (b) any longer time, where the Minister personally, within those one hundred and twenty days, notifies the person who made the petition that it is not possible to reply within those one hundred and twenty days and sends a copy of that notification to the Auditor General.
- Multiple petitioners** (4) Where the petition is from more than one person, it is sufficient for the Minister to send the acknowledgement and reply, and the notification, if any, to one or more of the petitioners rather than to all of them.
- Duty to monitor** 23. (1) The Commissioner shall make any examinations and inquiries that the Commissioner considers necessary in order to monitor
- (a) the extent to which category I departments have contributed to meeting the targets set out in the Federal Sustainable Development Strategy and have met the objectives, and implemented the plans, set out in their own sustainable development strategies laid before the House of Commons under section 11 of the *Federal Sustainable Development Act*; and
- (b) the replies by Ministers required by subsection 22(3).

- Commissioner's report** (2) The Commissioner shall, on behalf of the Auditor General, report annually to the House of Commons concerning anything that the Commissioner considers should be brought to the attention of that House in relation to environmental and other aspects of sustainable development, including
- (a) the extent to which category I departments have contributed to meeting the targets set out in the Federal Sustainable Development Strategy and have met the objectives, and implemented the plans, set out in their own sustainable development strategies laid before that House under section 11 of the *Federal Sustainable Development Act*;
 - (b) the number of petitions recorded as required by subsection 22(1), the subject-matter of the petitions and their status; and
 - (c) the exercising of the authority of the Governor in Council under subsections 11(3) and (4) of the *Federal Sustainable Development Act*.
- Duty to examine** (3) The Commissioner shall examine the report required under subsection 7(2) of the *Federal Sustainable Development Act* in order to assess the fairness of the information contained in the report with respect to the progress of the federal government in implementing the Federal Sustainable Development Strategy and meeting its targets.
- Duty to report** (4) The Commissioner shall include in the report referred to in subsection (2) the results of any assessment conducted under subsection (3) since the last report was laid before the House of Commons under subsection (5).
- Submission and tabling of report** (5) The report required by subsection (2) shall be submitted to the Speaker of the House of Commons and shall be laid before that House by the Speaker on any of the next 15 days on which that House is sitting after the Speaker receives it.

Appendix B Reports of the Standing Committee on Public Accounts to the House of Commons, 2007–08

The following reports have been tabled since our October 2007 Report went to print. They are available on the website of Canada's Parliament (www.parl.gc.ca).

39th Parliament, 2nd Session

Report 1—Motion of commendation (Adopted by the Committee on 20 November 2007; presented to the House on 21 November 2007)

Report 2—Chapter 9, Pension and Insurance Administration—Royal Canadian Mounted Police, of the November 2006 Report of the Auditor General of Canada (Adopted by the Committee on 6 December 2007; presented to the House on 10 December 2007)

Report 3—Pursuant to the motion of the Committee of 22 November 2007—consideration of Barbara George's previous testimony (Adopted by the Committee on 7 February 2008; presented to the House on 12 February 2008)

Report 4—Chapter 1, Expenditure Management System at the Government Centre, and Chapter 2, Expenditure Management System in Departments, of the November 2006 Report of the Auditor General of Canada (Adopted by the Committee on 12 February 2008; presented to the House on 25 February 2008)

Report 5—Chapter 11, Protection of Public Assets—Office of the Correctional Investigator, of the November 2006 Report of the Auditor General of Canada (Adopted by the Committee on 12 February 2008; presented to the House on 25 February 2008)

Report 6—Departmental answers to questions about government responses (39th Parliament) (Adopted by the Committee on 14 February 2008; presented to the House on 25 February 2008)

Report 7—Chapter 3, Large Information Technology Projects, of the November 2006 Report of the Auditor General of Canada (Adopted by the Committee on 14 February 2008; presented to the House on 25 February 2008)

Report 8—Departmental Performance Report of the Office of the Auditor General (Adopted by the Committee on 14 February 2008; presented to the House on February 25, 2008)

Report 9—Chapter 5, Passports Services—Passport Canada, of the February 2007 Status Report of the Auditor General of Canada (Adopted by the Committee on 28 February 2008; presented to the House on 5 March 2008)

Report 10—Chapter 7, Management of Forensic Laboratory Services—Royal Canadian Mounted Police, of the May 2007 Report of the Auditor General of Canada (Adopted by the Committee on 28 February 2008; presented to the House on 5 March 2008)

Report 11—Public Accounts of Canada 2007 (Adopted by the Committee on 28 February 2008; presented to the House on 5 March 2008)

Report 12—Chapter 4, Military Health Care—National Defence, of the October 2007 Report of the Auditor General of Canada (Adopted by the Committee on 17 April 2008; presented to the House on 28 April 2008)

Report 13—Chapter 4, Managing the Coast Guard Fleet and Marine Navigational Services—Fisheries and Oceans Canada, of the February 2007 Status Report of the Auditor General of Canada (Adopted by the Committee on 17 April 2008; presented to the House on 28 April 2008)

Report 14—Main Estimates 2008–2009: Vote 15 under Finance, and Part III—Report on Plans and Priorities and Departmental Performance Report of the Office of Auditor General of Canada (Adopted by the Committee on 29 April 2008; presented to the House on 30 April 2008)

Report 15—Chapter 5, Keeping the Border Open and Secure—Canada Border Services Agency, of the October 2007 Report of the Auditor General of Canada (Adopted by the Committee on 27 May 2008; presented to the House on 27 May 2008)

Report 16—Chapter 3, Inuvialuit Final Agreement, of the October 2007 Report of the Auditor General of Canada (Adopted by the Committee on 29 May 2008; presented to the House on 9 June 2008)

Report 17—Chapter 5, Managing the Delivery of Legal Services to Government—Department of Justice Canada, of the May 2007 Report of the Auditor General of Canada (Adopted by the Committee on 29 May 2008; presented to the House on 9 June 2008)

Report 18—Chapter 4, Canadian Agricultural Income Stabilization—Agriculture and Agri-Food Canada, of the May 2007 Report of the Auditor General of Canada (Adopted by the Committee on 10 June 2008; presented to the House on 16 June 2008)

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

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

Section 152 of the *Financial Administration Act* (the Act) requires the President of the Treasury Board to lay before each House of Parliament a report on the timing of the tabling, by appropriate ministers, of annual reports and summaries of corporate plans and of budgets of Crown corporations. This report of the President of the Treasury Board is included in the *2008 Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada*, which must be tabled by 31 December.

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

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

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

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

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

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

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

In the 2007–08 fiscal year, the Office completed the special examination of eight Crown corporations. The costs incurred are included in the following table:

Atlantic Pilotage Authority	\$327,319
Atomic Energy of Canada Limited	\$1,033,677
Blue Water Bridge Authority	\$583,653
Cape Breton Development Corporation	\$406,977
Farm Credit Canada	\$829,467
Great Lakes Pilotage Authority	\$438,980
International Development Research Centre	\$967,738*
National Capital Commission	\$953,082

*Preliminary costs subject to year-end adjustments

Exhibit D.1 Cost of preparing annual audit reports for fiscal years ending on or before 31 March 2008

Crown corporation	Fiscal year ended	Cost
Atlantic Pilotage Authority	31.12.07	\$98,674
Atomic Energy of Canada Limited (joint auditor)	31.03.08	371,887*
Blue Water Bridge Authority	31.08.07	123,502
Business Development Bank of Canada (joint auditor)	31.03.08	416,920*
Canada Council for the Arts	31.03.08	151,461*
Canada Deposit Insurance Corporation	31.03.08	141,027*
Canada Development Investment Corporation (joint auditor)	31.12.07	114,658*
Canada Lands Company Limited (joint auditor)	31.03.08	245,038*
Canada Mortgage and Housing Corporation (joint auditor)	31.12.07	599,013*
Canada Post Corporation (joint auditor)	31.12.07	689,530*
Canadian Race Relations Foundation	31.03.08	108,428*
Canadian Air Transport Security Authority	31.03.08	498,214*
Canadian Broadcasting Corporation	31.03.08	854,899*
Canadian Commercial Corporation	31.03.08	184,492*
Canadian Dairy Commission	31.07.07	155,893
Canadian Museum of Civilization	31.03.08	169,124*
Canadian Museum of Nature	31.03.08	102,219*
Canadian Tourism Commission	31.12.07	300,795*
Cape Breton Development Corporation	31.03.08	120,612*
Cape Breton Growth Fund Corporation	31.03.08	33,872*
Defence Construction (1951) Limited	31.03.08	55,363*
Enterprise Cape Breton Corporation	31.03.08	139,073*
Export Development Canada	31.12.07	1,052,007*
Farm Credit Canada	31.03.08	805,143*
Federal Bridge Corporation Limited, The	31.03.08	109,884*
Freshwater Fish Marketing Corporation	30.04.07	233,167
Great Lakes Pilotage Authority	31.12.07	105,018*
International Development Research Centre	31.03.08	167,294*
Jacques Cartier and Champlain Bridges Incorporated, The	31.03.08	61,936*
Laurentian Pilotage Authority	31.12.07	121,174*
Marine Atlantic Inc.	31.03.08	196,857*
National Arts Centre Corporation	31.08.07	198,753
National Capital Commission	31.03.08	270,363*
National Gallery of Canada	31.03.08	87,658*
National Museum of Science and Technology	31.03.08	112,918*
Old Port of Montréal Corporation Inc.	31.03.08	147,544*
Pacific Pilotage Authority	31.12.07	75,359*
Parc Downsview Park Inc.	31.03.08	131,499*
Public Sector Pension Investment Board	31.03.08	494,741*
Ridley Terminals Inc.	31.12.07	99,584*

Exhibit D.1 Cost of preparing annual audit reports for fiscal years ending on or before 31 March 2008 (continued)

Crown corporation	Fiscal year ended	Cost
Royal Canadian Mint	31.12.07	594,595*
Seaway International Bridge Corporation Ltd., The	31.03.08	79,546*
Standards Council of Canada	31.03.08	76,490*
Telefilm Canada	31.03.08	138,545*
VIA Rail Canada Inc. (joint auditor)	31.12.07	754,932*

* Preliminary costs subject to year-end adjustments

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