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

NOVEMBER

Chapter 8
Other Audit Observations
Appendices



Office of the Auditor General of Canada

The November 2005 Report of the Auditor General of Canada comprises Matters of Special Importance—2005, Main Points—Chapters 1 to 8, eight chapters, and appendices. The main table of contents is found at the end of this publication.

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For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
240 Sparks Street, Stop 10-1
Ottawa, Ontario
K1A 0G6

Telephone: (613) 952-0213, ext. 5000, or 1-888-761-5953
Fax: (613) 943-5485
E-mail: distribution@oag-bvg.gc.ca

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Chapter

8

Other Audit Observations

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.



Other Audit Observations

Main Points

What we examined

Each year we audit the financial statements of the Government of Canada, most Crown corporations, and other organizations. Other Audit Observations discusses specific matters that have come to our attention in the course of that work or our performance audit work. This chapter includes four such observations, involving the Canadian International Development Agency (CIDA), Transport Canada, Parc Downsview Park Inc., and the *Employment Insurance Act*.

Because these observations deal with specific matters, they should not be applied to other related issues or used as a basis for drawing conclusions about matters we have not examined.

Why it's important

We may report a specific observation for any of several reasons. Generally, the issue is timely and signals the possibility of a larger systemic matter. It may involve a significant amount of public money, and it may raise a question of compliance with laws or regulations. Whatever the reason, each observation in this chapter concerns a matter that we think warrants Parliament's attention in the current Report.

What we found

- **CIDA—Tsunami disaster relief.** In the middle of the tsunami disaster in Southeast Asia, the Agency provided emergency relief and also successfully launched a matching-funds program. It has generally managed its grant agreements well and has established a satisfactory accountability framework for this five-year program. The Agency was unable to spend all its initial tsunami funds before the financial year end and spent about \$69 million of the funds on other activities. It plans to redirect the same amount from its regular 2005–06 budget back to tsunami relief. Credible and candid reporting of the results of its tsunami aid activities will be important in the future.
- **Transport Canada—The Quebec Bridge.** In 1993, Transport Canada signed an agreement with the Canadian National Railway Company (CN), transferring the Quebec Bridge to CN (a Crown corporation at that time). In 1997 Transport Canada, CN, and the

Government of Quebec signed a \$60 million agreement for the restoration of the bridge over 10 years. Today, the restoration of this important regional transportation infrastructure, a national historic site, is only partly completed. It will not be completed within the timeline and budget established in the agreement. Major issues remain regarding the financing of the rest of the restoration work in the years to come. Transport Canada needs to act to ensure the long-term viability of the Quebec Bridge.

- **Parc Downsview Park Inc.—The transfer of Downsview lands and financing of future operations.** The government has prepared the way to obtain Parliament’s approval for the transfer of 227.65 hectares of Downsview lands to Parc Downsview Park Inc. The government has also authorized that the lands then be used to generate revenue that will finance the creation of an urban recreational green space. If implemented, these decisions will resolve matters we have previously reported to Parliament.
- **The *Employment Insurance Act*—A new rate-setting process.** For the past six years we have raised concerns about compliance with the intent of the *Employment Insurance Act*—specifically, the process for setting Employment Insurance (EI) premium rates and its impact on the size and growth of the accumulated surplus in the EI Account. A recent amendment to the Act means that as of 2006, the rate-setting process will change so the premium rate each year will generate just enough revenue to cover the costs of the program. The Account will continue to record program revenues and expenses, but the accumulated surplus is no longer to be considered in calculating the break-even premium rate.

The Canadian International Development Agency

The Agency acted responsibly to deal with the tsunami disaster relief

In brief

We assessed the Canadian International Development Agency's efforts to deal with the tsunami disaster in Southeast Asia. As the full scope of the disaster emerged, the Canadian government committed \$425 million toward a five-year comprehensive response. These funds were to be used for humanitarian aid, rehabilitation, and reconstruction initiatives in the most affected countries, particularly Sri Lanka and Indonesia.

Many Canadians supported tsunami relief efforts. Twenty-seven non-governmental organizations raised \$213 million, which was eligible for matching funds from the government. By the end of June 2005, the Agency had disbursed \$90.6 million in matching funds and an additional \$37.6 million in immediate assistance to eligible organizations. In addition, Canada is working with the provinces and municipalities to support their involvement in providing technical assistance in the reconstruction process.

Our audit found the following:

- The Agency successfully launched a new matching-funds program in the middle of the emergency.
- Grant agreements were generally well managed.
- The Agency's accountability framework is satisfactory. In this first year of a five-year program, the Agency's approach seems to be headed in the right direction.
- The Agency was unable to spend its initial tsunami relief funds before the 2004–05 year-end and spent about \$69 million intended for tsunami relief on non-tsunami activities. It plans to compensate for this by directing \$69 million from its regular 2005–06 budget to tsunami relief and will need to report to Parliament on how it directed the funds and on its tsunami aid activities.

Audit objective

8.1 Our objective was to determine whether the Canadian International Development Agency, in responding to the tsunami disaster, had

- matched the funds contributed by Canadians and spent the funds as intended, within the authority granted by Parliament;

- put in place an accountability framework that adequately defined roles, responsibilities, and expected results for its tsunami relief program; and
- co-ordinated relief efforts between different governments and relief agencies.

Our examination ended on 29 July 2005.

Background **The tsunami and Canada's response**

8.2 The earthquake that struck under the Indian Ocean on 26 December 2004, triggered a massive tsunami that affected countries throughout the region. According to the International Red Cross, the tsunami left 280,000 people dead or missing, and displaced more than one million from their homes in South and Southeast Asia.

8.3 Within hours of the disaster, Canada promised immediate assistance. As the full scope of the crisis emerged, the Canadian government allocated \$425 million toward a comprehensive response to the tsunami devastation in South and Southeast Asia. The federal funding was originally allocated in the following manner:

- an initial \$265 million for the 2004–05 fiscal year, and
- an additional \$160 million over the following four years.

Of the \$425 million, the Canadian International Development Agency is managing 90 percent or \$383 million. The government had originally planned to spend an estimated \$150 million for a program that would match, dollar for dollar, the generous contributions made by Canadians between 26 December 2004 and 11 January 2005.

8.4 The funds were to be

- used for humanitarian aid, rehabilitation, and reconstruction;
- used for debt relief in the affected countries;
- used, over five years, in the most affected countries—particularly Sri Lanka and Indonesia; and
- determined by the needs and priorities identified by affected countries.

Issues **Co-ordinating efforts is a challenge**

8.5 The major challenge for the tsunami relief effort was, and still is, co-ordination. People and organizations all over the world responded impressively to the tsunami disaster, donating funds to multilateral

groups working in the affected area. Adding to the co-ordination challenge were

- the many different types of donors that wanted to help—individuals, businesses, and different levels of government;
- the unsolicited supplies that arrived in the affected countries and hindered the routing of more urgently needed supplies;
- the many aid agencies that rushed to the tsunami-hit communities;
- the fact that two of the hardest hit areas—in Indonesia and Sri Lanka—are areas of civil unrest; and
- the disagreements between governments and rebel groups that made it more difficult to send aid to affected communities, in those two countries.

8.6 The Agency’s efforts have been part of a “whole of government” approach, and the Agency has been working with many other federal organizations, led by Foreign Affairs Canada. During our audit, both Foreign Affairs Canada and Agency officials indicated that lessons learned during the relief response to Hurricane Mitch, in 1999, made dealing with the tsunami less difficult. For example, standard operating procedures had been established to deal with major disasters, and relief supplies had been prepared before any immediate need. In June 2005, the federal Interdepartmental Tsunami Task Force received a Public Service Award of Excellence. Exhibit 8.1 outlines the Agency’s efforts at co-ordination.

The Agency was unable to spend its initial funds before the end of 2004–05

8.7 In addition to co-ordinating donations, donors—including the Government of Canada—must make sure that donations for emergency relief are timely. The government anticipated that it would spend \$265 million from January to March 2005, of which the Agency would manage \$223 million, and other government departments would manage \$42 million. The government prepared supplementary estimates to fund the \$223 million, and Parliament approved the related appropriation act on 22 March 2005.

8.8 The Agency was to spend \$30 million on debt relief, \$150 million for a matching-funds program, and \$43 million for other emergency relief (Exhibit 8.2). This is a large amount of money to spend in such a short period even for an organization like the Agency, with an annual budget of almost \$3 billion. The limited flexibility provided to departments and agencies to transfer funds appropriated by Parliament

from one year to the next presents a significant challenge for the Agency in reacting to natural disasters.

8.9 By early January 2005, the Agency had put a matching-funds program in place, using its normal criteria for selecting non-governmental organization (NGO) agents for humanitarian aid in disaster situations. In order for the NGOs to qualify for the matching-funds program, they were required to provide audited statements of the amounts collected from the public for tsunami relief and to submit an

Exhibit 8.1 Agency efforts at co-ordinating the tsunami relief effort

According to Agency documents, it undertook the following co-ordination activities.

International	Domestic
<p>International system for emergencies. The Agency is part of an international system that responds to emergencies and includes</p> <ul style="list-style-type: none"> • the Office for the Coordination of Humanitarian Affairs (OCHA), • the United Nations Joint Logistics Centre (UNJLC), • a system for Consolidated Appeals, and • accepted co-ordination structures and approaches to the provision of assistance during emergencies. <p>The Agency maintains, and provides financial support for, the co-ordination and development of these mechanisms, which helped the Government of Canada and the Agency respond to the tsunami. For example, the Agency provided funds to the operations of the UNJLC that responded to the tsunami.</p> <p>Recipient government, international groups, and other donors. The Agency also maintains contact with recipient governments, international consultative groups, and other donors—notably those in the Organisation for Economic Co-operation and Development (OECD) that help to determine and co-ordinate development assistance. These groups helped to identify</p> <ul style="list-style-type: none"> • the parameters for the response to the tsunami, • the collaboration needed between recipient governments and international donors, and • the roles of civil society and the private sector. <p>The Agency’s deployment of relief supplies was only approved after a field agency that could receive and distribute them made a request. The Agency mainly funded UN agencies through the consolidated UN Flash Appeal. The Agency carefully reviewed Canadian non-governmental organizations’ (NGOs) proposals, even those not funded by the matching-funds program, according to international standards of disaster response, operating approaches, and co-ordination.</p>	<p>Matching-funds program. The matching-funds program has been a key element of the Agency’s co-ordination of Canadian tsunami efforts. The Agency has met many times with Canadian NGOs to discuss</p> <ul style="list-style-type: none"> • operating procedures; • the link between the help offered and the help needed (or required); and • other essential elements for successful programming in the affected areas—for example, a special meeting was held with Canadian NGOs to discuss issues such as code of conduct and government expectations in Indonesia. <p>Reconstruction strategies, created for Indonesia and Sri Lanka, also helped to co-ordinate Canadian efforts. These were published on the Agency’s tsunami Web site immediately following approval and were distributed to the 27 NGOs eligible for matching funds. The Agency will use the strategies to direct bilateral reconstruction funding in these two countries and help co-ordinate the use of matching funds for reconstruction purposes.</p> <p>Canadian provinces and territories willingly contributed their public sector expertise and had regular contact every two weeks with the Agency, through conference calls and visits. The Agency developed guidelines and principles with the provinces and territories to facilitate their contributions.</p>

appropriate request for project approval to the Agency. However, many of the eligible NGOs were not able to submit requests before the end of the fiscal year.

8.10 In addition, the cost of debt relief in the affected countries remained undecided, pending international discussions aimed at developing a common approach to the issue of debt relief.

8.11 As a result, by 31 March 2005, the Agency had

- spent roughly \$89 million on the matching fund proposals that it had received by year-end;
- made emergency grants of about \$35 million to multilateral aid organizations from December 2004 to March 2005; and
- let the \$30 million, earmarked for debt relief, lapse.

In the absence of any mechanism to carry any unspent portion of the \$223 million forward into the following year, the Agency spent the remaining \$69 million on other non-tsunami related programs (Exhibit 8.2).

8.12 Although the Agency's funding request to Parliament specified it was to be for tsunami aid, the actual wording of *Appropriation Act No. 4, 2004–2005* passed by Parliament did not specifically refer to tsunami aid and allowed the Agency considerable flexibility in how to spend the money. Agency officials told us that the \$69 million was

Exhibit 8.2 Tsunami aid cash management during 2004–05

Funds	(\$ millions)
Available	
For debt relief	30
For matching program	150
For non-matching emergency relief	43
Total funds available in 2004–05	223
Used	
Lapsed at year-end—debt relief	30
Matching program	89
Non-matching emergency relief	35
Amount spent on other programs	69
Total funds used to 31 March 2005	223

spent on 2005–06 budgetary requirements that could be paid early and that amount would be freed from the 2005–06 budget to be spent on tsunami aid. In our view, in order to be fully accountable for the matching-funds program objectives, the Agency will need to report clearly to Parliament how it has spent funds received for tsunami aid, including the \$69 million to be taken from its 2005–06 budget, and how it is currently funding all its tsunami-related activities.

Reallocation of funds required to match funds donated

8.13 The Government had expected that up to \$150 million in donations would be eligible for the matching-funds program, but the total figure grew to \$213 million, based on eligible donations made by Canadians between 26 December 2004 and 11 January 2005. To make up the difference between the \$213 and \$150 million, the Agency is planning to

- use \$8 million in emergency relief money that it has not yet spent from its 2005–06 budget;
- request from Treasury Board and Parliament the \$30 million, which was originally earmarked for debt relief and which had lapsed at the end of 2004–05; and
- use \$25 million from its approved long-term 2005–09 reconstruction budget of \$160 million to fund reconstruction projects submitted by NGOs, under the matching-funds program.

Total planned Agency spending for tsunami aid remains at \$383 million over the five-year period.

The Agency set up the matching-funds program quickly

8.14 On 30 December 2004, the government announced that it would match donations made by individual Canadians to Canadian non-governmental organizations (NGOs) that were already responding to the disaster. The government initially provided a list of seven eligible NGOs, and the Agency later expanded the list to twenty-seven. The Agency reviewed submissions and accepted, as eligible, NGOs that met its humanitarian-aid criteria and could effectively deliver aid in the stricken area. In total, 72 NGOs applied to be eligible for the matching-funds program.

8.15 Following the announcement of the matching-funds program, a series of conference calls and meetings took place to determine how to manage the program. At this point, the Agency was already choosing its NGO partners. All this activity took place in a few weeks in late

December 2004 and January 2005. However, when the Agency set up the program and communicated the eligibility requirements and selection process to the NGOs, there was some confusion for the Agency and NGOs coming into the process. For example, several NGOs that were on the ground and involved in responding to the disaster were determined to be ineligible for matching funds. These NGOs were close to qualifying but could not meet all the criteria at the time that the Agency was making its decisions. Some NGOs were uncertain about how to demonstrate that they met the criteria. We found that the Agency did not fully communicate the reasons for its eligibility decisions to NGOs during the early days of the program.

8.16 After reviewing the files and discussing them with Agency staff, we concluded that officials made reasonable selections. The early confusion that surrounded the NGO selection was a direct result of having to launch a new matching-funds program in the middle of a humanitarian-aid crisis. There was too much to do and not enough time to do it.

Grant agreements were generally well-managed

8.17 We also examined whether the Agency is effectively managing the grants that are going to relief operations under the matching-funds program. The Agency is planning to use both grant and contribution agreements to fund tsunami aid. We examined 13 relief grant agreements, with a total value of roughly \$90 million. We did not examine any contribution agreements for rehabilitation and reconstruction, as few such agreements were in place at the time of our audit.

8.18 We found that generally, the Agency managed the grants well and that the approved projects addressed most of the key program objectives. For example

- the funded projects delivered humanitarian relief assistance that focussed on short-term and temporary interventions and that addressed basic immediate needs for health, clean water, sanitation, and shelter;
- projects met the maximum one-year duration and had reporting stipulations and agreement provisions for the return of any funds not spent as intended; and
- the Agency documented its financial control of matching-funds program money, and those documents reflected appropriate signing authority related to key sections of the *Financial Administration Act*.

8.19 We also expected that the grant agreements would explicitly tie the NGO recipients to all the terms of the matching-funds program. Treasury Board approved the Agency program where each NGO would formally agree to

- account for the funds it had raised,
- manage the results, and
- only use the funds in tsunami-affected areas.

The grant agreements that we looked at addressed most terms of the program. However, the agreements did not commit the NGO recipients to inform the Agency about how the funds were spent and whether the NGOs only spent the funds they collected from the public in tsunami-affected areas. The Agency needs this detailed information to demonstrate the program requirement to spend only in tsunami-affected areas. The Agency intends to ask the recipient NGOs to include in their annual reports details of their tsunami-related spending. This information would likely be useful to the Agency and others for aid co-ordination efforts in the tsunami-stricken areas.

Accountability framework

8.20 Our audit examined whether the overall framework of the tsunami relief program adequately defined the roles, responsibilities, and expected results. We found that there were two frameworks in place. The first was an overall framework that was

- put in place by the government,
- expected to be applied by all federal organizations that were dealing with the disaster, and
- expected to be managed through the Privy Council Office (PCO).

The overall framework calls for Foreign Affairs Canada to take the lead and other departments to co-ordinate their efforts under their own mandates. Federal organizations, including the Agency, were expected to self-assess their accomplishments as they proceeded, and overall reports would be made to the government.

8.21 Under the overall framework, the Agency developed the second framework that applied only to its operations—from the Agency’s terms and conditions approved by Treasury Board. We found that the Agency’s approach is satisfactory; the following are specific details of what we found:

- The Agency centralized roles and responsibilities with a multi-branch co-ordination committee. This committee has a clear

mandate to provide oversight and accountability, develop guidelines and criteria for various proposals, review all projects, and co-ordinate all tsunami-related communications.

- The Agency defined its overall expected results for its humanitarian relief operations in tsunami-affected areas and for reconstruction in Sri Lanka and Indonesia.
- The Agency took most of its management framework for the tsunami work from its existing program structure. Its accountability framework, which applies to humanitarian emergency aid, states that the Agency is committed to results-based management. This means defining realistic expected results, monitoring with appropriate performance indicators, managing risks, and reporting on results and resources used. To meet these requirements, the Agency's grant agreements quantified expected results.
- The Agency is monitoring its own activities and is learning from its performance, including ways to improve any future matching-funds programs and communications with the public and other government departments.
- The Agency has not obtained formal agreements from NGOs that they would provide detailed reporting on the tsunami appeal. The government expects such information to be reflected in Agency reports. The Agency intends to ask the recipient NGOs to include this information in their upcoming annual reports.

8.22 The Agency's approach seems headed in the right direction in this first year of a five-year program. Credible and candid reporting on program results to Parliament and to the public will also be an important element of the Agency's accountability.

Conclusion

8.23 The Agency has moved forward to match contributions made by individual Canadians and to co-ordinate its efforts with many groups. So far, the Agency has adequately managed its grants to NGOs.

In addition, our audit found the following:

- The Agency was able to launch successfully a new matching-funds program in the middle of the emergency.
- The Agency's accountability framework is satisfactory.

- The Agency was unable to spend its initial tsunami funds before the end of 2004–05. To free up funding for the new fiscal year, the Agency spent \$69 million intended for tsunami relief on non-tsunami-related activities in the 2004–05 fiscal year. The Agency plans to compensate by directing \$69 million from its regular 2005–06 budget to tsunami relief and will need to report to Parliament on how it has directed the funds and on its tsunami aid activities.

Audit team

Assistant Auditor General: Richard Flageole

Principal: Paul Morse

Robert Anderson

Anthony Levita

Catherine Martin

For information, please contact Communications at (613) 995-3708 or 1-888-761-5953 (toll-free).

Transport Canada—The Quebec Bridge

A solution is needed in the restoration and maintenance of the Quebec Bridge

In brief

Designated a national historic site in 1996 by the Minister of Canadian Heritage, the Quebec Bridge is an essential transportation infrastructure for the Quebec City region.

In 1993, Transport Canada signed an agreement with the Canadian National Railway Company (better known as Canadian National or CN), in which it transferred the Quebec Bridge and lands in various parts of the country to the Crown corporation, for one dollar. Under the transfer agreement, CN committed to compensating Canada for its financial obligations related to the Intercolonial and Prince Edward Island Railways Employees' Provident Fund, being responsible for all costs associated with the cleanup of any contaminants on lands transferred, and funding a major restoration program for the bridge. The restoration program, which includes the installation and maintenance of architectural lighting, was intended to restore the structure to a condition that would ensure its long-term viability and that would be maintained.

In 1995, the government privatized CN by means of a public share issue. In 1997, the governments of Canada and Quebec agreed to make a financial contribution to CN for the purpose of restoring the Quebec Bridge between 1997 and 2006.

The announced restoration program had two phases. The first phase, the restoration of the structure and cleaning of the structural components, was completed in 1999. However, we found that cost increases and significant delays affected the second phase (sanding, cleaning, and painting), so that the amounts forecast in the 1997 agreement will be enough to complete only 40 percent of the planned work. Major issues remain regarding the financing of the remainder of the restoration work in the years to come. Transport Canada needs to take action that will ensure the long-term viability of the Quebec Bridge.

Audit objective

8.24 Our audit objective was to determine whether, at the time of the Quebec Bridge transfer in 1993 and the 1997 funding agreement, Transport Canada had applied management principles that protected the interests of Canadian taxpayers and ensured the long-term viability of this essential infrastructure.

Background



The Quebec Bridge at night.

8.25 The longest cantilever bridge in the world, the Quebec Bridge was built between 1910 and 1917 by the Government of Canada to link the two shores of the St. Lawrence River at Quebec City. Originally consisting of one span with two railway tracks, two sidewalks, and an unused space in the middle, it was used solely for rail traffic for 12 years. In 1923, the federal government assigned the management and maintenance of the bridge to the Canadian National Railway Company (better known as Canadian National or CN), which was a new Crown corporation at that time.

8.26 In 1928, the Government of Canada signed an agreement with the Government of Quebec authorizing the province to build a roadway on the bridge. A second agreement was signed in 1949 for work to widen this road. Under this long-term lease agreement, the Government of Quebec agreed to pay \$25,000 per year until 2012. In addition, the Government of Quebec became responsible for maintaining the road surface, approaches, and pedestrian walkway.

8.27 Declared an international historic monument to civil engineering in 1987 and designated as a national historic site by the Minister of Canadian Heritage in 1996, the Quebec Bridge represents an essential transportation infrastructure for the Quebec City region.

8.28 The bridge consists of a steel structure that requires ongoing maintenance. In recent decades, rust has gradually settled in. Toward the end of the 1980s, various interest groups in the Quebec City region began to express concerns about the deterioration of the structure and the poor appearance of the bridge.

8.29 Over the years, road traffic on the bridge has increased substantially. This led to many discussions over the years between the Government of Canada, the Government of Quebec, and CN regarding the division of responsibility for restoring and maintaining the bridge.

8.30 In the early 1990s, the federal government undertook various initiatives to commercialize certain assets in the transportation sector. In July 1993, Transport Canada signed an agreement with CN whereby it transferred to the Crown corporation, for one dollar, all rights, titles, and interests in, and to the Quebec Bridge and other lands CN used in various parts of Canada. The federal government had begun to acquire these lands in 1870 and had assigned the management and operation of these lands to CN in 1923. According to Transport Canada, the government had transferred 78,300 acres of land, 80 percent of which was designated for railway use. CN estimated the total value of these

lands at \$104.2 million at the time of the transfer. The 63,000 acres used expressly for railways, particularly lands used for right-of-way, stations, and marshalling yards, were valued at an estimated \$69.7 million, while the 15,300 acres not required for railway activities were estimated to be worth \$34.5 million.

8.31 Under the 1993 transfer agreement, CN agreed to compensate the Government of Canada for its financial obligations related to the Intercolonial and Prince Edward Island Railways Employees' Provident Fund, be responsible for all costs associated with the cleanup of any contaminants on lands transferred, and fund a major maintenance program on the bridge. The program included the installation and maintenance of architectural lighting. This program was intended to restore the structure to a condition that would ensure its long-term viability and that would be maintained. The agreement also provided that CN would attempt to reach an agreement with the Province of Quebec to co-fund the maintenance program, without limiting CN's obligations.

8.32 An engineering firm that carried out a study in 1995 estimated the cost of the bridge restoration work at more than \$60 million. According to the study's authors, the bridge was in good shape for its age, but essential repair work needed to be done within five years to avoid the deterioration becoming irreversible. It was also suggested that preventive annual maintenance be done to preserve the structure over the long term.

8.33 In 1995, the government privatized CN by means of a public share issue. After negotiations on financing the Quebec Bridge restoration, an agreement was signed in early 1997 between CN and the two levels of government. The 1997 agreement called for a restoration program of \$60 million spread over 10 years to ensure the long-term viability of the bridge. CN assumed 60 percent of the cost (\$36 million); the Government of Quebec, 30 percent (\$18 million); and Transport Canada, 10 percent (\$6 million).

8.34 The announced restoration program had two phases. Restoration of the structure and cleaning of the structural components were to be done from 1997 to 1999, while sanding, cleaning, and painting were scheduled to take place from 1999 to 2006. Due to the length of time involved and the cost of the work, the second phase made up the largest part of the program.

Issues **The bridge restoration work will not be completed within budget and on time**



There is a problem with corrosion on the unrepaired part of the bridge and the paint is in poor condition.

8.35 The first phase of the work was completed according to the established schedule, and painting began in 1999 as planned. However, a number of problems and new environmental requirements have increased costs and delayed work considerably. Transport Canada told us that only about 40 percent of the structure will be painted when the agreement expires in 2006. On a site visit, we were able to see that there was a problem with corrosion on the unrepaired part of the bridge and that the paint was in poor condition.

8.36 In its report produced in April 2003, the internal audit services of Transport Canada reported that a cost estimate suggests that the restoration program will be more costly than expected in the 1997 agreement and that there is a chance that the work will not be completed according to the agreement's provisions because of a lack of funding. The remainder of the work could cost more than \$60 million. For its part, CN indicated a few years ago to Transport Canada that it did not intend to spend more money on restoring the Quebec Bridge and that it considered that it had fully complied with the agreement negotiated in 1997 with the governments of Canada and Quebec, which sets out each party's contribution to the bridge's restoration. At the time of writing this report, the financing of the remainder of the restoration work was still under discussion between Transport Canada and CN.

8.37 The difference of view between Transport Canada and CN is in large part based on their different interpretations of provisions of the 1993 and 1997 agreements. In particular, it is CN's position that the 1997 Agreement specifically annulled and replaced the 1993 Agreement. CN, therefore, takes the position that any obligation to maintain the Quebec Bridge should be described by reference to the 1997 Agreement. It is Transport Canada's position that CN is responsible for the long-term viability of the Quebec Bridge as per the 1993 Agreement.

Transport Canada did not follow some management principles when it entered into the 1993 and 1997 agreements

8.38 When an agreement to transfer a public good is signed, management principles require, among other things, the establishment of specific objectives, an analysis of the value of the assets transferred and the anticipated benefits, determination of the project's inherent risks, and control procedures designed to ensure risk management and

compliance with commitments. In our view, Transport Canada did not follow these principles before signing the transfer agreement in 1993.

8.39 The Department was unable to indicate to us what its objectives were in transferring the Quebec Bridge and various lands to CN. Similarly, it was unable to demonstrate that this project complied with a long-term management policy for federally owned bridges. In addition, it could not provide analysis of the benefits it hoped to derive from this transaction. We also found that Transport Canada did not sufficiently analyze the risks inherent in transferring an essential transportation infrastructure to a Crown corporation that would be privatized two years later, and that the 1993 and 1997 agreements contain no procedures for managing these risks. Such an analysis would have been helpful to demonstrate that Canadian taxpayers' interests were protected when entering into these agreements.

Conclusion

8.40 More than 10 years after the Quebec Bridge was transferred to CN, the restoration work on this important regional transportation infrastructure, which was designated a national historic site, is only partly completed. Major issues remain regarding the financing of the rest of the restoration work in the years to come. Transport Canada needs to take action that will ensure the long-term viability of the Quebec Bridge.

Transport Canada's comments. It is Transport Canada's position that CN is responsible for the long-term viability of the Quebec Bridge as per the 1993 agreement. The 1993 agreement is clear that "CN shall undertake to fund a major maintenance program on the Bridge ... which shall restore this structure to a condition which shall ensure its long-term viability and ensure it is maintained in this state." Transport Canada intends to ensure that CN fully complies with the requirements of the 1993 agreement as well as the requirements of the 1997 tripartite agreement pertaining to the restoration program for the Quebec Bridge.

For the last fifteen years Transport Canada's policy has been to divest itself of the operations of the transportation system. In the case of the Quebec Bridge and other Canadian Government Railway (CGR) lands, the Government transferred the lands to CN, a Crown Corporation, which had been entrusted the lands for management and operation since 1923. The full value of CN, including the CGR lands, was realized by Canadian taxpayers through the privatization of CN in 1995.

Audit team

Assistant Auditor General: Richard Flageole

Principal: Sylvain Ricard

Director: Mario Malouin

Francis Séguin

For information, please contact Communications at (613) 995-3708 or 1-888-761-5953 (toll free).

Parc Downsview Park Inc.

Progress in the transfer of Downsview lands and financing of future operations

In brief In our November 2004 Report to Parliament we indicated that the government had not yet resolved the issues related to the transfer of the Downsview lands from National Defence to Parc Downsview Park Inc. and to the financing of the Corporation's future operations. We reported that the Corporation's ability to fulfil its mandate to develop and operate an urban recreational green space on a self-financing basis was dependant on resolving these issues.

In May 2005, the government reconfirmed its previous decision to use a portion of Downsview lands for the development of a park and gave its approval to the Minister of National Defence and the Minister of State (Infrastructure and Communities) to transfer 227.65 hectares of Downsview lands to the Corporation by December 2005, and to obtain Parliament's approval to execute the transfer of the lands. The government also authorized that the lands be used to generate revenue to finance the creation of an urban recreational green space for the enjoyment of future generations.

The Corporation and Infrastructure Canada informed us that the Governor in Council has approved a Corporate Plan for the period from 2005–06 to 2009–10 and that the Treasury Board approved a related submission that will be used to implement the government's decisions.

These decisions, if implemented, would resolve the matters that we have previously brought to Parliament's attention. Notably, Parliament's approval for the transfer of Downsview lands and the financing of the park would be obtained.

Audit objective **8.41** Our objective was to assess the progress made by the government in addressing our concerns raised in our November 2004 Report to Parliament about the transfer of Downsview lands and the future funding of Parc Downsview Park Inc.

Background **8.42** Downsview Park was established following the closure of the Canadian Forces Base in Toronto announced in the government's 1994 Budget. The National Defence budget impact paper referred to in the Budget indicated, "[the] Downsview site will be held in

perpetuity and in trust primarily as a unique urban recreational green space for the enjoyment of future generations.”

In November 1995 the government approved, in principle, the use of about 243 hectares (600 acres) of Downsview land for development of the park based on the following principles:

- the retention of more than one-half of the site as parkland;
- the ability to be “self-financing” from sources outside federal appropriations, including the ability to borrow funds from the private sector;
- the capability to raise and retain other qualifying revenues and to form corporate relationships with third parties for this purpose;
- the operation of the land would be based on a “trust concept,” recognizing the special nature of the land; and
- the accommodation of a continuing military presence.

8.43 In April 1997, the government issued an order-in-council authorizing Canada Lands Company Limited (Canada Lands), a Crown corporation, to set up a subsidiary corporation that would develop an urban recreational green space on a self-financing basis for the enjoyment of future generations. Canada Lands incorporated CLC Downsview Inc. (now Parc Downsview Park Inc.) as a wholly-owned subsidiary Crown corporation in July 1998, and it began its operations in April 1999 following the appointment of its board of directors.

8.44 In our November 2004 Report we reported that the transfer of the Downsview lands from National Defence to Parc Downsview Park Inc. and the financing of the Corporation’s future operations were issues that needed to be resolved to enable it to fulfil its mandate to create and operate an urban recreational green space on a self-financing basis.

Issues

8.45 On 19 May 2005, the government reconfirmed its previous decision to use part of the Downsview lands for the development of a park. It gave its approval to the Minister of National Defence and the Minister of State (Infrastructure and Communities), the Minister responsible for the Corporation, to transfer to the Corporation by December 2005, 227.65 hectares out of the 243 hectares of Downsview lands that were originally intended to be transferred. The government authorized the Minister of State (Infrastructure and Communities), to seek approval from Parliament for a one-time appropriation for the Corporation to purchase the lands. The government also authorized that the lands then be used to generate revenue to finance the creation of an urban recreational green space.

8.46 The Corporation and Infrastructure Canada informed us that the Governor in Council has approved a Corporate Plan for the period from 2005–06 to 2009–10 and that the Treasury Board approved a related submission that will be used to implement the government’s decisions. They also informed us that the ministers concerned intend to seek Parliament’s approval for the transfer through the supplementary estimates process in the fall of 2005. The intent is to transfer the lands at their current book value, which is the normal practice for transactions between related government entities. The book value of the lands to be transferred is \$2.49 million. The request for approval of this appropriation will also indicate that the fair value of the lands being transferred is estimated to be \$152 million according to a recent appraisal.

Conclusion

8.47 If the government’s decisions of May 2005 are implemented, matters that we have previously brought to Parliament’s attention would be resolved. Notably, Parliament’s approval for the transfer of the Downsview lands and the financing of the park would be obtained.

Audit team

Assistant Auditor General: Richard Flageole

Principal: Alain Boucher

Director: Amjad Saeed

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The *Employment Insurance Act*

The process for setting premium rates has been changed

In brief For the past six years, we have drawn Parliament’s attention to our concerns about the government’s compliance with the intent of the *Employment Insurance Act*, with respect to the setting of employment insurance premium rates and its impact on the size and growth of the accumulated surplus in the Employment Insurance Account. The accumulated surplus in the Account increased by an additional \$2 billion in 2004–05 to reach \$48 billion by the end of March 2005.

In June 2005, the Act was amended to reflect a new rate-setting process, beginning with the 2006 premium rate. The new process is based on the principle that the premium rate for a year should generate just enough premium revenues during the year to cover the expected program costs for that year. Under the previous provisions, the accumulated surplus of the Account was to be taken into account when premium rates were set. With the amendments, the Account will continue to record program revenues and expenses, but the accumulated surplus is no longer to be considered when calculating the break-even premium rate.

Audit objective **8.48** Our objective was to report new developments related to the concerns we had raised in previous years.

Background **8.49** From 1997 to 2001, premium rates were established according to section 66 of the *Employment Insurance Act*. Section 66 required that, to the extent possible, the premium rate be set to provide enough revenue over a business cycle to pay amounts authorized to be charged to the Employment Insurance Account, while maintaining relatively stable rates. In our view, this meant that Employment Insurance premiums should equal expenditures over a business cycle and provide a sufficient reserve to keep rates stable in an economic downturn. The legislation also made it necessary for the Canada Employment Insurance Commission to make certain key decisions, such as how it would define “business cycle” and “relatively stable rates.”

8.50 In May 2001, the Act was amended to suspend section 66 for 2002 and 2003 and to give the Governor in Council the authority to set the rates for those two years.

8.51 In 2003, the government announced that it would conduct consultations on a new rate-setting process and would introduce

legislation to implement a new process for 2005. In the 2004 Budget, the government noted that it was reviewing the results of the consultations and still planned to introduce legislation for 2005.

8.52 Section 66 was further suspended for 2004 and 2005, and the rates for those years were set according to the 2003 and 2004 Budget legislation.

8.53 In his 2001 report, the Chief Actuary of Human Resources Development Canada estimated that a maximum reserve of \$15 billion would be sufficient, at the onset of a recession, to cover additional program costs, prevent cumulative deficits, and allow stable premium rates over the business cycle. From 2002 to 2005, when section 66 of the *Employment Insurance Act* was suspended, the Commission did not request another actuarial report.

8.54 Since 1999, when we first raised our concerns about the size and growth of the accumulated surplus in the Employment Insurance Account, the Account balance has increased from \$21 billion to \$48 billion, while the rates were reduced annually. At the end of March 2005, the accumulated surplus represented more than three times the maximum reserve considered sufficient by the Chief Actuary in his 2001 report.

Issues

Legislative amendments to the rate-setting process for premiums

8.55 In June 2005, with the passage of the 2005 *Budget Implementation Act*, the *Employment Insurance Act* was amended to establish a new rate-setting process, beginning with the 2006 premium rate. These changes are in line with the principles described by the government in the 2003 and 2004 budgets for a new rate-setting process for premiums.

- Rates should be set transparently and based on independent expert advice.
- Expected premium revenues should correspond to expected program costs.
- Rates should mitigate the impact on the business cycle and be stable over time.

8.56 Under the amended legislation, by 14 October of each year, the Chief Actuary is directed to provide a report on the premium rate for the next year to the Canada Employment Insurance Commission. The Chief Actuary is required to determine a premium rate for the year that should generate premium revenues that correspond to expected program costs for that year. This break-even rate is calculated on a

“looking-forward” basis, which means that the Account surplus and the related interest credited to the Account balance are not part of the rate calculation.

8.57 The amended legislation provides that the Canada Employment Insurance Commission is to set the rate, taking into account the same principle that the premium rate should generate just enough revenue in the year to cover expected program costs for that year. The Commission is also required to take into consideration the Chief Actuary’s report and any public input.

8.58 The Commission must make the Chief Actuary’s report public. The premium rate cannot be increased or decreased by more than 15 cents for each \$100 of insurable earnings from the previous year. A ceiling of \$1.95 for each \$100 of insurable earnings has been set for the premium rates for 2006 and 2007.

8.59 The Commission has until 14 November to set the premium rate for the next year. On the recommendation of the Minister of Human Resources and Skills Development and the Minister of Finance, the Governor in Council has until 30 November to set a different rate, if it believes that it is in the public interest to do so.

8.60 Under the previous provisions, the accumulated surplus of the Account was to be considered when setting premium rates. The principle underlying the new rate-setting process provides for rates to be established on a “looking-forward” basis at an annual break-even level. With these amendments, the Account will continue to record program revenues and expenses but the accumulated surplus is no longer to be considered when calculating the break-even premium rate.

Conclusion

8.61 In June 2005, the *Employment Insurance Act* was amended to reflect a new rate-setting process, beginning with the 2006 premium rate. The accumulated surplus in the Account is no longer to be considered when calculating the break-even premium rate.

Audit team

Assistant Auditor General: Nancy Cheng
Principal: Jean-Pierre Plouffe
Director: Lucie Cardinal

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Appendices

These appendices are published once a year, and serve as appendices for all the reports of the Auditor General for 2005.

Appendix A *Auditor General Act*

R.S.C., c. A-17

An Act respecting the Office of the Auditor General of Canada and sustainable development monitoring and reporting

1995, c. 43, s.1.

Short Title

Short title 1. This Act may be cited as the *Auditor General Act*. 1976–77, c. 34, s.1.

Interpretation

Definitions 2. In this Act,

“appropriate Minister” “appropriate Minister” has the meaning assigned by section 2 of the *Financial Administration Act*;

“Auditor General” “Auditor General” means the Auditor General of Canada appointed pursuant to subsection 3(1);

“category I department” “category I department” means

(a) any department named in Schedule I to the *Financial Administration Act*,

(b) any department in respect of which a direction has been made under subsection 24(3), and

(c) any department set out in the schedule;

“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 *Financial Administration Act*;

“department” “department” has the meaning assigned to that term by section 2 of the *Financial Administration Act*;

“funding agreement” “funding agreement”, in respect of a corporation, means an agreement in writing under which the corporation receives funding from Her Majesty in right of Canada, either directly or through an agent or mandatary of Her Majesty, including by way of a loan, but does not include a construction contract, a goods contract or a service contract;

“not-for-profit corporation” “not-for-profit corporation” means a corporation no part of whose income is payable to or otherwise available for the personal benefit of any of its members or shareholders;

“recipient corporation”	<p>“recipient corporation” means any not-for-profit corporation, or any corporation without share capital, that has, in any five consecutive fiscal years, received a total of \$100,000,000 or more under one or more funding agreements, but does not include any such corporation that is</p> <ul style="list-style-type: none"> (a) a Crown corporation, (b) a departmental corporation as defined in section 2 of the <i>Financial Administration Act</i>, (c) a municipality, (d) a cooperative, other than a non-profit cooperative, (e) a corporation that receives, on an ongoing basis, at least half of its funding from a municipality or the government of a province or of a foreign state, or from any agency of a municipality or any such government, (f) a corporation that is controlled by a municipality or a government other than the Government of Canada, or (g) an international organization;
“registrar”	<p>“registrar” means the Bank of Canada and a registrar appointed under Part IV of the <i>Financial Administration Act</i>;</p>
“sustainable development”	<p>“sustainable development” means development that meets the needs of the present without compromising the ability of future generations to meet their own needs;</p>
“sustainable development strategy”	<p>“sustainable development strategy”, with respect to a category I department, means the department’s objectives, and plans of action, to further sustainable development. 1976–77, c. 34, s. 2; 1984, c. 31, s. 14; 1995, c. 43, s. 2.</p>
Control	<p>2.1 (1) For the purpose of paragraph (f) of the definition “recipient corporation” in section 2, a municipality or government controls a corporation with share capital if</p> <ul style="list-style-type: none"> (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 (b) the votes attached to those shares are sufficient, if exercised, to elect a majority of the directors of the corporation.

Control (2) For the purpose of paragraph (f) of the definition “recipient corporation” in section 2, 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.

Auditor General of Canada

Appointment and tenure of office 3. (1) The Governor in Council shall, by commission under the Great Seal, appoint a qualified auditor to be the officer called the Auditor General of Canada to hold office during good behaviour for a term of ten years, but the Auditor General may be removed by the Governor in Council on address of the Senate and House of Commons.

Idem (2) Notwithstanding subsection (1), the Auditor General ceases to hold office on attaining the age of sixty-five years.

Re-appointment (3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office.

Vacancy (4) In the event of the absence or incapacity of the Auditor General or if the office of Auditor General is vacant, the Governor in Council may appoint a person temporarily to perform the duties of Auditor General. 1976-77, c. 34, s. 3.

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. 1976-77, c. 34, s. 4; 1980-81-82-83, c. 50, s. 23, c. 55, s. 1.

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. 1976-77, c. 34, s. 5.

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. 1976–77, c. 34, s. 6; 1980–81–82–83, c. 170, s. 25.

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. 1976–77, c. 34, s. 7; 1994, c. 32, s. 1 and 2; 1995, c. 43, s. 3.

Inquiry and report

7.1 (1) The Auditor General may, with respect to any recipient corporation, inquire into its use of funds received from Her Majesty in right of Canada and inquire into whether

- (a) the corporation has failed to fulfil its obligations under any funding agreement;
- (b) money the corporation has received under any funding agreement has been used without due regard to economy and efficiency;
- (c) the corporation 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 corporation 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 corporation 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** (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.
- Special report to the House of Commons** 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).
- Submission of reports to Speaker and tabling in the House of Commons** (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. 1976–77, c. 34, s. 8; 1994, c. 32, s. 3.
- Idem** 9. The Auditor General shall
- (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
 - (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 *Financial Administration Act*,
- and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities. 1976–77, c. 34, s. 9.
- Improper retention of public money** 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. 1976–77, c. 34, s.10.
- Inquiry and report** 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. 1976–77, c. 34, s. 11.

Advisory powers 12. The Auditor General may advise appropriate officers and employees in the public service of Canada 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.
1976–77, c. 34, s. 12.

Access to Information

Access to information 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 responsibilities and he is also entitled to require and receive from members of the public service of Canada such information, reports and explanations as he deems necessary for that purpose.

Stationing of officers in departments (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.

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 *Inquiries Act*. 1976–77, c. 34, s.13.

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 to 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. 1976–77, c. 34, s. 14.
Staff of the Auditor General	
Officers, etc.	15. (1) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the <i>Public Service Employment Act</i> .
Contract for professional services	(2) Subject to any other Act of Parliament or regulations made thereunder, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his office in appropriation Acts, contract for professional services.
Delegation to Auditor General	(3) The Auditor General may exercise and perform, in such manner and subject to such terms and conditions as the Public Service Commission directs, the powers, duties and functions of the Public Service Commission under the <i>Public Service Employment Act</i> , other than the powers, duties and functions of the Commission in relation to appeals under section 21 of that Act and inquiries under section 34 of that Act.
Suspension	(4) The Auditor General may suspend from the performance of his duty any person employed in his office. 1976–77, c. 34, s. 15; 1992, c. 54, s. 79.
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. 1995, c. 43, s. 4.
Responsibility for personnel management	16. In respect of persons employed in his office, the Auditor General is authorized to exercise the powers and perform the duties and functions of the Treasury Board under the <i>Financial Administration Act</i> that relate to personnel management including the determination of terms and conditions of employment and the responsibility for employer and employee relations, within the meaning of paragraph 7(1)(e) and sections 11 to 13 of that Act. 1976–77, c. 34, s.16.

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. 1976–77, c. 34, s. 18.
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 <i>Financial Administration Act</i> 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. 1976–77, c. 34, s. 19.
	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. 1976–77, c. 34, s. 20.
Appropriation allotments	20. The provisions of the <i>Financial Administration Act</i> with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General. 1976–77, c. 34, s. 21.
	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. 1976–77, c. 34, s. 22.

Sustainable Development

Purpose	<p>21.1 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,</p> <ul style="list-style-type: none"> (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. 1995, c. 43, s. 5.
Petitions received	<p>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.</p>
Acknowledgement to be sent	<p>(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.</p>
Minister to respond	<p>(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</p> <ul style="list-style-type: none"> (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. 1995, c. 43, s. 5.
- 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 met the objectives, and implemented the plans, set out in their sustainable development strategies laid before the House of Commons under section 24; 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 met the objectives, and implemented the plans, set out in their sustainable development strategies laid before that House under section 24;
 - (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 any of subsections 24(3) to (5).
- Submission and tabling of report** (3) 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 fifteen days on which that House is sitting after the Speaker receives it. 1995, c. 43, s. 5.
- Strategies to be tabled** 24. (1) The appropriate Minister for each category I department shall cause the department to prepare a sustainable development strategy for the department and shall cause the strategy to be laid before the House of Commons
- (a) within two years after this subsection comes into force; or
 - (b) in the case of a department that becomes a category I department on a day after this subsection comes into force, before the earlier of the second anniversary of that day and a day fixed by the Governor in Council pursuant to subsection (4).

- Updated strategies to be tabled** (2) The appropriate Minister for the category I department shall cause the department's sustainable development strategy to be updated at least every three years and shall cause each updated strategy to be laid before the House of Commons on any of the next fifteen days on which that House is sitting after the strategy is updated.
- Governor in Council direction** (3) The Governor in Council may, on that recommendation of the appropriate Minister for a department not named in Schedule I to the *Financial Administration Act*, direct that the requirements of subsections (1) and (2) apply in respect of the department.
- Date fixed by Governor in Council** (4) On the recommendation of the appropriate Minister for a department that becomes a category I department after this subsection comes into force, the Governor in Council may, for the purpose of subsection (1), fix the day before which the sustainable development strategy of the department shall be laid before the House of Commons.
- Regulations** (5) The Governor in Council may, on the recommendation of the Minister of the Environment, make regulations prescribing the form in which sustainable development strategies are to be prepared and the information required to be contained in them.

1995, c. 43, s. 5.

Schedule

(Section 2)

Atlantic Canada Opportunities Agency
 Canada Customs and Revenue Agency
 Canadian International Development Agency
 Federal Office of Regional Development – Quebec
 Parks Canada Agency

1995, c. 43, Sch.; 1998, c. 31, s. 49; 1999, c. 17, s. 108.

Appendix B Reports of the Standing Committee on Public Accounts to the House of Commons, 2004–05

The following reports have been tabled since our November 2004 Report was published. They are available on the Web site of Canada's Parliament (www.parl.gc.ca).

38th Parliament, 1st Session

Report 6—Public Accounts of Canada 2004 (presented to the House, 8 February 2005)

Report 7—Report on Plans and Priorities 2004, and the Report on Performance for the period ending 31 March 2004 of the Office of Auditor General of Canada (presented to the House, 14 February 2005)

Report 8—Main Estimates 2005-2006: Vote 20 under FINANCE (presented to the House, 6 April 2005)

Report 9—Chapter 3, The Sponsorship Program, Chapter 4, Advertising Activities and Chapter 5, Management of Public Opinion Research of the November 2003 Report of the Auditor General of Canada (presented to the House, 7 April 2005)

Report 10—Governance in the Public Service of Canada: Ministerial and Deputy-Ministerial Accountability (presented to the House, 10 May 2005)

Report 11—Chapter 4, Management of Federal Drug Benefit Programs of the November 2004 Report of the Auditor General of Canada (presented to the House, 13 May 2005)

Report 12—Chapter 4, Accountability of Foundations of the February 2005 Report of the Auditor General of Canada (presented to the House, 2 June 2005)

Report 13—Report on Plans and Priorities 2005-2006 of the Office of the Auditor General of Canada (presented to the House, 7 June 2005)

Report 14—Chapter 1, Information Technology Security of the February 2005 Report of the Auditor General of Canada (presented to the House, 7 June 2005)

Report 15—Chapter 1, Internal Audit in Departments and Agencies of the November 2004 Report of the Auditor General of Canada (presented to the House, 9 June 2005)

Report 16—Request for an extension of 30 days to consider Bill C-277 (presented to the House, 9 June 2005)

Report 17—Chapter 5, Indian and Northern Affairs Canada—Education Program and Post-Secondary Student Support of the November 2004 Report of the Auditor General of Canada (presented to the House, 16 June 2005)

Report 18—National Security in Canada (presented to the House, 23 June 2005)

Report 19—Management of Public Opinion Research (presented to the House, 28 June 2005)

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 plan and budgets

Section 152 of the *Financial Administration Act* requires the President of the Treasury Board to table in each House of Parliament a report on the timing of tabling, by appropriate ministers, of annual reports and summaries of corporate plans and budgets of Crown corporations. The report is included in the 2005 *Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada*, which must be tabled by 31 December. (The 2005 Annual Report had not been tabled when our report was published.)

The report, as required by section 152 and entitled *Tabling of Crown Corporations Reports in Parliament*, shall indicate when the summaries of corporate plans, capital budgets, operating budgets, investment budgets, and annual reports were required to be tabled in each House and the date they were actually tabled. The report shall contain a list of the Crown corporations subject to the reporting provisions of Part X of the Act, which governs the tabling of reports.

The information in the report, as required by section 152, allows Parliament to hold the appropriate ministers and, ultimately, the Crown corporations accountable for the timely provision of the information required under the Act.

The Act also requires the Auditor General to audit the accuracy of this report and to present the results in her annual report to the House of Commons.

Auditor's report

To the House of Commons:

As required by subsection 152(2) of the *Financial Administration Act*, I have audited, for the year ended 31 July 2005, the information presented in the report *Tabling of Crown Corporations Reports in Parliament* included in the *2005 Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada*. The reports are the responsibility of the President of the Treasury Board. My responsibility is to express an opinion on the information included in the report, as required by section 152, based on my audit.

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

In my opinion, the information presented in the report *Tabling of Crown Corporations Reports in Parliament* is accurate, in all significant respects, in accordance with its section The Deadlines for Tabling in Parliament.



Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
7 October 2005

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 the cost of preparing audit reports on all Crown corporations (Exhibit D.1) other than those exempted under section 85 of the Act. 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.

The Office is required by section 68 of the *Broadcasting Act* to report the cost of any audit report on the Canadian Broadcasting Corporation. For the fiscal year ended 31 March 2005, the full cost of the annual audit report was \$722,413.

In 2004–05, the Office completed the special examination of nine Crown corporations.

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 2004–05, the Office completed the special examination of nine Crown corporations. The costs were

Canada Deposit Insurance Corporation	\$289,693
Canada Science and Technology Museum Corporation	\$612,346
Canadian Commercial Corporation	\$422,243
Enterprise Cape Breton Corporation	\$348,321
Export Development Canada	\$826,951
Business Development Bank of Canada	\$939,660
Freshwater Fish Marketing Corporation	\$368,145
Marine Atlantic	\$594,181
Standards Council of Canada	\$392,961

Exhibit D.1 Cost of preparing annual audit reports for fiscal years ending on or before 31 March 2005

Crown corporation	Fiscal year ended	Cost
Atlantic Pilotage Authority	31.12.04	\$ 60,298
Atomic Energy of Canada Limited (joint auditor)	31.03.05	348,727*
Blue Water Bridge Authority	31.08.04	62,290
Business Development Bank of Canada (joint auditor)	31.03.05	369,792*
Canada Deposit Insurance Corporation	31.03.05	94,660*
Canada Development Investment Corporation (joint auditor)	31.12.04	90,433
Canada Lands Company Limited (joint auditor)	31.03.05	208,858*
Canada Mortgage and Housing Corporation (joint auditor)	31.12.04	357,523
Canada Science and Technology Museum Corporation	31.03.05	105,034*
Canadian Air Transport Security Authority	31.03.05	339,067*
Canadian Commercial Corporation	31.03.05	145,282*
Canadian Dairy Commission	31.07.04	125,961
Canadian Museum of Civilization Corporation	31.03.05	125,796*
Canadian Museum of Nature	31.03.05	96,646*
Canadian Tourism Commission	31.12.04	240,535
Cape Breton Development Corporation	31.03.05	81,580*
Cape Breton Growth Fund Corporation	31.03.05	45,725*
Defence Construction Canada	31.03.05	67,452*
Enterprise Cape Breton Corporation	31.03.05	101,617*
Export Development Canada	31.12.04	689,212
Farm Credit Canada	31.03.05	417,360*
Freshwater Fish Marketing Corporation	30.04.04	153,918
Great Lakes Pilotage Authority	31.12.04	117,618
Laurentian Pilotage Authority Canada	31.12.04	108,675
Marine Atlantic	31.12.04	186,808
National Capital Commission	31.03.05	243,333*
National Gallery of Canada	31.03.05	108,649*
Old Port of Montréal Corporation Inc.	31.03.05	183,864*
Pacific Pilotage Authority Canada	31.12.04	47,455
Parc Downsview Park Inc.	31.03.05	127,844*
Queens Quay West Land Corporation	31.03.05	39,448*
Ridley Terminals Inc.	31.12.04	100,818
Royal Canadian Mint	31.12.04	403,300
Standards Council of Canada	31.03.05	55,333*
Telefilm Canada	31.03.05	90,542*
The Federal Bridge Corporation Limited	31.03.05	43,916*
The Jacques Cartier and Champlain Bridges Incorporated	31.03.05	82,298*
The Seaway International Bridge Corporation Limited	31.12.04	59,532
VIA Rail Canada Inc. (joint auditor)	31.12.04	347,088

*Preliminary costs subject to year-end adjustments

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