

2007



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

**FEBRUARY**

**A Message from**  
**the Auditor General of Canada**  
**Main Points—Chapters 1 to 7**  
**Appendix**



Office of the Auditor General of Canada

*The February 2007 Status Report of the Auditor General of Canada comprises a Message from the Auditor General, Main Points—Chapters 1 to 7, an Appendix, and seven 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  
Vérificatrice générale du Canada

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To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith my first Report of 2007 to the House of Commons, which is to be laid before the House in accordance with the provisions of subsection 7(5) of the *Auditor General Act*.

Sheila Fraser, FCA  
Auditor General of Canada

OTTAWA, 13 February 2007



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**A Message from  
the Auditor General of Canada—  
Status Report 2007**





# A Message from the Auditor General of Canada— Status Report 2007



Sheila Fraser, FCA  
Auditor General of Canada

The regular reports we present to Parliament on our performance audits provide information about how well the government is performing against its own yardstick—its own objectives, legal requirements, and other relevant standards. We report what is working well and what needs improvement.

We use the same yardstick to assess departments' performance when we return two or three years later to look at whether they have improved. Have they narrowed the gap between the relevant operational standards and their actual performance? And is this progress satisfactory in light of how much time has elapsed between the original audit and our follow-up work? In our yearly Status Report to Parliament, we provide this assessment of what the government has done to address our recommendations from a selection of previously reported performance audits.

We are pleased to note satisfactory progress in five of the seven chapters in this year's Status Report. Our follow-up audit of the government's advertising activities in particular found significant progress in the selection of advertising agencies and the Agency of Record (the private sector supplier that purchases media time and space for the government's advertising). Given the serious weaknesses that we identified in our original audit of government advertising activities, this year's findings are good news.

Progress was unsatisfactory on two fronts: the management of the Social Insurance Number and the management of the Coast Guard's fleet and marine navigational services. Each area involves long-standing problems that we are now reporting for the fourth time since 1998 in one case and the third time since 2000 in the other.

## Satisfactory progress

### Advertising and Public Opinion Research

The government uses advertising to inform Canadians not only about government services, programs, initiatives, and policies but also about their rights and responsibilities. It is also an important tool for informing the public about dangers or risks to the environment or to public health and safety, for example. Public opinion research plays an important role in developing policies and programs that affect the public. It is a critical tool for gathering information on the public's opinions, perceptions, and reactions or views.

We looked at a sample of advertising campaigns and public opinion research projects to see whether the departments administering them were exercising adequate management and control and whether changes made in response to our 2003 audit recommendations had resolved our concerns. We also looked at the role played by PWGSC.

Our follow-up audit found that PWGSC has made satisfactory progress toward ensuring that it awards advertising and public opinion research contracts in a fair and transparent manner. It used a competitive process to establish standing offers and supply-arrangement lists that represent a pool of qualified firms who can provide advertising and public opinion research services. We found that the process for choosing the Agency of Record was fair and transparent.

We also found that the audited departments properly administered their advertising campaigns, authorized their placement in the media, and evaluated and reported the results.

In public opinion research, however, departments did not always document the need for planned research and notify PWGSC, before they contacted a potential supplier, that they intended to conduct research.

### **International Taxation—Canada Revenue Agency**

The globalization of the workforce and growth in international investment have significant impacts on the taxes owed to Canada, both by Canadian residents earning income and doing business abroad and by non-residents earning income in Canada. The amounts involved are significant—by the Agency’s estimate, transactions conducted by Canadian corporations with related parties in foreign jurisdictions totalled \$1.5 trillion in 2005. Non-residents paid over \$4.9 billion last year in taxes on income earned in Canada.

We found that the Agency has made satisfactory progress in addressing the recommendations we made in our 2001 and 2002 audits of non-resident taxation and the taxation of international transactions by Canadians. It is better able to identify potential non-compliance with the tax rules for international transactions. It improved most of its risk assessment tools, and it introduced initiatives to detect aggressive international tax planning schemes

The Agency has also given tax services offices clearer guidance on non-resident tax administration policies and has issued new manuals and communication bulletins to auditors and taxpayers.

It has yet to deal with the low level of expertise in international tax audit at some of the tax services offices that handle the highest-risk files. This lack of expertise could result in inconsistencies across the country in the audit approach to and coverage of international transactions, and a loss of tax revenue. Problems also remain in the matching of non-resident tax data, hampering compliance efforts.

### **Passport Services—Passport Canada**

In 2005, we reported that the Passport Office (now Passport Canada) was struggling to meet higher expectations for security and growing demands for service. Since then, it has dealt with an unprecedented demand, issuing over three million passports in 2005–06.

In the relatively short time since our 2005 audit, Passport Canada has made satisfactory progress in addressing our recommendations. Examiners now have appropriate tools and training to determine whether identity documents provided with passport applications are authentic. Almost all key employees with access to critical assets have been cleared to the “secret” level. Missions abroad now print only emergency travel documents and temporary passports with added security features. Related training has been developed for consular staff.

Passport Canada has also significantly enlarged its “watch list” containing names of people who are on parole or incarcerated—information it has used to refuse applications or to investigate them further.

Weaknesses remain, however, in the critical areas of security and verification of identity. Controls over the system are still weak, so unauthorized persons could trigger the passport issuance process. Most important, to preserve the integrity of passports it is critical that the Agency establish electronic links to partner organizations’ databases on vital statistics and criminality. To do so, it will need the cooperation of other departments and agencies in both the federal and the provincial or territorial governments.

It is worth noting that, while its recently established Project Management Bureau has brought appropriate discipline to the way improvement projects are managed, Passport Canada is attempting to carry out simultaneously several substantial projects that will significantly reform the way it does business. It will need the continued support of Foreign Affairs and International Trade Canada, the Treasury Board Secretariat, and its partner government departments to reach its goals.

### **Management of Leading-Edge Research—National Research Council Canada**

The National Research Council (NRC) is the federal government's largest research organization. Its science and technology activities support the government in areas such as health and safety, protection of the environment, communications, and economic development. The NRC also supports efforts by Canadian small and medium-sized enterprises to improve their technological competitiveness and innovation.

Since our audit in 2004, the NRC has made satisfactory progress with the steps it has taken to address our recommendations on corporate governance, research management, and management of human resources. The appointed Council that governs its operations has strengthened its role and, since June 2005, has been involved in major policy and budgetary decisions. It also adopted a new committee structure. We are concerned, however, that the number of continuing vacancies on the Council hampers its ability to govern effectively.

The NRC's research institutes have taken steps to improve the way they manage research projects. We observed the widespread use of clear criteria to determine priorities and guide project selection. We also noted several good practices used in selecting and reviewing research projects. The NRC also implemented several human resource management initiatives.

Action on some of our recommendations was delayed in order to put new management systems and processes in place to implement the NRC's new corporate strategy.

### **The Conservation of Federal Built Heritage**

Federal built heritage consists mainly of buildings, battlegrounds, forts, archaeological sites, and canals of historic significance. When important parts of Canada's built heritage are lost, future generations lose their access to key moments of Canadian history.

We found that Parks Canada has made satisfactory progress in responding to our 2003 audit recommendations on the need for better protection of our built heritage. The Agency has proposed a policy to strengthen the legal protection of built heritage and has made progress in developing key management documents for national historic sites. The government gave it additional capital funds for infrastructure, and the Agency has allocated part of that funding to the conservation of cultural resources at the national historic sites in its custody.

In other departments that have custody of built heritage, however, the news is not good. Unlike Parks Canada, whose custodial responsibilities are established in the *Parks Canada Act* as well as in the Treasury Board Heritage Buildings Policy, other departments manage only under the policy. The policy applies to heritage buildings only, and so national historic sites and other heritage elements such as archaeological sites, canals, and cultural landscapes are not getting the level of protection they need.

Furthermore, the policy deals with the designation of heritage buildings and their conservation as two separate processes, with no provision for planning and managing them together. As a result, while the number of designated heritage buildings is growing, there is no parallel growth in the funding of custodial departments and agencies for heritage conservation.

### Unsatisfactory progress

#### **The Management of the Social Insurance Number—Human Resources and Social Development Canada**

Social Insurance Numbers (SINs) are issued and administered under the *Employment Insurance Act*, largely by Service Canada within Human Resources and Social Development Canada. How federal departments may collect and use the SIN is governed by legislation and Treasury Board policies.

While the government has made significant improvements in the management of the SIN since our last audit, we consider its progress to be unsatisfactory because of two serious and long-standing problems not yet resolved—uncertainty about the quality of information in the Social Insurance Register, and lack of clarity in the policies on how federal departments may use the SIN.

In 2002, we reported that we were concerned about the quality of information in the Social Insurance Register—the database containing the basic personal information provided by individuals who apply for a SIN. In our follow-up, we found that while the Department has made efforts to improve data quality, it has not established goals for quality and does not measure it systematically. Therefore, it cannot be sure of the quality of information it retains in the Register.

We also found that the continuing lack of clarity in the policies on how federal organizations may use the SIN has led to inconsistent interpretation of the rules. This makes it difficult for departments to be sure they use the SIN appropriately.

Service Canada has made satisfactory progress in many areas to strengthen the management of the SIN. It developed the SIN code of practice, redesigned the SIN issuance process, changed its proof-of-identity standards, and improved the way it identifies and investigates SIN-related fraud.

Strong management of the Social Insurance Number—including clear policy guidance on its use in the federal government—is more important than ever, given the growing global incidence of identity theft, fraud, and security risks.

### **Managing the Coast Guard Fleet and Marine Navigational Services—Fisheries and Oceans Canada**

In 2000 and 2002, we reported that Fisheries and Oceans Canada had not managed the Canadian Coast Guard fleet and marine navigational services cost-effectively. The Coast Guard has since been made a special operating agency within the Department, headed by a Commissioner, to give it more autonomy and flexibility.

Canadian mariners, like others around the world, are increasing their reliance on electronic navigation rather than traditional aids such as buoys and light stations. As the main Canadian provider of marine navigational services, the Coast Guard must make the same transition.

Our follow-up audit found that the Coast Guard has not developed the national policies and national service standards or the integrated planning, management, and performance information systems that are needed to transform itself into a strong national institution. It still operates largely as five regional coast guards, each with its own way of doing things.

The Coast Guard fleet is aging, and it is costly to maintain and operate. Based on the current schedule for replacing vessels, many will not be replaced until long past their estimated useful lives. The growing unreliability of the vessels is hampering the Coast Guard's ability to support the programs of Fisheries and Oceans Canada and other client departments. For example, key annual fish stock surveys have had to be cancelled or postponed when vessels were not available.

The Coast Guard has a history of failing to complete planned initiatives. Implementation of the special operating agency—a key government initiative designed to change the way the Coast Guard operates—is behind schedule. And as the Coast Guard has modernized its aids to navigation with new technologies, it has been unable to shed old facilities it no longer needs.

Our chapter on the Coast Guard identifies three fundamental reasons for that organization's continuing lack of progress on the issues we are again raising. First, its "can do" philosophy leads it to accept assigned duties even when, realistically, there is no way it can deliver. Second, the organization does not prioritize—after our 2000 audit, the Coast Guard addressed all of our recommendations at once, despite the large number of issues involved and its limited management capacity. As a result, the initiatives stalled at various stages of completion. And third, there is a lack of organizational and individual accountability in the Coast Guard for the commitments it makes.

## Conclusion

Audit, by nature, focuses on areas in need of improvement. Sometimes people ask if anything changes as a result of our reports. Does government take action? This year, I am pleased to be able to answer that question affirmatively in the majority of the areas we revisited in this report.

Where progress was satisfactory, what were the success factors that made the difference? Mostly, they were the setting of priorities, strong commitment from senior management to achieving them, clear action plans, and support in the form of adequate resources to achieve the goals.

Passport Canada, for example, was able to achieve satisfactory progress in a relatively short time under the strong leadership and commitment of its senior management. It translated plans into action and was open to our recommendations and the suggestions of both the Public Accounts Committee and Passport Canada staff.

Parks Canada was able to improve its management of built heritage also because of senior management's commitment, as demonstrated by its continuous efforts to strengthen the conservation regime.

Public Works and Government Services Canada, National Research Council Canada, and the Canada Revenue Agency also deserve recognition for the satisfactory progress they have achieved in the specific areas we looked at.

Several times in the past, we have highlighted the absence of strong leadership as a root cause of slow progress in fixing problems that our audits have found. This report clearly shows the difference made when strong commitment is present at the top of the organization.







**Main Points—Chapters 1 to 7**





# Advertising and Public Opinion Research

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## Chapter 1 Main Points

### What we examined

When we last reported on advertising and public opinion research in 2003, we assessed the extent to which the government had ensured effective control over its spending on these activities and whether it was measuring their results and reporting them to Parliament.

This time, we audited advertising campaigns and public opinion research projects to see whether the departments administering them were exercising adequate management and control and whether changes made in response to our 2003 recommendations were effective. We also looked at the roles played by the Privy Council Office, the Treasury Board Secretariat, and Public Works and Government Services Canada (PWGSC). We did not follow up on our 2003 audit of sponsorship activities; nor did we update our work on the quality of public opinion research, which we reported in 2005.

### Why it's important

The government uses advertising to inform the Canadian public not only about government services, programs, initiatives, and policies but also about their rights and responsibilities. It is also an important tool for informing the public about dangers or risks to the environment or public health and safety, for example. In the 2004–05 fiscal year, the government paid \$49.5 million to agencies for advertising and media placements.

Public opinion research plays an important role in developing policies and programs that affect the public. It is a critical tool for gathering information on the public's opinions, perceptions, and reactions or views. In the 2004–05 fiscal year, the government spent \$29 million on public opinion research.

### What we found

- PWGSC has made satisfactory progress in ensuring that it awards contracts for advertising and public opinion research through a fair and transparent process, in accordance with the Treasury Board's Contracting Policy.
- Departments have made satisfactory progress in ensuring that they plan for advertising activities and manage suppliers in accordance with the Communications Policy of the Government of Canada.

- The government has made satisfactory progress in its control over the expenditure of public funds on advertising and public opinion research activities.
- The results of advertising and public opinion research have been measured and reported in accordance with the requirements established by the Communications Policy of the Government of Canada.
- Some departments are still not complying with all requirements that apply to public opinion research. For example, some have contacted a research firm before informing PWGSC that they intend to carry out public opinion research activities.

**The government has responded.** The government has agreed with the observations and recommendation of our report. Its detailed response follows the recommendation in the chapter.



# The Conservation of Federal Built Heritage

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## Chapter 2 Main Points

### What we examined

The built heritage includes the sites, structures, and monuments that are recognized for their historic significance. Federal built heritage consists mainly of heritage buildings and national historic sites. These can include, for example, buildings, battlegrounds, forts, archaeological sites, canals, and historic districts.

We examined progress made by the Parks Canada Agency in addressing recommendations from our 2003 audit, when we reported that built heritage was at risk. We recommended that the Agency continue its efforts to strengthen the legal framework for protecting built heritage and implement its management framework for national historic sites as quickly as possible.

In this follow-up audit we broadened our examination to include not only Parks Canada Agency but also National Defence and Public Works and Government Services Canada. Together, the three organizations have custody of about 75 percent of national historic sites and heritage buildings owned by the federal government. We examined the specific conservation actions they have taken since our 2003 audit in a sample of 11 national historic sites and 8 classified federal heritage buildings located in six provinces.

### Why it's important

Federal built heritage includes such sites as the Cape Spear Lighthouse in St. John's, La Citadelle in Québec City, Fort Henry in Kingston, Cave and Basin in Banff, and the Admiral's Residence on the Esquimalt Naval Base on Vancouver Island. These places recall the lives and history of the men and women who built this country, and they foster awareness of how Canadian society evolved. They help us to better understand the present and prepare for the future. They contribute in important ways to Canadians' sense of belonging to their community. When important parts of Canada's built heritage are lost, future generations of Canadians are deprived of access to key moments of their shared history.

**What we found**

- Parks Canada Agency has made satisfactory progress in addressing our 2003 recommendations. However, conservation of heritage buildings and national historic sites that are in the custody of other federal organizations is at risk because of gaps in the Treasury Board Heritage Buildings Policy.
- Parks Canada Agency has developed a policy proposal to strengthen the legal framework for protecting federal built heritage. It has made progress in developing key documents for managing national historic sites. However, the Agency is behind in its schedule for completing its management plans for national historic sites. It has also taken steps to preserve the sites and structures that we reported to be in poor condition in 2003. The Agency has received additional capital funding to reinvest in its infrastructure, and has allocated part of that funding to the conservation of cultural resources at the national historic sites in its custody.
- The Treasury Board Heritage Buildings Policy offers limited protection to the built heritage in the custody of departments and agencies other than Parks Canada Agency. The Policy applies to heritage buildings only, not to national historic sites or other heritage elements such as archaeological sites, canals, and cultural landscapes. The Treasury Board Policy has no requirements for reporting on heritage conservation. As a result, little information is available on how well custodial departments are conserving the built heritage in their custody.
- The Policy, as it applies to custodial departments other than Parks Canada Agency, does not connect the designation of heritage buildings with their conservation and does not provide for a process to do so. Designation and conservation are separate functions. As a result, while there are a growing number of designated heritage buildings that require protection, there is no parallel growth in the financial capacity of custodial departments and agencies for conservation. These gaps in the Policy are obstacles to informed decision-making and priority setting for built heritage conservation.

**The departments and agencies have responded.** The departments and agencies have agreed with each recommendation made in the chapter. Their detailed responses follow each recommendation throughout the Chapter.



# Management of Leading-Edge Research

## National Research Council Canada

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### Chapter 3 Main Points

#### What we examined

The National Research Council Canada (NRC) is the federal government's most comprehensive scientific and industrial research organization. It reports to Parliament through the Minister of Industry and is governed by a Council of 22 federal appointees, including the President.

We examined the progress made by the NRC in addressing the recommendations from our 2004 audit, when we reported problems related to the NRC's corporate governance, mechanisms for setting strategic direction, management of research projects and human resources, and performance measurement and reporting.

#### Why it's important

Through its science and technology activities in areas such as aerospace, biotechnology, and information and communication technologies, the National Research Council makes an important contribution to the fulfillment of the government's responsibilities in areas such as health and safety, protection of the environment, communications, and economic development. The NRC also supports the efforts of Canadian small- and medium-sized enterprises to improve their technological competitiveness and innovative capability.

The NRC employs about 4,000 scientists and support staff in 18 research institutes and 2 technology centres across Canada. Its annual spending is about \$800 million. It is essential that the NRC be able to recruit and retain the best scientists and researchers and manage its research activities strategically to ensure that its work remains relevant for Canada's future research needs in science and technology.

#### What we found

- The National Research Council has made satisfactory progress overall since 2004 in responding to our recommendations. It has addressed the recommendations in the area of corporate governance, corporate strategic direction, and human resources management. However, progress is unsatisfactory in the documenting of key decisions at the institute level and in performance measurement and reporting.

- The NRC's Council has approved a new role for itself, one that is better aligned with the NRC's mandate under the *National Research Council Act*. Nevertheless, some members said their role was still not clear to them. The Council has begun to exercise its revised role by approving or recommending for approval several key policy and budgetary proposals since June 2005. It has also established two new standing committees—the Audit, Evaluation and Risk Management Committee and the Human Resources Committee. However, at the time of our audit, about half of the positions on the Council were vacant, despite the NRC's efforts to have the government appoint additional Council members. The number of vacancies hampers the ability of the Council and its standing committees to function effectively.
- The NRC has put in place new management systems and processes to implement a new corporate strategy, the NRC Strategy, released in May 2006. Development of its first corporate business plan, currently planned by March 2007, awaits the completion of critical milestones scheduled for the first year of the NRC Strategy.
- The NRC follows several good practices in selecting and monitoring research projects, but essential management information on projects is not always easily or uniformly retrievable. Although most institutes have priorities for selecting, reviewing, and terminating research projects, documentation such as rating sheets or rankings is often unavailable or incomplete. Peer review and outside input are sometimes only implicit.
- While the NRC has created a plan and established key positions for human resources management, it has not set strategic priorities for human resources management and linked them to key functions such as recruitment, staffing, and succession planning. This is a task scheduled for completion as part of implementing the NRC Strategy.
- The NRC has not improved its performance reports to Parliament.

**The National Research Council Canada has responded.** The National Research Council Canada has accepted all of the Auditor General's recommendations and has committed to take action. Its responses follow the recommendations throughout the chapter.





# Managing the Coast Guard Fleet and Marine Navigational Services

## Fisheries and Oceans Canada

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### Chapter 4 Main Points

#### What we examined

We examined progress made in addressing our recommendations from audits in 2000 and 2002, when we reported that Fisheries and Oceans Canada had not managed the Canadian Coast Guard fleet and marine navigational services cost-effectively. Many management problems we found in those audits were similar to our observations in a 1983 audit of Canadian Coast Guard operations. The Coast Guard became a special operating agency within Fisheries and Oceans Canada in 2005. This change is intended to affirm the Coast Guard as a national institution.

Since our 2002 audit, the Coast Guard has played an increasing role in supporting maritime security. In our follow-up audit, we looked at this emerging role and its implications for managing the fleet and marine navigational services.

#### Why it's important

The safe and efficient passage of vessels through Canadian waters depends on reliable and sophisticated marine navigation systems. Like others around the world, Canadian mariners are increasing their reliance on electronic navigation rather than traditional physical infrastructure such as buoys and light stations. As the main Canadian provider of marine navigational services, the Coast Guard must make the same transition.

The Coast Guard also provides icebreaking and search and rescue services, and supports other programs of Fisheries and Oceans Canada, such as science and fisheries management, and those of other government departments. Its fleet is used to gather scientific data for key decisions such as how much fish can be taken by fishers, what species need protecting, and where aquaculture sites can be established. Use of the Coast Guard's fleet is also important to fishery officers who enforce domestic and certain international rules that govern the fisheries.

#### What we found

- Fisheries and Oceans Canada has made unsatisfactory progress over the last four to six years in implementing our recommendations. The Coast Guard has not been able to use its status as a line organization,

and then as a special operating agency within the Department, to become a strong national institution. It still operates largely as five regional coast guards, each with its own way of doing things. The Coast Guard has not developed national policies, service levels, and integrated planning, management, and performance information systems that are necessary to transform itself into a national institution.

- The Coast Guard has an aging fleet that is costly to maintain and operate. Progress in renewing the Coast Guard's fleet has been slow. The current replacement schedule is already becoming outdated and unrealistic. It provides for replacing many vessels long after they have passed their estimated useful lives. For example, the estimated useful life of an icebreaker is 30 years, but, as currently scheduled, they will be between 40 and 48 years old when they are replaced.
- The Coast Guard's vessels are becoming increasingly unreliable, which is having an impact on its ability to support the Department's programs and those of other government departments. For example, certain key fish stock surveys have had to be cancelled because vessels were not available. The absence of standard vessel maintenance practices has contributed to equipment failure on board vessels leading to lengthy and costly periods when vessels are not in service. The project designed to address life cycle management issues is at least two years behind schedule.
- The Coast Guard's modernization of its operations has been slow and not managed well. The Coast Guard has a history of failing to complete planned initiatives. For example, implementation of the special operating agency, which is a key government initiative designed to change the way the Coast Guard operates, is behind schedule. As the Coast Guard has modernized through investing in new technologies, it has been unable to develop and implement strategies to shed old infrastructure and facilities that are no longer needed for their original purpose. New technologies designed to improve marine safety and to save costs through efficiency end up costing the organization more.

**Fisheries and Oceans Canada has responded.** Fisheries and Oceans Canada has agreed with our recommendation. Its detailed response follows our recommendation in paragraph 4.89.



# Passport Services

## Passport Canada

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### Chapter 5 Main Points

#### What we examined

Passport Canada (formerly the Passport Office) is responsible for enforcing the Canadian Passport Order, which specifies who is entitled to a Canadian passport and what conditions must be met. We examined Passport Canada's progress in addressing our audit recommendations from April 2005, when we reported that it was struggling to meet heightened expectations for security and growing demands for service. In this follow-up audit, we assessed the measures that Passport Canada has taken in these areas since our previous audit.

#### Why it's important

Confidence in the passport (that the bearer is who he says he is) is critical to trade, the economy, and travel across borders. Passport Canada is responsible for issuing Canadian passports to eligible Canadian citizens and for revoking Canadian passports when entitlement has been compromised. In 2005–06 it issued an unprecedented volume of passports (over three million), as the proportion of Canadians holding a passport approached 40 percent.

#### What we found

- Overall, Passport Canada has made satisfactory progress toward addressing our recommendations in the relatively short interval since our 2005 audit. However, much work is left to do in order to resolve weaknesses that remain in the critical areas of security and verification of identity.
- Examiners now have appropriate tools and training to determine whether identity documents are authentic. Almost all key employees with access to critical assets had been cleared to the Secret level. But controls over access to the system are still weak. This means that people not authorized to issue passports could trigger the issuance process. Further, Passport Canada has not yet carried out a detailed assessment of security risk. Nor does its recently developed quality assurance program address a key area—how examiners arrive at the decision to grant a passport.
- Missions now print only emergency travel documents, and temporary passports with security features similar to those on passports printed in Canada. Related training has been developed for consular staff, based on domestic training material.

- Passport Canada has received good cooperation from Correctional Service Canada and the RCMP, which have information it needs to determine passport entitlement. It has significantly enlarged its “watch list” for names of people on parole or incarcerated, information it has used to refuse applications or investigate them further. However, it still has problems to resolve before it can process information from the Canadian Police Information Centre (CPIC) database that would allow it to check for those charged with serious crimes.
- Passport Canada relies on provincial and territorial registries and on Citizenship and Immigration Canada (CIC) for data to verify birth and citizenship information on passport applications. It is currently accessing this data instantaneously through electronic links as part of a complex project with two provinces and two federal partners. However, Passport Canada has not yet established necessary links to identity information with the other provinces and CIC. Efforts to do so continue.
- Passport Canada established a Project Management Bureau that brought appropriate discipline to the way improvement projects are managed. However, the large number and complex nature of the projects represent a challenge for an organization of Passport Canada’s size, and there is a risk that a significant delay in any project could seriously impair Passport Canada’s plans and operations.

**Passport Canada has responded.** Passport Canada has agreed with our recommendation and has indicated how it will address it.



# The Management of the Social Insurance Number

## Human Resources and Social Development Canada

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### Chapter 6 Main Points

#### What we examined

A Social Insurance Number (SIN) is a unique nine-digit number used by any person who earns money through work, pays taxes, contributes to a pension plan, or uses any of a number of government services. SINs are issued and administered under the *Employment Insurance Act*, largely by Service Canada within Human Resources and Social Development Canada. How federal departments may collect and use the SIN is governed by legislation and the Treasury Board's privacy policies.

We looked at the progress the Department and the Treasury Board Secretariat have made in responding to our recommendations from 2002, when we reported that the Department (then Human Resources Development Canada) had not done enough to safeguard and strengthen the integrity of the SIN. We also reported that the policy on how federal organizations should use the SIN was unclear and open to different interpretations. In this follow-up audit, we assessed whether the Department and the Secretariat had taken satisfactory action to ensure the appropriate use of the SIN; to strengthen the process for issuing new SINs and replacement cards; to ensure the accuracy, completeness, and reliability of data in the Social Insurance Register; and to improve the investigation of SIN-related fraud.

#### Why it's important

Several of the federal government's largest programs use the SIN. In the 2005–06 fiscal year, the SIN was used in issuing about \$12.5 billion in Employment Insurance benefits, about \$53.8 billion in Old Age Security and Canada Pension Plan benefits, and more than \$1.3 billion in Canada Student Loans. By law, anyone submitting income tax information to the Canada Revenue Agency must also use the SIN. This includes some municipal and provincial agencies, employers, banks, credit unions, and trust companies.

The importance of the SIN is clear from its widespread use both within and outside the federal government. For example, the Social Insurance Register is used to validate the identity of individuals applying for certain federal benefits. Confirming identity has taken on heightened importance in light of growing security concerns, identity fraud, and

use of the Internet and telephone for service delivery. Consequently, maintaining the privacy, security, and integrity of the SIN and the Register is critical in order to protect individuals, businesses, and government from SIN-related fraud.

### What we found

- Overall progress in addressing our previous recommendations is unsatisfactory because two significant and long-standing issues remain unresolved, despite satisfactory progress in several other areas.
- The Department has made satisfactory progress in improving the way it issues SINs and identifies and investigates SIN-related fraud. It has strengthened the standards for establishing identity, citizenship, and proof of need before issuing a new SIN or a replacement card. It has also redesigned the process for issuing SINs and has taken steps to adopt a more risk-based approach to SIN investigations.
- While the Department has continued its efforts to improve the Social Insurance Register—the database containing the basic personal information provided by individuals who apply for a SIN—its progress is unsatisfactory. It has set no goals for the accuracy, completeness, and reliability of the data, and its measurement of data quality has been unsystematic and limited in scope. The Department therefore has limited assurance that the accuracy, completeness, and reliability of Register data are adequate, a concern we first raised in 1998. However, current efforts underway during this audit and plans to develop a comprehensive quality measurement and reporting system for the Register indicate that the Department is heading in the right direction to resolve this important issue.
- The policies that govern how federal departments may use the SIN are not clear. The current policies were issued by the Treasury Board under the *Privacy Act* in 1989. In 2003 the Treasury Board Secretariat completed a comprehensive review on the use of the SIN and data matching in the federal government. The review found several gaps in the existing policy framework, including a need for greater clarity concerning the use of the SIN for identity validation and data matching, a concern we first raised in 1998. However, due to other priorities, the Secretariat has not yet issued updated policies and guidelines. In the meantime the continuing lack of clarity has led to different interpretations and applications of the current policies on control of the SIN.

**Human Resources and Social Development Canada, Service Canada and the Treasury Board Secretariat have responded.** They have agreed with our recommendations and have committed to take action. Their responses are included throughout the chapter.



# International Taxation

## Canada Revenue Agency

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### Chapter 7 Main Points

#### What we examined

We examined the Canada Revenue Agency's progress in addressing the significant recommendations we made in our 2001 and 2002 audits of non-resident taxation and taxation of international transactions of Canadian residents. In 2001 we reported that the Agency lacked an effective approach to assessing risk in its compliance work on non-resident tax files. Further, we found that the Agency did not have electronic data or data-matching systems for non-residents that were comparable with those used for detecting non-compliance by Canadian residents. We also said it was important that the Agency continue pursuing cases of aggressive tax planning and abuse of tax treaties.

In 2002 we reported that the Agency needed to improve its ability to assess the risks associated with taxing the international transactions of Canadian residents. We noted serious problems in the level of audit expertise in key tax services offices that handled the complex international tax audits of large corporations.

In this follow-up audit we looked at how the Agency currently identifies, plans, and staffs both non-resident compliance activities and international audits across the country.

#### Why it's important

A growing number of Canadian individuals, trusts, and corporations are undertaking transactions with entities in foreign jurisdictions, in many cases with related parties. This could result in diverting tax away from Canada. The Agency estimates that over 16,000 Canadian corporate taxpayers now report some type of foreign transaction with related parties. The Agency estimates the value of these transactions at over \$1.5 trillion in 2005.

Canada's tax treaties with other countries reduce the amount of tax that must be paid by non-residents on certain types of income earned in Canada. With the growing globalization of the workforce and international investment, it is important that the Agency be able to ensure that the correct amounts of tax are withheld and that



non-residents file returns if required and pay the taxes they owe. Last year over \$4.9 billion in taxes was paid by non-residents.

### What we found

- Overall, the Agency has made satisfactory progress in implementing our recommendations. It has not fully implemented some of our recommendations, however, because they concern complex issues that take a long time to resolve or they require legislative changes that have not been made.
- The Agency has taken action to clarify administrative policies, to properly record both the time spent on international audits and the results of those audits, and to verify the payment of tax on capital gains by emigrants. It also continues to be vigilant in recognizing the tax risk associated with aggressive international tax planning and possible treaty abuse. With the additional resources it received in the February 2005 federal Budget, the Agency is developing its research capacity to identify new international tax planning schemes and has directed more resources to auditing international tax avoidance.
- The Agency has undertaken some good initiatives in developing risk assessment techniques and tools for planning audits of international tax issues. It has made satisfactory progress in implementing most elements of the risk assessment approach we recommended in 2002.
- The Agency has not developed any new initiatives to deal with the low level of international tax audit experience, which continues in some of the Tax Services Offices with the highest-risk files. A lack of expertise could result in an inconsistent international audit approach and coverage across the country, and a loss of tax.
- The Agency has not made satisfactory progress in implementing electronic data capture and matching of non-resident tax data which would improve both service to non-residents and non-resident tax compliance activities.

**The Agency has responded.** The Agency agrees with all of our recommendations. Its detailed response follows each recommendation throughout the chapter.





Appendix



## **Appendix** 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* requires the President of the Treasury Board to lay before each House of Parliament, no later than 31 December of each year, 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. The Act also requires the Auditor General to audit the accuracy of the report and to present the results in her annual report to the House of Commons.

The President of the Treasury Board's report on the timing of tablings was included in the *2006 Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada*, which was tabled on 13 December 2006.

At the time that our November 2006 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. Our Auditor's report was subsequently appended to his report and is reproduced on page 32.

## 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 2006, the information presented in the report *Tabling of Crown Corporations' Reports in Parliament* included in the *2006 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 Deadlines for Tabling in Parliament and Results Achieved.

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

Ottawa, Canada  
10 November 2006

# Report of the Auditor General of Canada to the House of Commons—February 2007

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