

2005



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

APRIL

A Message From
the Auditor General of Canada

Main Points



Office of the Auditor General of Canada

The April 2005 Report of the Auditor General of Canada comprises six chapters, and a Message From the Auditor General of Canada and Main Points. The main table of contents is found at the end of this publication.

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Auditor General of Canada
Vérificatrice générale du Canada

To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith my second Report of 2005 to the House of Commons, which is to be tabled in the House in accordance with the provisions of subsection 7(5) of the *Auditor General Act*.

This Report includes an addendum containing verbatim copies of environmental petitions and ministers' responses received under the *Auditor General Act* from 1 July 2004 to 4 January 2005.

Sheila Fraser, FCA
Auditor General of Canada

OTTAWA, 5 April 2005



**A Message From
the Auditor General
of Canada**



Sheila Fraser, FCA
Auditor General of Canada

A Message From the Auditor General of Canada

Accountability for security and intelligence activities: A new challenge for Parliament

Security and intelligence activity in the Government of Canada has expanded considerably in recent years, particularly since September 11, 2001. The federal government now spends more than \$1 billion a year on these activities.

Parliament needs objective information to determine whether public funds have been spent properly and managed well. For most activities of government, it is my job as Auditor General to provide that information in our performance audit reports.

Security and intelligence activities, however, create special problems for our normal process of providing information to Parliament and, once tabled, to the wider public. By their very nature, many aspects of security and intelligence activities must remain secret.

This dilemma became very real to us when we were preparing one of the chapters in this report. Chapter 2 on the 2001 anti-terrorism initiative deals with certain aspects of the air passenger security system managed by Transport Canada and the Canadian Air Transport Security Authority.

To determine the effectiveness of the passenger security system, Transport Canada uses a measure called the infiltration failure rate. This is the rate at which security screeners fail to detect “threat objects” such as simulated knives, simulated bombs, and simulated guns when inspectors attempt to carry them past the security screener.

This information has been classified as secret and, accordingly, we may not report it. As Auditor General, I must respect the government’s information security regime.

Parliament, however, faces a challenge in holding the government to account for security and intelligence activities. For example, passenger screening at airports involves weighing considerations such as how much security is desired, how long passengers are willing to wait, how intrusive a screening process they are prepared to accept, and what costs passengers and the rest of society are prepared to pay. While decisions on how to balance these questions are up to the government, it is up to Parliament to hold the government accountable for those decisions on behalf of Canadians.

How can Parliament scrutinize the spending and performance of security and intelligence activities if key information must be kept secret? How will members of Parliament conduct an informed debate about security and intelligence matters?

One possible solution would be to create a mechanism such as a committee of Parliament, bound to secrecy and acting on behalf of the whole, that could receive reports containing classified information from security and intelligence agencies—perhaps in the form of secure annexes to their reports on plans and priorities and their departmental performance reports. This committee could also receive information from organizations such as the Security Intelligence Review Committee and the Office of the Auditor General, charged with scrutinizing these agencies' activities on behalf of Parliament.

Indeed, we understand that the government is contemplating the creation of such a mechanism, modeled somewhat on the United Kingdom's practice. We encourage the government to move expeditiously on this. Security and intelligence have become a significant part of the federal government's activities and should receive the informed attention of Parliament.

As it happens, four of the chapters in this Report cover government activities that have implications for national security. Our audits of the 2001 anti-terrorism initiative, the Passport Office, and Natural Resources Canada looked at issues of national security or emergency preparedness. National Defence's C4ISR initiative—which aims to use new information and communication technologies to improve military decision-making—has implications for national security as well, although our audit focussed on how the initiative was managed.

Anti-terrorism initiative

Our chapter on the government's 2001 anti-terrorism initiative focusses on emergency preparedness programs, the security of air transportation, and some elements of marine security. We reported on other aspects of national security in March 2004.

Canada's ability to respond to civil emergencies and acts of terrorism depends on the ability of federal, provincial, and municipal governments to effectively co-ordinate their procedures, their equipment purchases, and their training. We found that emergency response strategies are not integrated and are poorly co-ordinated.

In many cases, spending on emergency preparedness was not guided by a thorough analysis of threats and risks; as a result, funds to strengthen emergency response capacities have been poorly allocated. For example, the opportunity was not taken to create a national pool of equipment that is compatible and interoperable. And despite the need for 6,000 people trained to respond to chemical, biological, radiological, and nuclear events, fewer than 200 have been trained so far.

A new department, Public Safety and Emergency Preparedness Canada (PSEPC), has replaced the Office of Critical Infrastructure Protection and Emergency Preparedness. Without the needed authorities, structures, and resources, without strong and clear support from all areas of the federal government, PSEPC will be years away from meeting the goals the government has set for it. Meanwhile, the gaps in Canada's ability to respond to emergencies will remain.

After the tragic events of September 11, 2001, the government created the Canadian Air Transport Security Authority to manage aspects of air travel security that needed to be radically expanded.

Some key elements of air transport security are moving ahead well—for example, installing the explosives detection systems that screen passengers and baggage, which has cost some \$1 billion. Other elements, however, are working less well. Transport Canada has expanded its security inspection service and improved training, but without a documented risk analysis we could not determine whether the number of inspectors and the frequency of inspections are adequate.

In marine security programs, we found that spending has been based on an adequate threat and risk analysis and funds have been allocated to high-priority areas. However, there are still gaps in marine security—for example, in the coverage provided by the radar system designed for continuous surveillance of Canada's coastal areas. How the gaps in coverage will be filled, and at what additional cost, has yet to be determined.

Passport services

To travel with ease across international borders, Canadians need an official travel document that is secure and universally respected. Since September 11, 2001, the Passport Office, responsible for issuing the 24-page blue document that Canadians know so well, has faced new demands and heightened expectations for passport security. Our audit found several areas that need urgent attention.

In our view, significant improvements are necessary in the processes for determining whether documents submitted with an application are authentic and entitle the applicant to receive a passport. Passport “watch lists” are incomplete and often not updated in a timely way, because the Passport Office has not found ways to obtain data automatically from other government sources. Management's monitoring of some security functions is not sufficient to ensure that they are carried out properly.

The Passport Office is struggling to find a balance between ensuring security and providing good service to clients. While it has established reasonable levels of service, its service standards do not take key security measures into account.

In 2001, the cost of a passport rose from \$60 to \$85, but the increase did not comply fully with Treasury Board policy. The Passport Office is not ready to implement the requirements of new user-fee legislation. It lacks reliable cost information, has not engaged clients in establishing service standards, and does not have a mechanism to resolve fee disputes.

At the time of our audit, the Passport Office did not have in place the management systems and practices it will need to meet future challenges. It needs to undertake a comprehensive risk assessment of all its operations, prepare an action plan, and closely monitor the plan's implementation.

Natural Resources Canada

Resource industries in Canada employ more than one million Canadians and constitute over half the economic base of some 600 rural and remote communities across the country. Clearly, Natural Resources Canada has an important role to play in advancing government priorities. At the same time, the Department must fulfill its statutory responsibilities.

To ensure that its departmental resources are allocated to critical priorities, Natural Resources Canada needs a corporate strategic plan that clearly sets out how it will achieve its goals. The plan must consider external threats and opportunities, available resources, and organizational strengths and weaknesses; it must spell out objectives, priorities, and expected results. The Department also needs a coherent approach to developing business plans for each of its sectors. Good governance and management processes are necessary at the corporate level to focus the Department's efforts.

Public safety is a strategic priority for all sectors of Natural Resources Canada—forests, earth sciences, energy, and mineral and metal resources. The Department acts as the federal lead in planning and co-ordinating the federal response to civil emergencies related to natural resources; this would include major power shortages or failures, forest fires, and mine disasters.

When we looked at the management of emergency preparedness across the Department, we found much room for improvement. The Department needs to use a more consistent approach to assessing risks across all sectors and ensure that appropriate emergency plans are established in all its areas of responsibility.

A key National Defence initiative

National Defence has undertaken a major initiative to improve the way it gathers, processes, and uses military information for command and control. It expects that by 2015 it will have invested close to \$10 billion in the C4ISR initiative—Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance—to help make this transformation in information technology happen.

Making command and control faster and more effective by providing better information for decision making is one goal of the initiative. Playing a meaningful role in operations with other countries such as NORAD and NATO partners means keeping pace with new military concepts and technology.

C4ISR is a complex and expensive initiative; our audit found that National Defence has made a good start toward implementing it. However, with \$4 billion already spent on C4ISR projects, some elements that are key to success—such as common standards and definitions—are still not in place. Without them, the result could be duplicate or incompatible systems—and the excess costs this would imply.

National Defence recognizes that it needs to pursue C4ISR as a joint endeavour of its three services—Navy, Army, and Air Force—in order to take advantage of economies of scale and to achieve integrated systems that are fully interoperable. However, our audit found that the Department must do more to ensure that efforts are co-ordinated and that joint expectations are met.

Resource development in the North

Another chapter in this Report examines the role played by the federal government—in particular, Indian and Northern Affairs Canada—in the development of non-renewable resources in the Northwest Territories.

With the signing of land claims agreements in the Northwest Territories and the passage of the *Mackenzie Valley Resource Management Act* seven years ago, the federal government created a series of boards to manage the application and licensing process for resource development and to regulate land and water use for environmental protection. At the time, Indian and Northern Affairs Canada decided that the best course of action was to leave the boards to administer the process on their own. It is now time to re-examine this approach.

The Department has authority under the Act to provide certain direction to the boards, authority it has chosen not to exercise. Providing direction would ensure that necessary elements are in place for the smooth functioning of the process. These would include standards for water quality and guidelines for interpreting key terms in the legislation.

The continued absence of policy direction, the lack of appropriate accountability, and inadequate management have contributed to the uncertain and unstable climate for investment in non-renewable resources that hampers economic development in the Northwest Territories.

Departmental reporting on performance

Canadians want to know the value they are getting for their tax dollars and the difference government is making in their lives. To monitor government programs and services effectively, parliamentarians need to be provided with timely and accurate information about what government spends and what results it achieves. Good performance reports are a key means for both Parliament and Canadians to hold the government accountable.

Every fall, some 90 federal departments and agencies submit reports to Parliament on their performance. These reports outline departmental accomplishments at the end of the fiscal year against commitments made in the previous year's plans.

For some time, Parliament has sought to improve the quality of the information in these performance reports. And my Office has supported Parliament's efforts. In 1997 we examined the state of the government's reporting regime and found a basic but sound framework as a promising start for reporting. But our follow-up audit in 2000 concluded that little progress had been made in improving the quality of performance reports produced by departments.

In 2002 we presented a model for rating performance reports. We then applied our rating model to the reports of nine departments, and in 2003 we reported the results. While we identified some promising practices, overall we found that most reports did not measure up well against our model.

This is the second time we have used our model to rate a selection of performance reports—those of Environment Canada, Fisheries and Oceans Canada, and Natural Resources Canada, who were part of a project in 1995

to improve reporting. We looked at their progress over the last decade and then compared it with their progress since 2002. The results were disappointing.

Without greater effort by departments and greater scrutiny by parliamentary committees, it will likely take not years but decades to significantly improve the quality of performance reports. In my view, this rate of improvement is not good enough to give Parliament and Canadians the tools for effectively holding government departments and agencies accountable for their performance.