

2005



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

NOVEMBER

Matters of Special Importance—2005
Main Points—Chapters 1 to 8



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

Ce document est également publié en français.

© Minister of Public Works and Government Services Canada 2005
Cat. No. FA1-2005/2-0E
ISBN 0-662-41989-8





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 annual Report of 2005 to the House of Commons, which is to be laid before the House in accordance with the provisions of subsection 7(3) of the *Auditor General Act*.

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

Sheila Fraser, FCA
Auditor General of Canada

OTTAWA, 22 November 2005

Table of Contents

Matters of Special Importance—2005

My Fifth Annual Report	3
The Government of Canada has evolved to meet changing expectations	3
Today the federal government has become a large and complex organization	3
Many of the key issues facing Canada are complex and cut across traditional mandates	5
Leadership, co-ordination, and information are essential for success	5
Partnering creates additional challenges for accountability	6
National security raises a special case	7
The role of the Commissioner of the Environment and Sustainable Development has an impact	7
Conclusion	8

Main Points—Chapters 1 to 8

Chapter 1 Royal Canadian Mounted Police—Contract Policing	11
Chapter 2 The Quality and Reporting of Surveys	13
Chapter 3 Canada Revenue Agency—Verifying Income Tax Returns of Individuals and Trusts	15
Chapter 4 Managing Horizontal Initiatives	17
Chapter 5 Support to Cultural Industries	19
Chapter 6 Elections Canada—Administering the Federal Electoral Process	22
Chapter 7 Indian and Northern Affairs Canada—Meeting Treaty Land Entitlement Obligations	24
Chapter 8 Other Audit Observations	26



**Matters of Special
Importance—2005**



Sheila Fraser, FCA
Auditor General of Canada

My Fifth Annual Report

1. As I approach the mid-point of my term as Auditor General, I am pleased to present my fifth annual report to Parliament.
2. In this report, I focus on some of the management and accountability challenges that arise from the growing size and complexity of the federal government. In particular, I encourage both the central agencies and parliamentarians to pay more attention to the management of horizontal issues—key initiatives that cut across departmental mandates and jurisdictions.

The Government of Canada has evolved to meet changing expectations

3. The central goal of the federal government is to improve the quality of life of Canadians. This is the common thread that ties together all of its policies, programs, and activities.
4. But within this overall goal, the people's expectations of government have changed—and expanded significantly—over time.
5. While the federal government has never been one-dimensional, in the years following Confederation, geography dictated much of what it did. The focus was on nation-building: opening up and settling the West, and providing the transportation services needed to do so. Production, conservation, and trade in our natural resources were related concerns.
6. As many authors have noted particularly since the Second World War, the Government of Canada has played an increasingly significant role in the lives of Canadians. The social and economic programs that were introduced—in the areas, for example, of social security, health, education, and regional development—significantly increased the scope of government. As its scope continues to expand, so do its size and its complexity.

Today the federal government has become a large and complex organization

7. The federal government is the single largest organization in Canada with annual revenue and expenses each over \$200 billion, assets of over \$200 billion, and liabilities of about \$700 billion. It has operations throughout every region and offers 2,000 points of service in Canada and abroad.
8. It employs more than 450,000 staff, including public service employees, agents of Parliament, the staff of the Supreme Court, RCMP officers, members of the Canadian Forces, and employees of Crown

corporations. They work in occupations that include administrators, engineers, doctors, nurses, scientists, teachers, tradespeople, and many others who serve the Canadian public each day.

9. To put these numbers into context, the Government of Canada raises five times the revenue of the largest private-sector organization in the country; that is also more than twice the annual revenue of the Canadian operations of General Motors, Ford, DaimlerChrysler, and Honda combined. It has three times more workers than the largest private sector employer; that is also more workers than the combined total of the five major banks. It is the biggest landlord and the largest owner of office properties in Canada. And it is also—by a wide margin—the largest single buyer of goods and services in Canada.

10. The federal government is a complex organization. It is made up of hundreds of different entities, ranging from large departments to small secretariats. While contributing to the federal government's overall goal, these entities serve an array of different objectives and priorities. The federal government has stated that it has more than 1,600 programs.

11. Moreover, the government has experimented with a range of organizational structures and relationships to deliver programs and services that traditionally have been provided by federal government departments, agencies, and Crown corporations. Examples include the National Child Benefit, infrastructure, labour market development agreements, and the various foundations. In these types of arrangements, the federal government and other levels of government and organizations in the private and voluntary sectors agree to share power and authority in decisions on program and service delivery.

12. The government also operates within a complex framework of legislation, regulation, and policy. For example, procurement is governed by 16 statutes, three international trade agreements, a federal-provincial trade agreement, and various regulations and policies. And the Treasury Board Secretariat's administrative policies—designed to provide direction to public sector managers and employees on accountabilities, responsibilities, performance expectations, required procedures, and desired management practices—include more than 300 policy instruments.

13. Adding to this complexity, the high standards expected of the public service include a degree of transparency that is unique to government operations, as well as to the public servants who manage and deliver their programs.

Many of the key issues facing Canada are complex and cut across traditional mandates

14. The structure of government departments and agencies has changed over time to ensure that there is a close fit between departmental mandates and the main issues facing government. Nearly all of the ministerial portfolios introduced at the time of Confederation still exist today, and more have been added over time. Many issues facing government can be managed by a single organization, working in consultation with others when necessary.

15. However, other key issues are complex and cut across departmental mandates or jurisdictions. They involve the interests and expertise of multiple departments, levels of government, the private and voluntary sectors, non-governmental organizations, and individuals.

16. Child care, child poverty, climate change, competitiveness, culture, homelessness, infrastructure, public security, and urban and rural affairs are all examples of the types of “horizontal” issues that the federal government has chosen to take on. No one agency has all the levers, resources, and expertise to manage such issues adequately on its own.

17. Intergovernmental co-operation is particularly important in many areas. In an earlier era, potential conflict within and between governments was restrained by the limited undertakings of public organizations at all levels. As the scope and size of government grew, however, the jurisdictions began to touch, and then overlap, and sometimes conflict.

Leadership, co-ordination, and information are essential for success

18. Given their interdependent and cross-cutting nature in an increasing number of areas, key objectives cannot be achieved without several partners working well together. It is difficult, for example, to consider competitiveness without also considering issues like education and training, investment, research and development, taxation, and trade. No single agency is responsible for all of these areas. And traditional management and accountability practices tend to reinforce a narrow or silo approach, rather than a broader corporate view of responsibilities.

19. Leadership is required to define and ensure that organizations work toward an overall objective and adopt a common vision of success. Appropriate resources that are dedicated to the cross-cutting issues need to be assigned and managed effectively to fill gaps in service and

to eliminate duplication. Partners must also be able to demonstrate accomplishments, learn from their performance, and make adjustments if and when required.

20. Sustained attention in the initiation, resourcing, monitoring, and reporting of horizontal initiatives is also important. In Chapter 4—Managing Horizontal Initiatives—we look at federal policies and guidance, and the role of central agencies, for the creation and management of initiatives that involve a number of organizations.

21. We conclude that much of the federal government’s approach to cross-departmental initiatives has been case by case, without having a coherent and integrated body of policies and guidance. Central agencies have not determined the circumstances that would require a horizontal initiative, nor what kind of decision-making structure is then needed. They have not developed adequate tools for the governance, accountability, and co-ordination of federal efforts in such initiatives and have made little progress in developing appropriate means of funding horizontal programs.

22. Organizations need good financial and other types of information to monitor the delivery of programs and services, exercise stewardship over resources for which they are responsible, support decisions, manage risks, and report on the financial and operating results. However, existing information systems are designed from a program and departmental perspective, rather than with a government-wide or broader view.

Partnering creates additional challenges for accountability

23. Accountability is central to representative democracy. It is the obligation of elected officials and public servants to demonstrate, review, and take responsibility for performance—in terms of both the results obtained and the means used. When problems occur, they need to be corrected and actions taken to ensure that they do not recur.

24. In our system of government, ministers are accountable to Parliament for the powers assigned to them. For public servants, accountability flows upward through their organization to their minister.

25. Effective accountability can be difficult at times in program areas where one organization controls most of the levers. The difficulties can be magnified and multiplied when the government is dealing with more complex issues that cut across mandates and jurisdictions and involve third-party delivery.

26. In addition, reporting is done on a departmental and program-by-program basis. As a result, Parliament does not always know who is in charge of an initiative, nor does it have an overall picture of what the initiative is achieving. When a number of organizations are working together on a complex issue and things go wrong, it may be difficult to identify where the system broke down and to take appropriate corrective action. Reporting and audit are important elements of the accountability loop. They deserve more attention.

27. Earlier this year, the *Budget Implementation Act, 2005* received royal assent. It changed the *Auditor General Act* and the *Financial Administration Act* to expand our mandate to include the auditing of additional Crown corporations and access to foundations in the course of our performance audits. I welcome these changes. Among other things, they will enable us to give Parliament a more complete picture of how the federal government manages key issues that cut across organizational boundaries.

National security raises a special case

28. In April, I raised the related issue of the challenges Parliament faces in holding the government to account for security and intelligence activities—activities that cut across the mandates of a number of government departments and agencies. While key information must be kept secret, Parliament must also be able to scrutinize the spending and performance of security and intelligence activities.

29. It is our understanding that the government has continued to work on a mechanism that would increase the role of Parliament in security and intelligence matters. The details have yet to be presented to Parliament. I encourage the government to do so.

The role of the Commissioner of the Environment and Sustainable Development has an impact

30. 2005 marks the 10th anniversary of the creation of the position of the Commissioner of the Environment and Sustainable Development within the Office of the Auditor General.

31. Parliamentarians created the position to have objective, independent analysis and recommendations on the federal government's efforts to protect the environment and foster sustainable development. In so doing, they recognized the importance of holding the government accountable for the management of a significant issue that cuts across departmental mandates: the greening of its policies, operations, and programs.

32. We welcomed this mandate and have made good use of it. The Commissioner's reports have identified key weaknesses in the federal government's management of environmental and sustainable development issues, and have encouraged the government to act on them. I believe our first 10 years of work have positioned us well to assist Parliament in addressing one of the 21st century's greatest challenges—protecting the environment while achieving economic and social progress.

Conclusion

New this year

Readers will notice that the Main Points in this report have a new look, which we inaugurated in the 2005 Report of the Commissioner of the Environment and Sustainable Development.

We have introduced headings to the Main Points at the front of each chapter: What we examined, Why it's important, and What we found. We hope that this addition to our Main Points—which are intended to serve as a convenient summary of our reports for the benefit of busy readers—will be useful to parliamentarians and members of the public. This is part of our continuing effort to communicate clearly the scope and findings of our audits.

33. As government has grown and become more complex, problems of internal management have greater consequences. The government, Parliament, and the Auditor General each have distinct powers and responsibilities in our Canadian system. But we share a common interest in a well-managed and accountable government. Working together, we can help improve both management and accountability for the benefit of all Canadians.

34. On a personal note, I would like to thank parliamentarians for their continued confidence in, and support for, our work. I would also like to recognize the enthusiasm and dedication of the staff of my Office, without whom none of my reports would be possible.



Main Points—Chapters 1 to 8



Royal Canadian Mounted Police

Contract Policing

Chapter 1 Main Points

What we examined

The federal government, through the Minister of Public Safety and Emergency Preparedness (formerly the Solicitor General), enters into contracts under which the Royal Canadian Mounted Police provides policing services to 8 provinces (all except Ontario and Quebec), 3 territories, and 192 municipalities. The RCMP also provides policing services to certain Aboriginal communities in the provinces and territories where it acts as the provincial police force.

We examined whether the RCMP meets its obligations under these contracts and whether it reports back to its clients on its performance. We looked at whether it is training and deploying its police workforce to meet its service standards and its contract obligations. (While this report discusses training and safety in general, we did not audit and do not comment on specific incidents that are under investigation by the RCMP or other bodies.) We also examined whether the RCMP bills for its policing services properly in accordance with each Provincial Policing Services Agreement (PPSA) or other agreements. And we looked at whether Public Safety and Emergency Preparedness Canada has assurance that the RCMP is meeting its commitments to provide policing services on reserves, under the federal government's First Nations Policing Policy.

Why it's important

The RCMP's ability to carry out its responsibilities effectively is central to the safety and security of Canadians. The RCMP is the largest police force in Canada and the primary police force for 20 percent of Canadians, in urban centres as well as small isolated communities. Contract policing accounts for \$1.6 billion in annual spending—\$1.1 billion of which is recovered from provinces, territories, and municipalities.

What we found

- The RCMP works with the provinces, territories, and municipalities to incorporate their priorities for contract policing in their jurisdictions, and these clients have said they appreciate the quality of the peace officers assigned to them. However, the RCMP lacks sound mechanisms for measuring and reporting on the extent to which it has implemented its clients' priorities.

- In effect, the RCMP fulfills its contract obligations to staff the required number of peace officers. However, when estimating the number of positions needed it does not take into account the impact of short- and long-term absences (due to injury, illness, and parental leave) in almost seven percent of contract police positions. This significantly affects the delivery of contract policing to support safe communities.
- Gaps in training and requalification/recertification may compromise the health and safety of peace officers and the public.
- PSEPC has negotiated community tripartite agreements that commit the RCMP to providing First Nation communities with an enhanced level of service—for example, having peace officers spend at least 80 percent of their time on reserve. We found that the RCMP is not meeting these commitments and that PSEPC is not properly monitoring the implementation of the agreements it has negotiated. Furthermore, these agreements are not designed to address the specific needs of the communities: PSEPC and the RCMP are not keeping pace with the changing nature of Aboriginal communities.

The departments have responded. The Royal Canadian Mounted Police and Public Safety and Emergency Preparedness Canada have agreed with each of our recommendations and have committed to take action, within the scope of their authority, on the concerns we raise in this chapter.



The Quality and Reporting of Surveys

Chapter 2 Main Points

What we examined

We examined the presentation of survey results in all 2003–04 departmental performance reports. We also examined two of the most important indicators of the quality of surveys conducted under contract by private research firms for federal departments and agencies in the same period. We focussed on whether the federal government provides leadership for survey quality in a way that enables departments and agencies to produce commissioned surveys of sufficient quality for their intended use. We also looked at whether government-wide leadership contributes to consistently high-quality surveys across government. We examined the specific roles played by the Treasury Board Secretariat and by the Public Opinion Research Directorate in Public Works and Government Services Canada. We looked at Statistics Canada surveys only for comparative purposes and not as part of the audit.

Why it's important

The government can use information gathered through surveys for a variety of purposes, such as understanding the views of Canadians on government priorities and policies, improving the management of departments and agencies, and monitoring their performance.

Information generated by surveys must be of good quality if it is to be credible and useful to parliamentarians, government managers, and Canadians, especially when it concerns the performance of government programs. Deputy ministers and agency heads need to be confident about the quality of any survey data included in their departmental performance reports. This is because they sign formal statements that the reports have been prepared according to certain principles designed to assure readers that, among other things, the information in the reports is accurate and any weaknesses and limitations of the data are disclosed properly. Poor-quality survey results presented in performance reports could give a misleading picture of how well programs are performing. Furthermore, there is a risk that inaccurate data from surveys could be used in government decision making.

While the cost of public opinion surveys commissioned by the federal government may be relatively small (between \$11 million and \$15 million per year), the cost of programs addressed by these surveys is in the billions of dollars. The growth in the number of surveys in recent years underscores the importance of assuring their quality. It is important for Canadians, especially those participating in federal government surveys, to be confident that the results will be of sufficient quality for their intended use.

What we found

- There is insufficient reporting on the quality and limitations of survey results in the 2003–04 departmental performance reports. Without this information, readers lack the means to judge the reliability of the data.
- Two important indicators of the quality of public opinion surveys—that is, population coverage and response rates—raise issues of quality in the surveys commissioned by departments and agencies in 2003–04. These issues signal potential problems that are of concern to us.
- Individual departments and agencies are responsible for the quality of surveys conducted for them. However, Treasury Board policies assign a range of responsibilities for the quality of federally contracted surveys to the Public Opinion Research Directorate. The Directorate is not adequately fulfilling key aspects of those responsibilities that would contribute to survey quality.

The Department and the Treasury Board Secretariat have responded. Public Works and Government Services Canada and the Treasury Board Secretariat are in general agreement with our recommendations. Their respective responses are included throughout the chapter.



Canada Revenue Agency

Verifying Income Tax Returns of Individuals and Trusts

Chapter 3 Main Points

What we examined

The Canada Revenue Agency is responsible for administering the *Income Tax Act*. It strives to ensure that Canadians pay their required share of taxes and that the tax base is protected. We looked at how the Agency verifies the accuracy of income tax returns of domestic trusts and certain aspects of personal income tax returns. We examined how the Agency decides which tax returns it will verify; whether it has adequate verification procedures, including its use of information from third parties; and whether it compiles complete and accurate information on the results of its verification programs.

Why it's important

The Canadian tax system is based on self-assessment, with each individual and trust required to provide complete and accurate information to the government on the income taxes they owe.

The programs we looked at form the backbone of the Agency's verification of personal income tax returns. In 2003–04, these programs scrutinized about 24 million returns filed by taxpayers, and they verified aspects of returns that did not appear to comply with the law. Personal or individual income tax is the single most important source of government revenue; in 2003–04, the Agency assessed \$125 billion in taxes payable by individuals to the federal, provincial (other than Quebec), and territorial governments. In the same year, domestic trusts were assessed \$3 billion in federal, provincial, and territorial income taxes, and they allocated income of \$23 billion to their beneficiaries.

What we found

- The Agency's processing review program has a well-designed and well-executed risk-based approach for selecting and verifying deductions and credits that individuals have claimed on their tax returns but may not be fully entitled to. It found that the percentage of such taxpayers doubled to 11 percent from 1997 to 2003 although according to our estimate, the total revenue at risk has remained relatively constant for the last four years. Using the Agency's data for 2002–03, we estimated that, had all taxpayers complied fully with the rules for claiming the 32 deductions and credits covered by the processing review program, revenues from personal income taxes

that year would have been \$586 million higher. The program recovered 27 percent of that amount, or \$160 million, by verifying about three percent of the returns assessed that year.

- In its matching program, the Agency compares the information reported by taxpayers with information submitted by third parties such as employers and financial institutions. Where it finds one or more discrepancies, it calculates the amount of income tax that is potentially recoverable. While the matching program selects returns for review based on risk, its estimate of risk does not include the system's calculation of the amount potentially recoverable. As a result, the Agency does not consistently select and review the returns with the largest amounts of potentially unreported income. Nor does it estimate the tax at risk for returns where it has identified discrepancies but not verified them.
- In not monitoring the tax revenue impact of non-compliance in the areas verified by the processing review and matching programs, the Agency is not considering an important element in evaluating these programs' effectiveness.
- The Agency does not systematically evaluate the tax revenue at risk in domestic trusts when choosing the tax returns it verifies. In addition, the development of an effective risk evaluation system is hampered by the lack of key information such as the value of assets and liabilities held in trusts. The Agency emphasizes audits of testamentary trusts. In the last three years, average tax recoveries from audits of testamentary trusts have been about five times smaller than average recoveries from audits of other trusts.
- There are also deficiencies in the Agency's review activities for tax returns of domestic trusts. For example, the only measure of its performance in this area is whether a return was processed in the time allotted by the Agency's service standard; it lacks information on corrections made by its assessors; and it does not compare deductions claimed by trusts for allocations to beneficiaries against the amounts reported on the information slips the trusts provide to beneficiaries.

The Agency has responded. In its response to each recommendation, throughout the chapter, the Canada Revenue Agency has indicated the action it has taken or plans to take.



Managing Horizontal Initiatives

Chapter 4 Main Points

What we examined

This audit looked at federal policies, government-wide guidance, and the role of central agencies in creating, co-ordinating, and overseeing initiatives that involve a number of organizations. We examined in more detail how the federal government approached three such initiatives—the Canadian Biotechnology Strategy, the National Homelessness Initiative, and the Vancouver Agreement (an urban development initiative).

We focussed on how the federal government managed and co-ordinated its efforts in these initiatives and what impact this had on their results. While we do not comment on the merits of the initiatives or the performance of other participating governments and organizations, we interviewed officials from these entities and benefited from their insights.

Why it's important

The federal government has recognized the need to deal with complex issues that cross jurisdictional boundaries and defy simple solutions. Some of these problems have multiple causes, have developed over a long period of time, and cannot be addressed by individual departments or governments. They require a response by a number of organizations, often through horizontal initiatives.

The federal government needs to find effective ways to manage such efforts across several federal organizations, while respecting the fundamental principles of ministerial responsibility. The efficient use of resources in delivering programs and services depends on integrated decision making across federal organizations. Moreover, when horizontal management is inadequate, the government is less likely to achieve the results it has promised to Canadians.

What we found

- Although there have been some recent improvements, much of the federal government's approach to horizontal initiatives is still on a case-by-case basis. Central agencies have not determined the kinds of circumstances that require a horizontal initiative and the kind of governance needed. They have not developed enough specialized tools for the governance, accountability, and co-ordination of federal

efforts in such initiatives and have made little progress in developing means of funding horizontal programs.

- Two of the three initiatives we examined made inadequate arrangements for governance and co-ordination. For example, the Canadian Biotechnology Strategy did not deal adequately with advice from external experts. Due to a lack of federal co-ordination, the National Homelessness Initiative did not benefit adequately from the available federal expertise on health and housing.
- There was little planning in any of the three initiatives for measuring and reporting on how federal organizations would contribute to the initiative as a whole. Most reporting has focussed on individual federal programs. As a result, Parliament does not have an overall picture of what the initiatives are achieving.
- We found a promising governance model in the Vancouver Agreement, where the provincial, municipal, and federal governments are working together to meet community needs. The approach was developed from the ground up and evolved from an unfunded initiative with an agreement to collaborate to one that is funded.

The government has responded. The Treasury Board of Canada Secretariat and the Privy Council Office's response, on behalf of the government and the federal organizations we audited, is included at the end of this Chapter. The government respects the spirit of our recommendations and recognizes the need for improvements in managing horizontal initiatives.



Support to Cultural Industries

Chapter 5 Main Points

What we examined

Canadian Heritage supports the cultural industries of film, television, publishing, sound recording, and new media to encourage them to create, produce, and disseminate Canadian cultural content. Its assistance includes such measures as grants and contributions as well as rules governing copyright and Canadian ownership of cultural enterprises. The government also supports the audiovisual industry through tax credits.

We examined the Department's strategic direction, governance, control, results measurement, and accountability reporting mechanisms for managing its support to cultural industries. We also examined how the Department and organizations that support cultural industries ensure that feature film and television producers who receive financial assistance have satisfied Canadian content requirements and eligibility rules for expenses.

Why it's important

Canadian Heritage and other organizations such as Telefilm Canada, the Canadian Television Fund Corporation, and the Canada Revenue Agency provide more than \$800 million yearly to cultural industries in the form of investments, grants, contributions, and tax credits. This support for the creation and production of Canadian content is aimed at helping to develop Canadians' sense of belonging and building the country's national identity.

Cultural industries employ about 600,000 people in Canada each year, according to Statistics Canada—among them writers, musicians, publishers, actors, producers, and technical specialists. By supporting these industries, Canadian Heritage helps them face foreign competition and contributes to the cultural and economic vitality of Canada.

What we found

- Canadian Heritage recently developed its first strategic plan in its Cultural Affairs Sector. However, the Department has not yet defined clearly enough an overall vision of the results it wants to attain over the coming years with its support to cultural industries. In the absence of a more clearly defined strategy for the entire cultural sector, each of the branches in its Cultural Affairs Sector risks developing its own plans, priorities, and production schedules

independently for the industry it supports. Within the Sector, there are few horizontal management mechanisms through which the branches share experience, knowledge, and best practices. For the most part, the Department has not established targets by which to measure its performance and so is unable to give Parliament a clear picture of what it wants to achieve, what it has achieved, and the progress made through the financial support it has provided to cultural industries.

- Canadian Heritage has considerable influence over the governance of the Canadian Television Fund and Telefilm Canada through its contribution agreements with these two organizations.
- Despite several efforts made to improve the situation, the governance of the Canadian Television Fund remains complex. It requires the involvement of two boards of directors in decision making: the Board of the Canadian Television Fund (CTF) and the Board of Telefilm Canada. CTF program objectives are broad and lack precision. They do not provide the Board of Directors with specific direction for making strategic decisions. Further, the composition of the CTF Board is a potential source of conflict of interest, and its conflict-of-interest guidelines are not applied rigorously. Current arrangements make the administration of the CTF program cumbersome—for example, a producer receiving assistance from both components of the CTF program must sign separate contracts with the two corporations.
- Under its current contribution agreements with Canadian Heritage, Telefilm Canada has little leeway to interpret its mandate and determine the best way of carrying it out. This degree of government oversight is unique among Crown corporations. Furthermore, a proposal to modify the governance structure of the Canadian Television Fund may significantly limit both Telefilm Canada's role in the development of the television industry and its ability to account to Parliament on this aspect of its expanded mandate.
- Canadian Heritage, Telefilm Canada, the Canadian Television Fund Corporation, and the Canada Revenue Agency have put in place a control framework appropriate to the nature of operations in the audiovisual sector. However, Canadian Heritage and Telefilm Canada do not apply their controls rigorously enough to ensure that Canadian content requirements are met, projects are selected in accordance with criteria, and only eligible expenses are reimbursed. The CRA does not apply its controls rigorously enough to ensure that tax credits are paid only for eligible expenses. Weaknesses in the

sharing of information among all the organizations involved, including the Canadian Radio-television and Telecommunications Commission, also limit the effectiveness of controls.

The organizations have responded. Canadian Heritage, the Canadian Television Fund, the Canada Revenue Agency, Telefilm Canada, and the Canadian Radio-television and Telecommunications Commission have accepted our recommendations. Their detailed response follows each recommendation in the chapter.



Elections Canada

Administering the Federal Electoral Process

Chapter 6 Main Points

What we examined

Under the *Canada Elections Act*, Elections Canada is responsible for delivering federal elections and for supporting eligible voters, through public education and information programs. We examined the activities Elections Canada carries out to prepare for and deliver elections, to improve the electoral process, to educate and inform voters, and to manage its operations.

Why it's important

Through federal elections, voters choose members of Parliament to represent Canadians in the House of Commons. Election administration supports the democratic process in Canada by ensuring that all eligible voters can cast their ballots and that elections are fair and transparent. These principles guide Elections Canada's work.

Elections involve citizens at every level of the process. Citizens, election staff, and political parties all contribute to successful elections.

What we found

- Elections Canada plans, manages, and administers the federal electoral process well and in accordance with applicable authorities.
- Through good planning and regular updating of its geographic and voter information databases, Elections Canada stays prepared for an election that can be called at any time. It ensures that eligible voters can vote by helping them get their name on the lists of electors; by communicating how, when, and where to vote; and by providing flexible voting opportunities. It also provides considerable support to returning officers and their staff in delivering elections.
- Elections Canada plays a key role in supporting the fairness and transparency of elections by registering political entities and monitoring their financial activities, supporting and monitoring the activities of returning officers and election staff, and ensuring compliance with the *Canada Elections Act*. Further, it delivers a number of public education and information programs aimed at enhancing the understanding of the federal electoral process and increasing the participation rate of targeted groups of electors. We found that Elections Canada works effectively with Parliament and

other stakeholders to identify ways of improving the electoral process.

- Although Elections Canada has the core elements of a good performance measurement and reporting framework, it lacks performance targets and indicators for some of its key activities. As a result, its reports to Parliament are not clear on the extent to which those activities have been successful.
- While Elections Canada has in place some elements of a human resources plan, it uses information that is fragmented. This makes it difficult to anticipate future staffing needs, including the need for succession planning.

Elections Canada has responded. In its response to each recommendation throughout the chapter, Elections Canada indicates the action it has taken, is taking, or plans to take to address the recommendation.



Indian and Northern Affairs Canada

Meeting Treaty Land Entitlement Obligations

Chapter 7 Main Points

What we examined

Indian and Northern Affairs Canada is responsible for managing the implementation of treaty land entitlement agreements on behalf of the federal government. These agreements set out how the government will provide land to First Nations that it failed to provide in accordance with treaties. We examined the Department's progress in converting land selected under the agreements to reserve status in Saskatchewan and Manitoba—the two regions with the majority of agreements—and whether the Department is managing the conversion process in a way that is consistent with its legal obligations to First Nations.

Why it's important

Treaties between the Crown and First Nations are solemn agreements that set out promises, obligations, and benefits for both parties. However, not all First Nations received the full amount of land to which historic treaties entitled them. Treaty land entitlement agreements provide those First Nations with funds to buy land or give them the right to select Crown land, or both. These agreements are modern legal commitments that recognize the government's failure to comply with its treaty obligations. Recognizing that it was taking too long—from five to seven years—to convert land to reserve status, the Minister of Indian and Northern Affairs committed in 2001 to reducing the length of time to two years.

Meeting the obligations set out in treaty land entitlement agreements within a reasonable time is important to both Canada and First Nations. By doing so, Canada honours its long-standing commitments to treaty land for First Nations, who have a strong traditional attachment to land and view it as vital to their cultural preservation and economic development. The federal government has committed over \$500 million since 1992 to meet these obligations in Saskatchewan and Manitoba.

What we found

- Deficiencies in the Department's management practices— inadequate planning and an absence of targets for land conversion, for example—have limited its progress in converting to reserve status the large number of acres that First Nations have selected in both Saskatchewan and Manitoba.
- Since 1992, 58 percent of acres selected by First Nations in Saskatchewan have been converted to reserve status; only 12 percent of acres selected by First Nations in Manitoba have been converted since 1994. Furthermore, the Department has been unable to demonstrate that it has any plan in place to process remaining selections and to fulfil commitments under these agreements.
- While the terms of the agreements differ and may explain in part the different rates of progress in the two regions, in general the slow progress is due to deficiencies in the way the Department manages certain requirements in the process. Fixing some of these deficiencies is directly within the Department's control—for example, issues related to environmental reviews and land surveys, two of the processes that must take place before land can be converted. The Department has less control over other steps, such as the requirement for First Nations to resolve third-party interests, including reaching agreement with municipalities on the provision of municipal services.
- Inconsistencies in the Department's communications about what is required of First Nations to move the conversion process forward have caused frustration among First Nations. We found that, overall, the Department's communication with First Nations is limited, seldom providing information on what stage in the process a selection has reached and what steps are next. The Department does little work to fulfill its responsibility to identify First Nations that may need more assistance to meet requirements.

The Department has responded. Indian and Northern Affairs Canada agrees with the recommendations. Its detailed response follows each recommendation throughout the chapter.



Other Audit Observations

Chapter 8 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.

Report of the Auditor General of Canada to the House of Commons—November 2005

Main Table of Contents

	Matters of Special Importance—2005 Main Points—Chapters 1 to 8
Chapter 1	Royal Canadian Mounted Police—Contract Policing
Chapter 2	The Quality and Reporting of Surveys
Chapter 3	Canada Revenue Agency—Verifying Income Tax Returns of Individuals and Trusts
Chapter 4	Managing Horizontal Initiatives
Chapter 5	Support to Cultural Industries
Chapter 6	Elections Canada—Administering the Federal Electoral Process
Chapter 7	Indian and Northern Affairs Canada—Meeting Treaty Land Entitlement Obligations
Chapter 8	Other Audit Observations
Appendices	

