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Chair

The Honourable Kevin Sorenson

Standing Committee on Public Accounts

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• (1530)

[English]

The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)): Good afternoon, everyone.

This is meeting number 37 of the Standing Committee on Public Accounts, Tuesday, November 29, 2016.

In our first hour, we will be meeting with the Office of the Auditor General and the Atlantic Pilotage Authority.

I'll also remind the committee that in the second hour, we will be discussing the review of the Auditor General's report, which was brought down today. We will discuss some of the committee business around some choices we must make.

In our first hour, as we look to the review, we welcome the Atlantic Pilotage Authority on the Special Examination Report of the Fall 2016 Reports of the Auditor General of Canada.

Appearing before us to assist us with this study, we have from the Office of the Auditor General, Mr. Clyde MacLellan, assistant auditor general; and Heather McManaman, principal, who I think was at our meeting early this morning as well.

From the Atlantic Pilotage Authority, we have Sean Griffiths, chief executive officer; L. Anne Galbraith, chair; Peter MacArthur, chief financial officer and corporate secretary; and Brian Bradley, director of finance.

We welcome you all here to the East Block. It's a building that we don't usually meet in. It is a beautiful building.

I'll invite the Auditor General's Office to make an opening statement, and then we'll hear from Atlantic Pilotage Authority. Then we'll proceed into the question rounds for the committee.

Mr. MacLellan.

[Translation]

Mr. Clyde MacLellan (Assistant Auditor General, Office of the Auditor General of Canada): Thank you, Mr. Chair, for this opportunity to present the results of our special examination of the Atlantic Pilotage Authority. Joining me at the table is Heather McManaman, the principal responsible for the audit.

A special examination of a crown corporation is a type of performance audit. Specifically, a special examination seeks to determine whether the crown corporation's systems and practices provide reasonable assurance that its assets are safeguarded and

controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

Our examination covered the period from October 2015 to March 2016.

The Atlantic Pilotage Authority is a federal crown corporation whose mandate is to establish, operate, maintain, and administer in the interests of safety an efficient pilotage service within designated regions.

In our examination of the corporation, we identified significant deficiencies in both the corporate management practices and the management of pilotage services. As a result of the pervasiveness of the significant deficiencies, we concluded that the corporation had not maintained the systems and practices in a manner that provided it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.

Although its history includes few safety incidents, the corporation needs to formalize and fully implement systems and practices that would demonstrate that it has been diligent in maintaining its pilotage operations. Doing so would minimize the corporation's risk of compromising its safety record in the future.

• (1535)

[English]

Regarding the specific significant deficiencies reported, we found that the board of directors, despite having strong competencies, had not set strategic direction for the corporation, nor had it reviewed its mission, vision, or strategic objectives since 2003.

For example, the corporation's strategic direction did not address its long-term financial self-sufficiency. Instead, the corporation reacted to its operating losses in three of the past four years by implementing a surcharge on tariffs. Setting an effective strategic direction is important in order to articulate where an organization is going, what actions are needed to make progress, and how the organization will measure success. Without a strategic direction, management cannot develop and execute plans proactively.

We also found significant deficiencies in the recruitment, staffing, and performance management of pilots and pilot boat crews. For example, the corporation used the services of entrepreneurial pilots without documented contracts specifying terms and conditions. The corporation had not documented that the skills required of pilots and pilot boat crews were up to date, and in some instances, the corporation failed to carry out performance reviews or lacked complete documentation of the reviews. These findings matter because strong systems and practices in the areas of recruitment, staffing, and performance management are necessary for the delivery of the corporation's mandate, which includes the prevention of possible harm to pilots, users, and the environment.

Finally, our report identified room for improvement in some other areas. In particular, the corporation needs to implement a cyclical review of the designation of every compulsory pilotage area under its responsibility. Cyclical reviews would take into consideration changes in technology, ship standards, and traffic patterns. In addition, the corporation needs to perform annual inspections on all pilot boats that it uses to provide pilotage services.

The corporation has agreed with all of our recommendations, and has indicated that it would act quickly to address our concerns. However, because our audit work was completed in March 2016, I cannot comment on any measures that have taken place since then. The committee may wish to ask the corporation's officials to clarify what measures have been taken in response to our recommendations.

[Translation]

Mr. Chair, this concludes my opening remarks.

We would be pleased to answer any questions the committee may have.

Thank you.

[English]

The Chair: Thank you very much, Mr. MacLellan.

We'll now move to Captain Griffiths for his opening statement.

Captain Sean Griffiths (Chief Executive Officer, Atlantic Pilotage Authority): Mr. Chair, thank you for the introductions of our team at the APA.

We appreciate the opportunity to be here with you today to speak about the special examination conducted by our colleagues at the Office of the Auditor General through late 2015 and early 2016. The APA is committed to ensuring that it delivers its mandate by the safest, most efficient means possible, all while remaining current within the ever-evolving marine industry and staying within the confines of the Pilotage Act. We welcome the opportunity for feedback, which ultimately improves our business processes. Therefore, we fully supported the OAG through a concerted effort and agree with the final outcome that is before you today.

Of the 10 recommendations, we are pleased to report that six are now completed, while the remaining four will be completed before the second quarter of 2017, in the next six to seven months.

I would like to provide a brief overview of the Atlantic Pilotage Authority with a slide show, which you also have copies of, I believe. It should be quick.

This was updated this year, 2016, as part of our plan. Our mission statement is to deliver safe, effective, and self-sustaining marine pilotage services in Atlantic Canada. Our objectives have also been redefined, but we'll move on to governance, the next slide. The authority has a representative board, with two members recommended by the marine industry, two recommended as pilotage representatives, and two named as public interest representatives. You can see the makeup of the board.

In the organization itself, as you can see from the org chart, there are 47 employee pilots, 17 pilot boat crew members, and six dispatchers. We do have 11 entrepreneurial pilots, as mentioned in the report, who provide services in a number of the smaller ports, representing about 7.5% of the traffic, or 630 assignments out of roughly 8,000.

The next slide shows the provinces inside our jurisdiction, which covers 17 compulsory areas, about 32,000 kilometres of coastline. Pilot transfer is very significant to us. We have rules, regulations, procedures, and safety equipment in place to ensure safe embarking and disembarking of the pilot. How a pilot gets to an assignment is through a fleet of robust, modern pilot boats. They are stable platforms, effective in rough weather, fast and manoeuvrable. They utilize integrated navigational equipment and have capable man-overboard retrieval systems. We own nine of them.

Some of the ships that call the east coast of Canada... We pretty well get them all, from general cargo ships to container ships, auto carriers, foreign and domestic oil tankers, various types of cruise ships—which are getting bigger every year—and coastal tankers servicing the eastern parts of Canada.

Here, I draw your attention to some pretty significant milestones and indicators. In the last 10 years, which sort of covers the special exam period, 90,000 assignments were conducted. The incident-free rate was 99.93%. This rate always hovers between 99.93% and 99.96%. We've never released any pollutants in the waterways, and no injuries have occurred due to an incident while under pilotage.

Pilotage assignments where a pilot was delivered within one hour of confirmation time occurred 99.1% of the time, and for those that were delayed, the average delay was about 2.2 hours. Over 10 years, we've accumulated profits of about \$1.9 million. We've launched four new pilot boats in this time, with a total cost of \$13 million, and have \$3.9 million outstanding in loans on these vessels today. We invested between \$500,000 and \$1 million annually in new equipment and vessel upgrades beyond the vessel purchases. That's pretty significant.

I won't get into the next slide, but we did a survey of our stakeholders and customers this year about satisfaction, safety, and our commitment to safety in public perception, and the response percentages, in green, are all in the eighties and nineties.

Then we move on to the special examination report. There were 10 recommendations, as I mentioned earlier. Under the category of corporate management practices, there were four recommendations. The authority has addressed these and implemented solutions. Under management of pilotage services, there were six recommendations; three of these will be addressed by the end of 2016, two more by March, and the final one by June.

In conclusion, our authority has a proven record of safety and efficiency, which contributes to public confidence and trust in Canada's marine industry, particularly with the transportation of crude oil to eastern Canadian refineries, terminals, and ports. The OAG has made 10 recommendations for the authority. The authority will have seven of these implemented by the end of 2016, and the remaining three in the first half of 2017.

I look forward to your questions.

● (1540)

The Chair: Thank you very much.

Mr. David Christopherson (Hamilton Centre, NDP): Chair, I have a point of order.

It's just a small matter, and I accept that it's small, but I just find it passing strange that the presentation was made by the chief executive officer and not the chair. The chair is the one who is ultimately responsible publicly, not the chief executive officer. It's interesting. Even the way they are listed here, Mr. Griffiths gets top billing above Madam Galbraith.

Perhaps the chair could give us a reason why the chief executive officer gave this presentation, and not the chair.

Ms. L. Anne Galbraith (Chair, Atlantic Pilotage Authority): There is no particular reason. He had done up the presentation. I could have easily given it. Sorry for not recognizing that point of order.

Mr. David Christopherson: Thanks, Chair.

The Chair: Thank you, Mr. Christopherson.

Thank you for your presentation. It was very good.

We also have the action plan. We thank you for getting that in earlier. It was circulated last week.

We'll go to Ms. Mendès, for seven minutes, please.

Mrs. Alexandra Mendès (Brossard—Saint-Lambert, Lib.): Thank you very much, Mr. Chair, and thank you all for your presence here today.

I have to say that it was a bit of a fluke that I actually got my hands on the 2007 report by the Auditor General on the pilotage authority. I find it a bit striking that what was said in 2007 was very complimentary. There were no main issues to point to the authority.

I'd like the Auditor General to tell us what changed so much between 2007 and 2016, particularly when you mention that there

has been no strategic plan review since 2003, while in 2007 it didn't seem to be an issue. What has changed that made it so flagrant?

Mr. Clyde MacLellan: Mr. Chair, if I may begin, we do our work and look at a period of time to find the evidence to support the criteria established to meet the objectives of the audit. When we look at each particular period, we look at and assess the conditions at that point in time.

I think the first response to your question is, in 2007, looking at the window that we looked at, we found evidence supporting all the criteria.

Fast forward, if you will, to nine or 10 years post that time, and when we looked at the same issues, the quality of the evidence and the rigour supporting those decisions was not the same as it was in 2007.

● (1545)

Mrs. Alexandra Mendès: Do you have a reason as to why that happened?

Mr. Clyde MacLellan: I think that would be a question better directed to the corporation. We look for the evidence to indicate whether the systems and practices are in place but don't necessarily try to find, in all cases, the reason. I think that would be a question better directed to management.

Mrs. Alexandra Mendès: Thank you.

I will ask Captain Griffiths.

Capt Sean Griffiths: With respect to the audit back in 2007, I can't comment. I wasn't employed at the authority at the time.

However, we did notice during the course of this audit, the level of detail. How evidence was presented and communicated to the Auditor General was unique and very detailed. I'm sure the line of questioning was different in 2007 from today, and the way evidence was presented was different.

Mrs. Alexandra Mendès: Since you just said that you weren't with the corporation then, was that an issue? Was that a problem, that there was a lot of change in human resources and maybe a certain difficulty in the transition between different teams? Is that part of the issue?

Capt Sean Griffiths: There were some challenges around staffing and recruitment. I was promoted last year. Last July, I was appointed as CEO. Our chair is new to the board, as are other board members. We had an operational change in the work structure as well. All those presented some challenges for this audit.

Mrs. Alexandra Mendès: One of the things the Auditor General pointed out was precisely the way you managed your human resources. The pilot training and competency evaluations, even the health reports, were somewhat lacking. How do you explain that? How do you explain that these changes from 2007 to 2016 are so obvious? They were also pointed to as being very good points in 2007, as being points that had warranted the commendation of the Auditor General.

Capt Sean Griffiths: Correct.

When I was hired two and a half years ago, with a fresh set of eyes on policy, procedure, and operations, we began the overhaul of a lot of procedures and protocols within the authority. Many of these were under way, in progress, during the kickoff of the audit, but weren't established and weren't finalized by that time.

A lot has changed at the authority in the last two and a half years, dramatically since I joined. I'm sure my chief financial officer, Mr. MacArthur, would agree. Of all of us, he has the longest time with the authority, 28 years. The changes in the last three years for the positive have come a long way.

Mrs. Alexandra Mendès: Would you mind elaborating? That's obviously also another issue, the two years you ran deficits that you managed to cover by increases in charges. How do you account for the fact that it was reasonably recently that you faced these financial issues?

Mr. Peter MacArthur (Chief Financial Officer and Corporate Secretary, Atlantic Pilotage Authority): As far as the financial issues are concerned, we have always taken a longer view than a window of two, three, or four years. In the time I've been with the authority, we've had two periods of time when we've lost money, and it's because of changes in our business, for the most part, or issues that we've had with our business.

For example, in 2009, we made over \$1.3 million. In 2010, we made almost \$2.4 million. In 2011, we made \$1.65 million. We lost \$600,000 and \$550,000 in the two years that were looked at in the exam. In the two years before that, we had one year of profit of \$100,000, and the other year we had a loss. It tends to be cyclical as far as the financial part is concerned.

As far as the changes in the organization are concerned, as Sean just mentioned, the human resources person we'd had for a few years left us and we had to recruit a new human resources person. When Sean was promoted from the chief operating officer, we didn't have anyone in place to replace him and we only got that position done, the director of operations, in February, and we had a new person. We ran through a period of time when we were running lean on our management side. We also had a dispatch supervisor who left us with almost no notice in October 2015, with two weeks' notice.

We have struggled to try to meet some of that. I think today we're in a lot better position than we were a year ago.

• (1550)

Mrs. Alexandra Mendès: Fiscally speaking, for the years where you managed to operate in a very positive financial situation, are those monies passed over to the year after, so that you can balance out the more lean years? Is that how you operate?

Mr. Peter MacArthur: Yes. What we tend to look at is, over a longer term, we have to make some money or at least break even. As Sean mentioned in his presentation, since 2007, we've built four pilot boats at a cost of about \$13 million and we only financed a portion of that. The rest came from our cash reserves.

This year it looks like we're turning the corner and we should have a profit of anywhere between \$800,000 and \$1 million.

The Chair: Thank you very much, Ms. Mendès.

We'll now move to Mr. McColeman, for seven minutes.

Mr. Phil McColeman (Brantford—Brant, CPC): Thank you for coming today.

I want to look to a couple of areas here. As Madam Mendès said, losses in the last three of the four years is very concerning. The one is board oversight, strategic direction, and decision-making. The other one is recruitment and staffing of pilots and pilot boat crews. Both are pretty scathing observations in this audit of operations. When I read the overall audit or read into what was found, it sounds like the organization was pretty dysfunctional at one point in time. I'd like your view on that in this context.

Let's pull back the curtains here. You never know what an organization is like until you're there. We cannot be there, yet we're reading a report on this organization. We're not televised. No one's watching us from afar. In your opinion, what were the worst days, the worst situation, that you were facing in terms of this dysfunction?

I'll ask that of Mr. Griffiths first.

Capt Sean Griffiths: I don't believe we have dysfunction, sir. I believe the authority runs quite well. Do we need improvement? Absolutely. The deficiencies found by the Auditor General are of process, not of results. We do admit fully and wholeheartedly that we can improve and tighten up our processes, but I would not call the authority dysfunctional in any means whatsoever. We always need improvement.

Mr. Phil McColeman: On every measure, governance, operations, management, there are deficiencies. Do you agree?

Capt Sean Griffiths: Yes, sir.

Mr. Phil McColeman: From what your comments said, the governance board had to be pretty much replaced. Is that true, in your comments?

Capt Sean Griffiths: Due to expiries, yes, but not because of competencies. It's due to expiring board positions.

Mr. Phil McColeman: I see. There were management positions where you experienced people leaving, and you weren't able to backfill them with competent people. It strikes me that if we're not willing to pull back that curtain, so be it. I understand. It strikes me that this organization may have gone through a very tough period of, I will say, dysfunction. Coming from the business world, I've seen it corporately in many situations, and there's nothing shameful about it.

Maybe I should ask the chief financial officer who's been there for 22 years or however long.

Mr. Peter MacArthur: Twenty-eight years.

Mr. Phil McColeman: It's 28 years. It's the longest service. What are your observations on the comments I've just made?

Mr. Peter MacArthur: I agree with Captain Griffiths. I don't think we were in a dysfunctional situation. We were in a position where I guess timing of the audit was at the same time that we were missing some people in our management, who we later replaced. From the board perspective, Anne Galbraith came in earlier in 2015. We were without a board chairman for about 15 or 16 months before Anne came in.

Mr. Phil McColeman: Perhaps I could stop you there, because I have very little time.

That, in essence, is what I'm saying. You went without a board chair for a long period of time. Why? From 2003, which is 13 years, why did you not have a strategic direction or a strategic plan in place? Why?

• (1555)

Capt Sean Griffiths: I can comment on that. Thank you, sir, for the question.

There are a few things. We have no control over board appointments. If a vacancy is left there, it is just the same as today. You would have seen on the slide show—it was quick, but it was there—that the expiry dates of several board members are still expired and not replaced, but we still function.

Further, with the strategic direction, we agreed as a group back in September of last year that it was time to look at our strategic direction and redefine our vision, mission, and mandate. We've done that, and the meeting was set in stone before the audit commenced. It didn't matter, because the audit had to approve the process today, and that process didn't exist. We identified this before the audit kicked off that we had to address this direction.

Mr. Phil McColeman: I'll take it at one more level, if I have a bit of time left, Chair, and that is with the recruitment and staffing of pilots and pilot boat crews. You are unable, again, to provide documentation to demonstrate the fulfillment of ongoing health and competency requirements of pilots and pilot boat crews involved in the delivery of piloting services. These were the findings. This is basic stuff for front-line workers who must be provided and are not being provided, which is again supported by the observations. What's your explanation of that particular recruitment and staffing of pilots being so deficient?

Capt Sean Griffiths: This comes down to information management, which we need improvement in. We're aware of that. We couldn't find certain certificates or documentation on file, pieced to our business continuity when we had lost our operations manager due to short notice, as Mr. MacArthur stated earlier. If we had improved information management systems, we would have had that documentation in hand at a certain particular place. We didn't have it. That explained some of it.

The other things that were not on file to ensure health and competence of pilot boats and crew members was due to some certificates that just weren't received from other people. These were under no control of ours either, such as medical certificates. All those cases together made a significant deficiency, as indicated in the Auditor General's report, as to not ensuring the health and competence of pilots and pilot boat crew members.

Mr. Phil McColeman: Is the setting of tariffs a board responsibility or a management responsibility?

Ms. L. Anne Galbraith: It's the board's responsibility. Management will bring a plan to the board, and then the board will approve it.

Mr. Phil McColeman: Why would the board members accept tariffs that didn't meet expenses?

Ms. L. Anne Galbraith: It's not that they weren't accepting it; they were being pushed on different sides from our stakeholders. Some of our stakeholders can object to our tariffs.

I guess we were pushed on that a bit. I'm not answering your question very well.

Mr. Peter MacArthur: May I just make a comment?

Regarding those two years where we had losses, we actually had budgeted to have small profits during those years. We ran into a couple of issues that caused us to lose some revenue. One of the issues, and I won't bore you with it in detail, was that the average size of ships got smaller than what we had forecasted and what we had in previous years. We ended up budgeting...and we were almost dead-on with the number of ships that we had—we were within one per cent of the number of ships that we expected to have over the region—but because of a decline in the size of ships, we were about \$1 million short on revenue. That was what happened to us in 2015.

Interestingly enough, we've had a reversal of that, and they're having larger ships come in again this year, so our average revenue per ship is actually higher than what we've budgeted this year.

The Chair: Thank you.

Mr. Christopherson, please.

Mr. David Christopherson: Thank you for your attendance here today. We do appreciate it.

The first thing I want to note is the percentage of incident-free assignments. It's 99.93%. That's pretty damn good. It's impressive. I suspect that's what you're talking about when you talk about how the result, the actual job you're doing, is doing the job. This isn't all the standards, but that's an important one, and we accept that.

I have to tell you, though, where we have a disconnect from the get-go here, in terms of what's in front of us from the Auditor General and what your testimony is today, is when we're looking at things such as paragraph 5 of the auditor's comments this morning, and they're in the report too. Remember, these are auditors; they're like librarians. They walk softly. They use nice words. They're not mean people. When they say things like "significant deficiencies", that's harsh in their world. Then, to hear the words "as a result of the pervasiveness of the significant deficiencies", and then hear the testimony that "oh, no, everything is all fine", I have to tell you, here's my impression so far going forward: as long as the end works, it justifies the means.

It sounds as if it was a well-functioning organization at one time. We haven't yet identified what changed, but certain people have changed, and now all of a sudden, a lot of the infrastructure that used to be taken care of as well as the good results are not happening.

When I look at some of the things the board hasn't done, it looks a bit like an old boys' network to the extent that they don't worry too much about those details and those reports, as long as they get the job done, and they do. The problem is that when you're a crown corporation for a G7 country, that ain't going to cut it. It would seem that the people who were in charge of this ship before got that, and then somewhere down the line, it fell apart.

I'm going to give you another chance to revisit that answer to what my colleague asked. When I see things like "pervasiveness of significant deficiencies"...boards that at the top of the house—I'm sorry, but you two, a lot of the responsibility is yours.

Before I get into my detailed questions, I'd like to give you a chance to revisit what has gone on there, unless you want, again, to say everything is fine and wonderful. Come on. We want to hear the reality, and I'm not convinced, Chair, that we've heard that yet.

With respect, if you would, please comment.

• (1600)

The Chair: Captain Griffiths.

Capt Sean Griffiths: Of course. I don't believe everything is fine. Again, I point back to continuous improvement, and we strive for continuous improvement. This is a great exercise for us to identify places to improve, and we agreed with the findings, as mentioned earlier.

We have a lot of work to do. There's no doubt we do, and we're getting there. These issues were identified in the last couple of years before the special exam kicked off further. The lens that is looked at today is different from what it was 10 years ago, completely. The industry has changed. Accountabilities have changed, and it's just a different audit altogether.

As for the significance of the deficiency, I would point to Mr. MacLellan to describe to this committee what that deficiency means. It's not a results deficiency. It's a process deficiency based on audit criteria. So I don't necessarily agree—

Mr. David Christopherson: Don't make it sound as if audit criteria is nothing, please.

Capt Sean Griffiths: Not at all, I don't. I'm not discrediting the audit material at all, or the way the audit's conducted. But a particular boat, for example, that is not inspected by us annually is still inspected by Transport Canada marine safety and security annually, so to me, the potential or perceived consequence is not significant in our eyes. The process is lapsed, and it needs to be corrected.

Mr. David Christopherson: In that case, do you think there needs to be a change so that inspection is not necessary?

Capt Sean Griffiths: No, I believe it is necessary.

Mr. David Christopherson: Well then, why aren't you doing it? You raised it. Why don't you do it, then?

Capt Sean Griffiths: We are doing it now.

Mr. David Christopherson: Why weren't you doing it before?

Capt Sean Griffiths: There were a multitude of reasons. One was staff changeover, not the right people in the right places, departure of certain personnel, and our own procedures needed correction.

Mr. David Christopherson: Thanks. A lot of it seems to be individuals. Again, to come back to where my colleague was opening and the difference between where.... Usually we see it the other way around. Things are lousy, and then they get better. This time they were better and they got lousy.

I want to ask a question, and this is for your financial person, the CEO, or the chair. You mentioned, in terms of the deficits in three of the four last years, that a lot of the business is cyclical. The first thing that speaks to, then, is a strategic financial plan that would allow you to go forward.

How is it that you don't have one and that nobody at the top of the house thought they needed one?

Capt Sean Griffiths: We do have financial planning, but we're at the mercy of world-changing markets that we can't predict, and fuel prices we can't predict, and we do the best we can. As Peter MacArthur said, our number of assignments are pretty well spot-on every single year. Year after year, our predictions are perfect, but we can't control who buys oil from where, who decides on which container terminal is set up and which one is torn down. We have no control over that.

• (1605)

Mr. David Christopherson: I hear you, but I can only go by the information I'm given from the Auditor General.

Capt Sean Griffiths: Of course.

Mr. David Christopherson: That's where we get our information, and again just today, I repeat, the Auditor General's office said, "For example, the Corporation's strategic direction did not include a long-term financial plan to ensure its financial self-sufficiency."

Are you telling me that's incorrect?

Capt Sean Griffiths: No, that's correct.

Mr. David Christopherson: Okay, so why didn't you have one?

Capt Sean Griffiths: That speaks to the unforeseens in traffic that I just mentioned. We need to plan for that.

Mr. David Christopherson: Yes, but so do other entities. You're not the only one who has variables.

Capt Sean Griffiths: They do, but we're under severe criticism from customers and users that our tariffs are subject to increases, and we try to do the best we can to ensure the increase is enough to cover the business model.

Mr. David Christopherson: I have to tell you what it looks like is that you didn't do the financial planning. You got yourself into a jam, so you just raised tariffs rather than doing a proper financial plan that would set out strategic goals.

Capt Sean Griffiths: It was actually the other way around. The fact that we didn't raise tariffs is why we're criticized. It's cyclical, and it's a temporary blip where traffic is not there, and it will rebound, which it has this year. We're criticized for not having enough tariffs and not being financially self-sufficient, and that's why. We let it rebound, let the cycle take effect, and we make it up in the following years, which is exactly what's happening this year.

Mr. David Christopherson: I'm just going by what's in front of me. The next sentence actually says, "The Corporation reacted to its operating losses in three of the past four years by implementing a surcharge on tariffs."

Capt Sean Griffiths: That's right.

Mr. David Christopherson: It looks to me like you saw a deficit, so you just increased your rates.

Capt Sean Griffiths: That was a cash recovery for cash flow, and it was only in effect for a short term.

Mr. David Christopherson: I want to pick up on that. Chair, you mentioned that stakeholders were pushing back. Talk to me a bit about that. How does that process work?

Ms. L. Anne Galbraith: What happens now is that management brings to the audit committee what the recommended tariffs should be, and we look at the information they provide. Then we ask, "Okay, why don't you take this out to the stakeholders?" They have stakeholder meetings twice a year. They go out in May, and they go out in August.

Mr. David Christopherson: May I ask who the stakeholders are?

Ms. L. Anne Galbraith: It could be ships' agents. They're the ones who are going to ultimately pay the pilot fees on behalf of the ship owners. Stakeholders also include the Shipping Federation of Canada and the Chamber of Maritime Commerce.

The Chair: I'm going to have to cut it off there. We're at eight minutes, a minute over.

Mr. David Christopherson: Thank you very much.

The Chair: We'll go to Mr. Lefebvre, please.

Mr. Paul Lefebvre (Sudbury, Lib.): With respect to the board, Mr. Griffiths, you mentioned that there are still some deficiencies or spots that are open on the board. How often does the board meet?

Ms. L. Anne Galbraith: Do you mean board meetings or committee meetings?

Mr. Paul Lefebvre: Board of directors.

Ms. L. Anne Galbraith: There are at least five meetings a year.

Mr. Paul Lefebvre: I'm looking at your presentation. I have a copy of your governance, and you have six, there are supposed to be six board members, and right now, from what I count, there are four whose terms have expired, so you basically have yourself, Ms. Galbraith, and two people, Patricia Mella and Alex MacIntyre.

Ms. L. Anne Galbraith: The way it works is that it's only the chair whose term ends on the day that their term ends. Everybody else is overholding.

Mr. Paul Lefebvre: *[Inaudible—Editor]* all meetings, even though they are not properly in position?

Ms. L. Anne Galbraith: Yes. I have a full board.

Mr. Paul Lefebvre: What are we waiting for, for their renewal?

A voice: *[Inaudible—Editor]*

Mr. Paul Lefebvre: That's fine, but again there's an issue because we've had these meetings with respect to nominations, and what we are seeing is a pervasiveness across the entire system.

Ms. L. Anne Galbraith: We have to go through the whole process, so we're waiting for the government.

Mr. Paul Lefebvre: I'm looking at that, and I'm thinking that if the management from the top is not strong, how can we expect the middle management to be just as strong as well?

Capt Sean Griffiths: Despite the board members' terms expiring, they have given their full commitment to each of the board meetings and do not disconnect. They are very engaged in our business process and have ensured their commitment to us despite the expiring term.

We did bring this concern to the Minister of Transport in early September.

Mr. Paul Lefebvre: That's perfect. Thank you.

With respect to the designation of areas and vessels subject to compulsory pilotage, from what I read in the report, "the Corporation has put no process in place to cyclically review the compulsory designation of pilotage areas, to determine whether the designation is still warranted".

Am I correct that there is no process in place to determine which areas should be reviewed? That's in paragraph 61 of the Auditor General's report.

• (1610)

Capt Sean Griffiths: There is a process in place. Yes.

Ms. L. Anne Galbraith: Right. There is a process in place, but we couldn't demonstrate that we review all the compulsory pilotage areas. They couldn't find it anywhere in our minutes.

Mr. Paul Lefebvre: I'm looking at paragraph 62. It says:

Since the previous special examination, the Corporation has conducted preliminary risk analyses of the non-compulsory ports in Nova Scotia, New Brunswick, and Newfoundland and Labrador to determine whether a PRMM review was warranted for any of the ports. A 2010 preliminary risk analysis of non-compulsory ports identified two Nova Scotia ports as having medium-high risk, and recommended PRMM reviews for them. As of 31 March 2016, the Corporation had not completed PRMM reviews for these ports.

Is that still the case?

Ms. L. Anne Galbraith: One of the reviews has been started on one of the ports in Nova Scotia. The other one is probably going to follow in March 2017.

There were four ports in Nova Scotia. Two of those ports are no longer active so there's no need for those reviews.

Mr. Paul Lefebvre: All right.

Mr. MacArthur, with respect to the profitability of the organization, you have a duty to be financially self-sufficient. What happens when you're in a deficit?

Mr. Peter MacArthur: In the case of this most recent three out of four years when we were in a deficit, we had enough cash reserves from the \$5.3 million we had made in the three or four years before that to carry us through that period of time.

As mentioned earlier, it's a cyclical business where we'll have things happen. We may have already budgeted for the following year.

To give you an example, we had budgeted for 2016, and in January, we found out that two of the operations we included in our budget were shutting down entirely, one being a potash mine in Sussex, New Brunswick, and the other one being a gypsum mine in Cape Breton. We had already included those numbers in our calculations, and they disappeared overnight. Sometimes it goes the other way, and you get some business you didn't expect to get.

We bill based on the size of vessels, so when I mentioned earlier that because the size of vessels had declined, our revenues went down while the number of assignments we had stayed the same, that's the worst-case scenario for us. We still have the work to do. We still have to have as many pilots to do it, but our revenue has dropped off the cliff. That's what really happened to us in 2015.

Mr. Paul Lefebvre: We also received the Auditor General's report on the Pacific Pilotage Authority, and we decided as a committee not to hear them because they had a really good report. I would recommend you review their audit, please.

Again, it is very concerning as Mr. Christopherson, Mr. McColeman, and Ms. Mendès say. You have significant pervasive issues. In 2007 you passed with flying colours with a really good report and now in 2016 it is not and you don't know why. Look at successes that occurred elsewhere and try to match what they are doing.

Thank you, Mr. Chair.

The Chair: Just before we go to Mr. Godin, I want to get a little clearer idea.

You're a crown corporation. Why would you not be privatized? Why would this entity not be privatized? I think I know the answer. There are certain routes you take that are money-losing routes. Is that a fact or not?

Is there any area that you know is a money loser, or you know you aren't going to be making any money on, but you want to provide a service? The Government of Canada, Canada as a whole, wants to provide a service. Is that part of, perhaps, why you are a crown corporation?

Mr. Peter MacArthur: We're a crown corporation. We're one that doesn't get any funding from the federal government. We're not funded. We have to make our own revenues.

What we attempt to do is to have each of our compulsory areas at least break even. Does it always work? No. Obviously, when we're losing \$500,000 a year, we can't have that.

We treat each one as a cost centre. For example, Halifax is a cost centre. Placentia Bay is a cost centre. We do separate statements for each of them. We try to avoid cross-subsidization from one to the other. It's difficult, but we have succeeded in previous years, but not in the last couple of years. We're not using the funds from one port to subsidize another port. We're trying not to, anyway.

•(1615)

The Chair: If you were a privately owned company, do you think that.... Is there an incentive out there? Who are you competing with? Is there competition—

Mr. Peter MacArthur: We don't have competition. There are some areas where private pilots are providing a service, but we don't have competition in compulsory ports like Halifax, Saint John, and so on.

The Chair: Thank you.

Mr. Godin.

[*Translation*]

Mr. Joël Godin (Portneuf—Jacques-Cartier, CPC): Thank you, Mr. Chair.

I'd like to thank the witnesses for their participation.

Mr. Griffiths, I'm rather disappointed to see that a corporation like yours is apparently surprised by the Auditor General's findings. This is what I took away from your presentation.

You said that your corporation contributes to public confidence, but to my mind, that's not enough. A more meaningful and solid foundation is necessary.

The Auditor General's visit probably caught you off guard. You said you agreed with the report but that it wasn't representative of the reality because your organization was short-staffed during the period on which the audit focused. That's a bit of a simplistic explanation.

You've provided an opinion survey. I could give you one too. Nowhere do you provide information on sampling, methodology, or the date. What is there to support the credibility of the survey and your claim that everything is fine?

We are all wasting our time here today if you're going to sit there and tell us that your organization is doing fine and that you don't have any problems. I'm going to put it this way. The Auditor General got to you.

Put yourself in his shoes. If you were auditing your organization, would you come to the same findings? That is my question to you.

[*English*]

Capt Sean Griffiths: Yes, I probably would, because we agreed with the findings of the report.

I at no time said that the authority is in perfect shape, in tip-top order and things are running great. We do need improvement.

This exercise of the special exam showed us where we need improvement, and we appreciated their help in identifying those concerns. We take them seriously and we've been working very, very hard over the last six to eight months to rectify these. You can see by our action plan that over 50% have already been completed, and we will complete the rest before the due dates.

As far as the survey goes, sir, it was a very, very intense survey, with the right questions in the right field. If you want copies, I'd be happy to send the whole thing to you, with our target audience, and why we asked what we did.

[Translation]

Mr. Joël Godin: I don't want a copy of everything. I just want to know how the sampling worked and when the survey was conducted. Was it done by an independent firm, or was it an internal undertaking to consult your clients?

[English]

Capt Sean Griffiths: We consulted our clients through an online forum. It's anonymous, if they want it to be; they can say who they are, otherwise. We had ship owners, shipmasters, agents, and consultants. Anyone whom the APA does business with on a daily basis was asked his opinion.

Again, it's not to reflect that we have a great operation in Halifax—we do need improvement—but to show that our commitment to safety is of the utmost importance. That is defined in that survey, which people agree with. Our openness and transparency have always been positive attributes of the authority. You can ask the Shipping Federation about that; they will agree. We do a great job of showing our business plans to our users so that they buy into our tariffs, and we have not had an objection because of them. We need some work, however.

• (1620)

[Translation]

Mr. Joël Godin: You aren't the only ones, but why wait for the Auditor General to go through your books before fixing the situation and adopting a more effective approach? Why not do a yearly self-assessment so that your organization is seen as efficient? Why wait up to 10, 15, or 20 years to take action? Why wait for a slap on the wrist from the Auditor General before taking action? It strikes me as a corporation that operates willy-nilly, without any vision.

[English]

Capt Sean Griffiths: It's a fair question. Why did we wait? We did not wait. We acted, two years ago in some cases, to rectify some of the deficiencies that we're well aware of. Some things, however, take a bit of time.

Many things were in progress. They were identified by us, and we share the views and the recommendations of the OAG because of that. We didn't wait for them to identify them; we knew they were deficient anyway.

We take them very seriously. We didn't wait. We executed.

The Chair: Thanks very much, Mr. Godin.

We'll now move to Mr. Arya, please, for five minutes.

Mr. Chandra Arya (Nepean, Lib.): This is a question for Mr. MacArthur. You have been there for 28 years. The Auditor General knows that the entrepreneurial pilots were without documented contracts. How can you continue to hire them and pay them without documented contracts?

Mr. Peter MacArthur: I don't think we were hiding them.

Mr. Chandra Arya: I said hire them, not hide them.

Mr. Peter MacArthur: I'm sorry.

We've known that this is an issue. The Pilotage Act has been set up so that you can have two types of pilots: members of a body corporate or employees. Most of our pilots are employees. In some

smaller areas, such as Restigouche, which includes the port of Dalhousie, where we get five or six ships a year, it wouldn't make sense to have an employee pilot. Miramichi is another area in which we get—

Mr. Chandra Arya: I understand that.

Mr. Peter MacArthur: It's the small areas. We have made attempts in the past to get bodies corporate established. In fact, in Miramichi we had a body corporate. One of the pilots is now retired —

Mr. Chandra Arya: Usually when you hire an individual, you need some sort of contract. Isn't that right?

Mr. Peter MacArthur: There is a contract with Miramichi River Services. We attempted to get contracts in some of the other areas. Essentially the pilots said they would stop working if they had to form a body corporate and engage with us.

We were left in a position of deciding whether we should continue going the way this has gone for 40 years and leave them as what we call entrepreneurial pilots, or take the risk—

Mr. Chandra Arya: I understand. That's why you need time to post more —

Mr. Peter MacArthur: —and we've been getting legal advice. The legal advice we have received is—

Mr. Chandra Arya: That's fine.

My second question is one that possibly the chairperson could answer.

In response to recommendation 22, you have stated, “Board members and management have provided written disclosure” of all the possible, actual, potential, or perceived conflicts “as required by the Corporation’s conflict of interest code”, and that the “Chairperson will put in place appropriate mitigations”. I'd guess that is the response.

Can you give us some examples of what these actual or perceived conflicts might be?

Ms. L. Anne Galbraith: Sure.

As you saw, the composition of our board is two members of industry, two public members, and two pilots. The pilots are both retired pilots. They're still in contact with a lot of their compatriots, whom they work with, so there's a conflict there.

Mr. Chandra Arya: Is this information publicly available, the conflict of the board members or the management, what conflicts they have?

Ms. L. Anne Galbraith: It's not on our website, no.

Mr. Chandra Arya: I can understand that with respect to the board, because you have industry representatives. What about the management?

Ms. L. Anne Galbraith: You mean the management's conflicts?

• (1625)

Mr. Chandra Arya: Yes.

Maybe Mr. Griffiths could elaborate on that.

Capt Sean Griffiths: There wouldn't be any conflicts for management. As Ms. Galbraith said, the composition of the board includes an industry representative. He might own ships that we have pilots on. That could present a conflict, or he might operate a terminal that we visit with pilots, and that might present a conflict.

Mr. Chandra Arya: This information on the conflicts of the board members is not publicly available.

Capt Sean Griffiths: No.

Mr. Chandra Arya: How do you compare with the Pacific Pilotage Authority in the tariffs they charge or in manpower costs?

Capt Sean Griffiths: Their tariff structure is quite a bit different from ours, if I recall. A lot of it is based on the draft of ships. They also have body corporate pilots instead of employee pilots. They cover a vast coastline of B.C., not individual ports like the APA does, and we try to make each—

Mr. Chandra Arya: So it is difficult to compare how Canada stands there.

Capt Sean Griffiths: It's very difficult to compare.

Mr. Chandra Arya: Okay, I understand that.

You operate a monopoly and Mr. MacArthur mentioned that the last ships are coming in now. The tariffs that were added, do you think they are going to be reduced this year?

Capt Sean Griffiths: If the tariff model suggests that the revenues are climbing because of that, then yes, the tariff model will come down. Typically it's not there long enough to see a decrease in ships like that, so it most likely will stay.

The Chair: Thank you.

We'll now move to Mr. McColeman, for a five-minute round.

Mr. Phil McColeman: The OAG found that the corporation did not have a process in place to ensure that it performs its own annual inspections of all pilot boats, owned and contracted, in keeping with its past practice, to provide assurance of quality and continuous improvement.

Can you explain why this at one time was a practice and then became a deficiency?

Capt Sean Griffiths: Yes, I can. We executed a year, 2015, without completing all the inspections, because of logistics and operational constraints. Of course, the turnover in personnel had an impact as well. There are a couple of pilot boats left outstanding to inspect.

Mr. Phil McColeman: It boiled down to two being missed.

To get back to governance and the makeup of the board, it has two industry representatives. Are these representatives who are currently working in the industry or are they retired?

Ms. L. Anne Galbraith: Correct.

Capt Sean Griffiths: They are retired.

Mr. Phil McColeman: They are working in the industry.

Immediately, that strikes me as their having a conflict of interest, a very large conflict of interest. In fact, I think the chair of your board alluded to it by saying that when it came to tariffs, certain board members argued against tariffs, which would indicate that they have a special interest in making sure tariffs were kept lower than perhaps what the board recommendation for management had been.

How does it work in your board meetings when you're dealing with issues? Do these people recuse themselves and walk out of the room 10 times during a meeting because they have a conflict of interest? What's the deal here?

Ms. L. Anne Galbraith: What I would say is I know that some of our board members are also our stakeholders, and when I was referring to stakeholders, I was actually thinking more about the Shipping Federation, which can be interested in keeping our tariffs low for their clients, their members.

With regard to their recusing themselves, we haven't had them recuse themselves. We've asked. At the start of the meetings, we are now asking people to declare any conflicts of interest. They haven't recused themselves, because we have other members of our board who are there and can challenge them.

Mr. Phil McColeman: I'm just going to relate to a few boards that I've served on in my life—a university board of governors, industry-wide Canadian Home Builders'. These are basic things. Those people should not be allowed to be part of those discussions, and I'm sorry, but it should not take other board members having to challenge them on certain issues. This just seems like a basic practice of conflict of interest. If that is the case, what you just said, that is absolutely out of line with Robert's rules, or any set of rules you'd like, in respect of overall board governance.

• (1630)

Ms. L. Anne Galbraith: This is the board that I'm required to have under the Pilotage Act. That's what I have to have, two industry members, two pilots. Now they're retired pilots; before they used to be full-fledged pilots who were employed by us.

Mr. Phil McColeman: I'm going to go to the Auditor General's representatives.

Mr. MacLellan, what are your views on this type of governance set-up? This seems to me to be almost incestuous.

Mr. Clyde MacLellan: First off, this is what we refer to as a representational board. There are a few crowns that have a similar type of circumstance. We are concerned, as outlined in the report, that the very basis of a representational board can create some challenges in terms of the perception of the conflicts of interests. That is why we recommended that actions be taken to deal with and try to mitigate those perceptions. We recognize that in many cases there may be legislative change necessary to try to respond to those on a more holistic basis. In the meantime, we think what is important are the processes by which to manage the apparent conflicts you have identified that appear in that circumstance.

Mr. Phil McColeman: Okay—

The Chair: Very quickly.

Mr. Phil McColeman: Very quickly, back to you, Ms. Galbraith, as chair of the board, would it be advisable or would it be a thought to advise the government that this type of board does not function properly and possibly has ethical challenges, and ask for a different mandate in terms of board makeup?

Ms. L. Anne Galbraith: It may be advisable, but I'd also say that my board members understand their fiduciary duty.

The Chair: Thank you. We'll leave it at that.

We'll now go to Mr. Chen, and Mr. Lefebvre will share the time.

Mr. Shaun Chen (Scarborough North, Lib.): I want to start by saying that it's good news to know that your assignments are 99.93% incident-free. At the same time, I want to express my deep concern over what I've read and what I've heard today. I want to underscore the reality here. This is one of the few cases where the Auditor General has given a fail grade for a special examination of a crown corporation. To me, that number one is extremely concerning.

I'm satisfied with what I've heard in terms of how you are addressing your current deficit, three out of four years, \$1.2 million, using the surplus that you accumulated through previous years. However, I want to get back to how that ties into what you're doing moving forward. I heard very clearly that you have implemented seven of the recommendations, or will by the end of this year. You will address the remaining three recommendations by June of next year. I don't know the specifics of those.

I know we have very limited time here, but it strikes me that there needs to be a greater sense of accountability here. This isn't a mom-and-pop operation; this is a crown corporation. There's an expectation that funds are being used accordingly and that you are running a good ship, that you are running a ship that is essentially efficient, that you're making use of resources properly. To me, basic things such as having properly documented contracts for your entrepreneurial pilots would be a simple thing that should have been done already. For example, when you look at the lack of performance evaluations for some of your employee contracts, how could you not have these things on file? In terms of the governance, I'm not getting a clear sense of how those challenges are being met based on some of the earlier questions I heard.

I want to tie that back to your financial realities. Over the past four years you have gotten into this slump where you're seeing deficits three out of four years. From my understanding, you have talked about it at the board level, to have some strategic objectives. Is there

a strategic plan? Is there a plan that this organization will move forward with to turn that deficit around, but at the same time, be able to address all these operational challenges that have been identified in the report?

Can you give me a better sense of that? The way it was presented in the power point doesn't assure me. I believe the public needs to be assured that there's a real concrete plan moving forward to address these concerns and a way to find financial balance and responsibility moving forward.

● (1635)

The Chair: Thank you, Mr. Chen.

Capt Sean Griffiths: I can answer that.

From the financial aspect, we've identified some of the highest risks. We talked earlier about the reduced size in ships, and how to react to that, which we can, to plan ahead. Our future financial plan includes mechanisms in our tariff to ensure the economic downturns of shipping. It also includes a fund for severance payouts for employee pilots as they retire. It also includes a fund for asset replacement, which we never had before, which will reduce our borrowing down the road. Those are long-term visions. We've also instrumented a two-year tariff this year to mitigate any risk of downturn from the following year for falling tariffs, with of course the option to review at the end of this year. Those four things are a good, strong financial plan going forward.

From the operational point of view of your question, Mr. Chen, the integrated management system we're developing right now, that the authority lacked for years, will help our information management. It will help our policy and procedures. It will catalogue all the things we want to do that we're supposed to do, and hold us accountable with annual audits to that effect. It will match ISO 9002 accreditation. We have a document control system which will ensure fleet maintenance, inspections, and protocol, along with certificates and companies. These will be held in one uniform location for easy access.

Those are some of the tools we have developed so far.

The Chair: Thank you very much.

Mr. Lefebvre.

Mr. Paul Lefebvre: I asked you a bit earlier with respect to deficits. You have a duty to be self-sufficient, and you said that because you had a reserve, you were able to tap into those reserves. What happens if the reserves run out?

Mr. Peter MacArthur: As I mentioned, the industry tends to be cyclical. Just for background, we used to receive appropriations from the government. In 1995 that was cut off, so from 1996 forward, in the 20-year period, we have had profits of about \$13 million. So, yes, we've had two periods during that time when we had downturns. In fact, when we had the last special exam, we were in the third or fourth year of four years, where we lost \$2 million a year, but at that time, we still had cash reserves coming forward. Then we went on for a period of years where we made money. So it tends to be cyclical.

Mr. Paul Lefebvre: You're not allowed to be in a deficit position, but because you have reserves you can tap in. My question is, what happens if you are in a deficit position?

Mr. Peter MacArthur: Again, we do have, for example, a line of credit that we can use. We haven't had to use it, except for about \$60,000 or something like that. We haven't had to use it over the last few years. We do have that line of credit in reserve.

Mr. Paul Lefebvre: My concern is that there's no plan, and now you're just coming up with a plan. Since 2003 you haven't had a plan, and you're hoping that cyclically you'll be able to have a surplus fund to tap into if you have a downturn. That is not planning to me. The other thing is, you're running by the seat of your pants and you're just hoping and you're just crossing your fingers, saying, "Well, hopefully, that won't happen."

Mr. Peter MacArthur: We've had a financial plan. We've had that since the nineties at least. We do a five-year corporate plan, and that carries our finances out over a five-year period. Each year we update that five-year plan.

We have run into some difficulties over the past couple of years in particular, but we do have a financial plan where we're trying to get out.... Now, one of the things that we have identified—and we had identified this before—is that perhaps the amount that we target as a rate of return should be higher than what we had previously targeted. We used to respond to industry concerns about some problems in the shipping industry and tried to keep our rate of return low. When you do that, and you have any kind of a downturn, then you end up with a deficit.

Mr. Paul Lefebvre: Mr. Chair. I'm just concerned with respect to that plan.

The Chair: Thank you, Mr. Lefebvre.

We'll go, in conclusion, to Mr. Christopherson. He has the last question of the day.

Mr. David Christopherson: Thanks, Chair. I appreciate that.

The Chair: Oh, I'm sorry, Mr. MacLellan. Did you want to respond to Mr. Lefebvre?

Mr. Clyde MacLellan: No. I'd appreciate, Mr. Chair, if you would give me just a few minutes at the end to respond to a few observations.

Mr. David Christopherson: You have it right now.

Mr. Clyde MacLellan: Right now? Okay, with that in mind, I'd just like to give you a few perspectives. There has been a long conversation since we started a little bit.

First, I'd like to give the committee some assurance early in the conversation about the use of the word "dysfunctional". We do an

audit of a number of crown corporations and special exams and see all types of organizations and the state of affairs. I am quite comfortable in saying to you that this is not one we found to be dysfunctional. I have seen dysfunctional organizations, so I have a comparison by which to do that, and I just want the committee to be satisfied that from our perspective, we would not classify it that way.

That said, I do want to echo phraseology that Mr. Christopherson had used, sort of the colloquialism of the end justifies the means. In our particular case, our focus of this audit was on systems and practices and the importance of those systems and practices in being able to demonstrate due diligence on an ongoing basis. So while we recognize in many organizations we audit that the results can be positive, it is very important we think for crown corporations in fulfilling their obligations under the Financial Administration Act, to have robust and rigorous systems and practices.

What concerned us here, and Mr. Griffiths referred to the adverse opinion that we had provided, is that the nature of the systems and practices and the rigour in which they were applied were not what we would have expected of a crown corporation, not what we'd seen in the past, and we're concerned and that's why we had mentioned that.

I just wanted to echo that that's an important context for us.

There has been bit of a discussion about our past audit and this audit. I do want to inform the committee that all of our audits are done rigorously. We do, however, apply continuous improvement to our own work over the years, and we look at new risks and new issues and the expectations do change over time. But I do want to leave no doubt in your mind that all of our audits, even going back 10 years, are done rigorously and we seek evidence to support those, and when we don't find it, we call a spade a spade. That's always been the approach of our organization.

Finally, if I may, there has been, I think, a very good conversation around board appointments and the challenges both in the structure of boards and the timely replacement of boards, and you recognized that the Auditor General has been here to speak to some of those challenges.

One of the other exams that you'll be looking at has a similar challenge, when you examine the IDRC, a special examination. We are keeping a close eye on the appointments process, and considering what our future audit work might involve based on all of that.

I just wanted to give you some assurance that it is top of mind to us as well, as we look at that.

I think those were the principal matters I wanted to summarize for the benefit of members.

● (1640)

The Chair: Thank you.

Mr. Christopherson.

Mr. David Christopherson: Thanks, Chair. I'll be brief.

Thank you very much, Mr. MacLellan.

Let me just say that's the beauty of dealing with the professionalism of the Auditor General's Office. They won't let us go beyond what their reports say to, so it needs to be emphasized that if it's not dysfunctional, then that concept is not one we should have. Results are good. With processes, we have all kinds of problems.

One of the things that's concerning us is that it used to be fine and then it fell off, and then there are HR problems and there were changes in the leadership. There's a bit of this story that we don't know and it has to be tied to the business that a lot of your problems were because people were leaving. Why were people leaving all of a sudden? There's something in there about the culture that's happened that we haven't quite nailed, but we'll give that some further thought. I thought it was important to recognize that when we go too far in our language, the Auditor General is the first one to say, "Hold on, it's not quite that", but then when it is time to call a spade a spade, they do. That fairness, I think, is really important, because in this process, you can get run over real quick by us, as you can see, and sometimes certain entities should be and other times just a nice little slap on the wrist will do fine.

However, I did have one question.

You mentioned, Mr. Griffiths, your internal audit system. Could you speak to me about the internal audit system you have and if you've increased or improved it at all over the last little while? I did take to heart what you said about that being there to catch some of the things going forward. Can you give us an update on your internal audit system, please?

Capt Sean Griffiths: I'll defer to Mr. Bradley on the internal audit plan, but before I do that, I would like to say that the internal audit that we will be conducting this year is essentially a gap analysis between what we do today and what we need to get to, to be ISO 9002 accredited. Right now, that gap is being done. It's in the dozens of recommendations for us. We'll take them seriously. We'll execute them, and we will maintain that standard every year and the year thereafter.

For the internal audit process, I'll defer to Brian on how that works.

Mr. Brian Bradley (Director of Finance, Atlantic Pilotage Authority): Annually we try to have at least an internal audit started. This year, because of the special exam, we did not do one in 2015. We had one in 2016. That came out of their report. The common theme throughout their report is our documentation

handling, documenting our procedures. That is what our internal audit project is on this year and should get a report this year to us. Then every year thereafter, consistent with the ISO process, we'll continue to be audited on those procedures and documentation. That will be over and above an internal audit project on other topics as well that our audit committee will set on any and all of this.

•(1645)

Mr. David Christopherson: Good.

Thank you, Chair.

The Chair: I want to thank you for appearing today.

I want to be clear on part of what the mandate of our committee is. As you know, our Auditor General conducts audits of many different departments. He released one today. The public accounts committee's responsibility is to follow up on those audits to make sure that departments or crown corporations are, indeed, meeting their timelines, fulfilling the recommendations that they've accepted and are going through it.

We commend you that you have an action plan and you're well down the road on the action plan. You have a timeline to complete the action plan. These are all very positive steps that the public accounts committee recognizes. But this past week we had a department that had timelines as well. Then when they left the meeting, as was typical a few years ago, they unilaterally changed the timelines, extended the timelines. We had to call back a department and find out why. That's putting it mildly. We appreciate that you are on track, on time, and that you believe that by June you will see these completed. We commend you for that.

I can guarantee that governments want you to succeed. They want you to have the right people and the right plans in place. As you continue to better the governance structure and some of those things, we're certainly hoping that we'll see success.

Thank you for being here again. In spite of our Auditor General not being here today—he is busy; we get it—to the Auditor General's team, thank you for a very good job and for appearing before the committee today.

We will suspend. I'll allow our guests to make their exit, and then we will go in camera on committee business.

[Proceedings continue in camera]

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