

Special Examination

Report of the Auditor General of Canada to the
Board of Directors of the Pacific Pilotage Authority



**Independent Auditor's
Report | 2024**



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

Special examination reports

Special examinations are a form of performance audit that is conducted within Crown corporations. The Office of the Auditor General of Canada audits most, but not all, Crown corporations.

The scope of special examinations is set out in the *Financial Administration Act*. A special examination considers whether a 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.

More details about the audit objective, scope, approach, and sources of criteria are in About the Audit at the end of this report.

Cette publication est également offerte en français.

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Audit Summary

We examined how the Pacific Pilotage Authority implemented its corporate management practices and managed its pilotage services during the period covered by the audit. In examining the management of pilotage services, we found a significant deficiency in the process related to pilotage waivers. We also found that improvements were needed in assessing the performance of launch crews, in monitoring pilot training, and in following measures related to inspections and an annual recovery drill. In examining corporate management practices, we found that improvements were needed in systems and practices related to the Board of Directors' independence and oversight and in risk mitigation.

Except for the significant deficiency and despite the weaknesses, the corporation maintained its systems and practices in a manner that provided reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.

Introduction

Background

Role and mandate

1. The Pacific Pilotage Authority is a federal Crown corporation established in 1972. It reports to Parliament through the Minister of Transport and is 1 of 4 pilotage authorities established under the *Pilotage Act*. This act sets out the corporation's mandate, which is to establish, operate, maintain, and administer, in the interests of navigation safety, an efficient pilotage service in the Canadian coastal waters in and around British Columbia. This includes the Fraser River.
2. Following the amendments to the *Pilotage Act* that came into force in 2021, the corporation no longer has the power to make regulations concerning the provision of pilotage services. That responsibility now belongs to the **Governor in Council**. In particular, the Governor in Council may make regulations on
 - compulsory pilotage areas
 - ships or classes of ships that are subject to compulsory pilotage

¹ **Governor in Council**—The Governor General, who acts on the advice of Cabinet and, as the formal executive body, gives legal effect to those decisions of Cabinet that are to have the force of law.

- the qualifications (including physical and mental fitness, degree of general and local knowledge, skill, training, and experience) required of an applicant for a licence in a compulsory pilotage area
- the examinations required to determine whether the licence qualifications have been met
- the circumstances and conditions under which compulsory pilotage may be waived in respect of a ship

3. Under the *Pilotage Act*, the corporation is required to set pilotage charges that are fair and reasonable and that allow it to be financially self-sufficient.

Nature of business and operating environment

4. The *General Pilotage Regulations* establish the compulsory pilotage areas within the corporation's region (Exhibit 1).

5. The corporation is responsible for providing marine pilotage services. According to the regulations, every ship of more than 350 gross tonnage that is not a pleasure craft and every pleasure craft of more than 500 gross tonnage is subject to compulsory pilotage. Those ships that navigate in the coastal waters of British Columbia, including the Fraser River, must use the services of a Canadian marine pilot (that is, a person who does not belong to a ship and who has the navigation conduct of it).

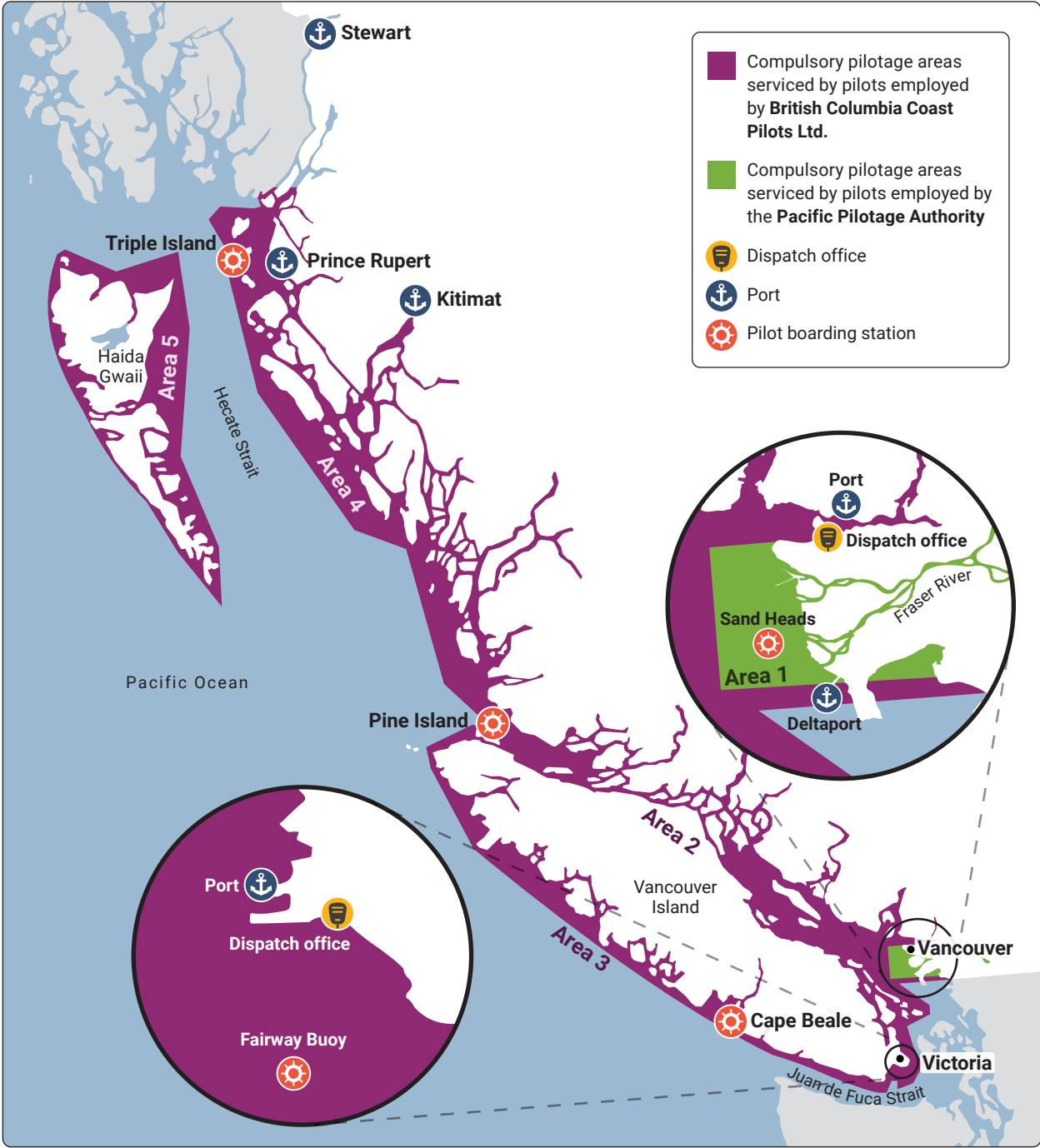
6. The regulations establish the classes of licences that can be issued and the qualifications that applicants and licence holders must meet for the Pacific region.

7. The corporation has about 80 employees, including 39 launch crew employees who operate **pilot launches** and 8 Fraser River pilots.

8. The corporation's expenses are funded by pilotage revenues, which come primarily from what the corporation charges its clients for pilotage services (Exhibit 2). Most of the corporation's expenses are related to pilots' fees and transportation.

² **Pilot launches**—Vessels used to transport pilots to and from the ships to which they have been assigned.

Exhibit 1—Compulsory pilotage areas for the Pacific Pilotage Authority



Source: Adapted from a Pacific Pilotage Authority map

Exhibit 2—Financial results for the Pacific Pilotage Authority (in thousands of dollars)

Fiscal year (ended December 31)	Revenues	Expenses	Profit (loss)	Accumulated surplus at the end of the year
2023	123,342	117,587	5,755	18,754
2022	105,632	104,702	930	13,011
2021	84,561	86,499	(1,938)	11,981

Source: Annual reports, Pacific Pilotage Authority, 2021 to 2023

Focus of the audit

9. Our objective for this audit was to determine whether the systems and practices we selected for examination at the Pacific Pilotage Authority were providing the corporation with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively, as required by subsection 138(1) of the *Financial Administration Act*.

10. Also, section 139 of the *Financial Administration Act* requires that we state an opinion, with respect to the criteria established in subsection 138(3), on whether there was reasonable assurance that there were no significant deficiencies in the systems and practices we examined. We report significant deficiencies when, in our opinion, the corporation could be prevented from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

11. On the basis of our risk assessment, we selected systems and practices in the following areas:

- Corporate management practices
- Management of pilotage services

The selected systems and practices, and the criteria used to assess them, are listed in the exhibits throughout the report.

12. More details about the audit objective, scope, approach, and sources of criteria are in **About the Audit** at the end of this report.

Findings, Recommendations, and Responses

Corporate management practices

The corporation had good corporate management practices, but improvements were needed in board independence and oversight and in risk mitigation

Context

13. The corporation's Board of Directors consists of the Chair and a maximum of 6 other members. All members are appointed from outside the corporation. The *Pilotage Act* prohibits from board membership anyone who provides pilotage services or is employed by a person providing or using such services. Board members, other than the Chair, are each appointed for a term not exceeding 4 years, which can be renewed. They may continue to serve until a successor is appointed or their term is renewed. The Minister of Transport, with the approval of the Governor in Council, is responsible for appointing board members with the exception of the Chair, who is appointed by the Governor in Council.

14. During the period covered by the audit, the terms of 6 board members had expired, in 5 cases more than a year before. Because the members concerned were still serving, quorum was not at risk. This situation was resolved in April and June 2023, when 3 new members were appointed and the terms of the 3 others were renewed.

15. The corporation's board is supported by 3 main committees: the Finance and Audit Committee, the Governance and Nominating Committee, and the Human Resources Committee.

16. The corporation is subject to Part X of the *Financial Administration Act*, which requires it to prepare an annual corporate plan. The corporate plan sets out a Crown corporation's strategic objectives, activities, and operational and financial performance indicators and targets. It also includes operating and capital budgets. The plan is submitted to the responsible minister for approval by the Government of Canada.

17. The corporation's Corporate Plan Summary (2023–2027) lists the following strategic objectives:



- Provide safe, reliable, and efficient marine pilotage.
- Ensure financial self-sufficiency.
- Promote organizational and environmental sustainability.
- Demonstrate leadership.
- Manage risk.
- Focus on the future.



18. In accordance with Part X of the *Financial Administration Act*, within 3 months after the end of each fiscal year, the corporation is required to report on its operations, including the achievement of its objectives for the financial year.

Corporate governance




19. **Findings.** We found that the corporation had good corporate management practices for board appointments and competencies and for providing strategic direction. However, certain aspects of board independence and oversight needed improvement (Exhibit 3).

Exhibit 3—Corporate governance—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board appointments and competencies	The board collectively had the capacity and competencies to fulfill its responsibilities.	<p>The board determined the skills and expertise it needed to be effective and carry out its responsibilities.</p> <p>The corporation provided to the responsible department the board’s skills matrix, which included considerations related to Indigenous relationships and diversity.</p> <p>The corporation communicated regularly with the responsible department about renewals and appointments for board members.</p> <p>The board had a full complement of members, whose terms were staggered to support continuity.</p> <p>Board members were provided orientation sessions and ongoing training.</p>	
Board independence	The board functioned independently.	<p>The Board of Directors made decisions independently of management and regularly held private meetings without management in attendance.</p> <p>The corporation had a code of conduct for board members, supported by an annual process for members to declare their compliance with the code.</p> <p>The corporation had a systematic process in place for board members to regularly declare conflicts of interest.</p> <p>Weakness</p> <p>The corporation did not document measures to be taken for board members who declared conflicts of interest.</p>	

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Providing strategic direction	The board provided strategic direction.	<p>The board participated in setting the corporation's strategic direction.</p> <p>The board participated in setting annual performance objectives for the Chief Executive Officer, which were aligned with the corporation's strategic objectives.</p> <p>The board assessed the performance of the Chief Executive Officer against set objectives.</p>	
Board oversight	The board carried out its oversight role over the corporation.	<p>The roles and responsibilities of the board and its committees were clearly defined, forming the basis for the preparation of work plans. The board covered the topics set out in its work plans.</p> <p>The board and its committees received information on financial performance, pilotage charges, risks, progress against strategic objectives, the corporation's compliance with applicable laws and regulations, operational activities, and succession planning.</p> <p>Internal audits were performed regularly, and the results were presented to the board's Finance and Audit Committee.</p> <p>Weakness</p> <p>The board did not receive information on the corporation's ethical performance.</p>	

Legend—Assessment against the criteria

-  Met the criteria
-  Met the criteria, with improvement needed
-  Did not meet the criteria

20. **Weakness—Board independence.** Board members were required to declare annually any real or perceived and any direct or indirect conflicts of interest. We found that some board members declared conflicts of interest and that measures were taken for some of them, including a recusal of such members from discussions. However, for the other conflicts declared, we found that no measures had been taken and that the rationale for not taking any measures had not been documented. This weakness matters because acting on declared conflicts is important for establishing the corporation's credibility and fostering sound governance and accountability.

21. **Recommendation.** The corporation should document actions to be taken or the rationale for not taking any actions in relation to conflicts of interest declared by board members.

***The corporation's response.** Agreed. Starting in May 2024, the corporation will document actions to be taken or the rationale for not taking actions in relation to conflicts of interest declared by board members.*

22. **Weakness—Board oversight.** We found that management had not provided the board with information on the corporation's ethical performance related to employees' compliance with the code of conduct and any matters related to conflicts of interest. While the corporation had a code of conduct covering expected behaviour for all employees, we found that not all employees signed their commitments to comply with the code upon hiring and that the corporation's requirement for employees to sign their commitments at least once every 3 years thereafter had not been met. We also found that there was no conflict-of-interest disclosure and reporting process for any of the corporation's employees. This weakness matters because without comprehensive ethical measures in place and complete information on ethical performance, the board was unable to fully perform its oversight role.



23. **Recommendation.** The corporation should put in place a conflict-of-interest disclosure process for all employees, including a declaration of their compliance with the code of conduct, and should report on this to the Board of Directors.

***The corporation's response.** Agreed. The corporation will put in place a conflict-of-interest disclosure process for all employees, including a declaration of their compliance with the code of conduct, by fall 2024. The corporation will then report on results to the board.*




Strategic planning

24. **Findings.** We found that the corporation had good systems and practices for strategic planning (Exhibit 4).

Exhibit 4—Strategic planning—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Strategic planning	The corporation established a strategic plan and strategic objectives that were aligned with its mandate.	<p>The corporation had a strategic planning process that included consultations and an analysis of the internal and external environment, strengths, weaknesses, opportunities, and threats.</p> <p>The corporation established a strategic plan that included strategic objectives aligned with its mandate. Associated initiatives and actions were developed, and they were each assigned to an accountable senior manager.</p> <p>Initiatives related to the environment, information technology, and human resources, including equity, diversity, and inclusion, were included in the strategic plan.</p>	
Performance measurement, monitoring, and reporting	The corporation established performance indicators in support of achieving its strategic objectives and monitored and reported on its progress against those indicators.	<p>The corporation established performance indicators, with associated targets, to assess ongoing progress in achieving strategic objectives.</p> <p>The corporation monitored progress against performance indicators and targets.</p> <p>The corporation reported on progress quarterly to the Board of Directors.</p>	




Legend—Assessment against the criteria

-  Met the criteria
-  Met the criteria, with improvement needed
-  Did not meet the criteria




Corporate risk management

25. **Findings.** We found that the corporation had good systems and practices for identifying and assessing risks and for risk monitoring and reporting. However, improvements were needed in risk mitigation (Exhibit 5).

Exhibit 5—Corporate risk management—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Risk identification and assessment	The corporation identified and assessed the risks to achieving its strategic objectives.	The corporation had a risk management process supported by a policy and guidance, which collectively defined roles and responsibilities and risk management activities. The corporation identified its organizational and operational risks, which it assessed according to their likelihood and potential impact.	
Risk mitigation	The corporation defined and implemented risk mitigation measures.	The corporation set its risk appetite, and for each risk identified, it assigned risk owners, defined risk mitigation measures, and set tolerance levels. The corporation had some measures in place to mitigate cybersecurity risks, including phishing tests and a cybersecurity incident response plan. The corporation had an emergency plan and procedures covering business continuity and disaster recovery. Weaknesses The corporation did not compare its residual risks against its tolerance levels. Some risk mitigation measures were not fully in place.	
Risk monitoring and reporting	The corporation monitored and reported on the implementation of risk mitigation measures.	The corporation monitored emerging risks and updated its risk register. The corporation provided detailed reports to the board on its risk management activities. These included a status on key and emerging risks and on mitigation measures.	

Legend—Assessment against the criteria

-  Met the criteria
-  Met the criteria, with improvement needed
-  Did not meet the criteria

26. **Weaknesses—Risk mitigation.** The corporation had a register in which it documented organizational and operational risks, along with its assessment of the residual risk and tolerance level for each. In addition, the corporation identified mitigation measures for each risk. We found that the corporation did not compare its residual risks with its tolerance levels to determine whether additional mitigation measures should be put in place.

27. We also found that mitigation measures were not fully in place for risks related to pilot training, pilot boarding, and pilotage waivers (see weaknesses in paragraphs 44 and 47 and a significant deficiency in paragraphs 49 and 50). In addition, to mitigate the key risk related to disaster and emergency response and business continuity, the corporation had established an emergency plan and associated procedures. However, it had not updated these for the new pilot dispatching system. Furthermore, it had not tested the plan since 2020 despite the corporation's requirement to conduct testing every 2 years.

28. **Recommendation.** The corporation should compare its residual risks with its tolerance levels to determine whether additional mitigation measures should be put in place.

***The corporation's response.** Agreed. The corporation will assess the residual risks against tolerance levels during the annual risk review process to determine whether additional mitigation measures are needed and will report results for key risks to the Board of Directors. This will be completed by the end of 2024.*

29. **Recommendation.** The corporation should update its emergency plan and associated procedures for the new pilot dispatching system and should test the plan.

***The corporation's response.** Agreed. The corporation will update the emergency plan and associated procedures by the end of 2024 for the new pilot dispatching system. Once completed, the corporation will conduct a drill within 6 months to test its emergency preparedness.*

30. **Recommendation.** The corporation should ensure that risk mitigation measures are implemented as intended, take the necessary actions should such measures not be in place, and report on progress to the Board of Directors.

***The corporation's response.** Agreed. By the end of 2024, the corporation will add a control effectiveness rating to its risk register. The effectiveness of risk mitigation measures will be assessed during the corporation's ongoing risk review process. The effectiveness of mitigation measures for key risks will be reported to the Board of Directors.*

Management of pilotage services

There was a significant deficiency in the pilotage waiver process, and improvements were needed in some other areas

Context

31. According to a 2021 economic impact study report on marine terminals in British Columbia (available on the BC Marine Terminal Operators Association website), Canada's West Coast ports are involved in moving more than \$290 billion worth of cargo annually.
32. The corporation has a service contract with British Columbia Coast Pilots Ltd. for approximately 120 pilots to provide pilotage services on the Pacific Coast. Excluded from this arrangement is the Fraser River, where 8 pilots who are employees of the corporation provide pilotage services.
33. The pilots are assigned to ships by the corporation through central dispatch offices in Vancouver and Victoria. In 2023, the corporation reported that 13,424 assignments were completed (92% for the coast and 8% for the Fraser River). The main categories of ships requiring pilotage included container ships, grain carriers, cruise ships, and coal transports.
34. The corporation provides water transportation for pilots to and from the ships to which they are assigned (Exhibit 6). For this purpose, the corporation operates 6 pilot launches based at boarding stations in Victoria, Prince Rupert, and Steveston. A total of 39 crew employees operate these launches. The corporation also contracts launch operations from third parties at 2 smaller, less active locations: Pine Island (on the northern tip of Vancouver Island) and Snake Island (in the Nanaimo area).
35. The *General Pilotage Regulations* establish the requirements that an applicant must meet to obtain a pilotage licence. To enhance these requirements, the corporation developed quality assurance programs that dispatch licensed pilots to categories of ships (defined by length and type) based on their experience. It takes at least 6 years for coast pilots and 4 years for Fraser River pilots to become eligible for assignment to any category of ship.
36. In partnership with British Columbia Coast Pilots Ltd., the corporation invested in a simulator to train pilots and apprentice pilots in ship manoeuvring.

Exhibit 6—A pilot launch operation



Photo: Dave Roels

37. According to the *General Pilotage Regulations*, the corporation may waive compulsory pilotage for specific areas in respect of a ship of less than 10,000 gross tonnage if certain conditions are met by every **person in charge of the deck watch**. These conditions include accumulated navigation experience in the Pacific Coast region and in the specific pilotage areas for which the waiver is sought. Requesting a waiver involves submitting an application to the corporation with the necessary documentation.

38. The corporation informed us that in 2023, it issued 82 waivers to companies, which covered 926 ships and 1,208 people (including 120 new people).

39. The corporation reported 1 incident involving a ship under the conduct of a pilot in 2023, but this incident was not qualified as major by the corporation. The corporation reported no incidents involving pilot launches.



3 Person in charge of the deck watch—A person who has the immediate charge of the navigation, manoeuvring, operation or safety of a ship, but does not include a pilot.

Source: *General Pilotage Regulations*




**Planning of
pilotage services
and relationship
management**

40. **Findings.** We found that the corporation had good systems and practices for the planning of pilotage services and for managing its relations with industry, the responsible department, and other stakeholders (Exhibit 7).

Exhibit 7—Planning of pilotage services and relationship management—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Planning of pilotage services	The planning of pilotage services was aligned with strategic objectives.	<p>The corporation developed a plan linking strategic objectives with detailed actions, resources needed, estimated costs, timelines, and responsible managers.</p> <p>The corporation regularly monitored progress against this plan and reported on progress to the Board of Directors.</p> <p>The corporation’s planning of pilotage services included establishing budgets that took into consideration the forecasted assignment volumes.</p> <p>The corporation established performance indicators with associated targets for its pilotage services and monitored and reported on progress regularly.</p>	
Relations with industry, the responsible department, and other stakeholders	The corporation effectively communicated, consulted, and exchanged information with the industry, the responsible department, and other stakeholders.	<p>The corporation communicated regularly and exchanged information, including on safety matters, with British Columbia Coast Pilots Ltd.</p> <p>The corporation communicated regularly and exchanged information on financial, operational, and safety matters with industry and other stakeholders.</p> <p>The corporation provided information to the responsible department, particularly on pilotage licences and on various operational projects.</p> <p>The corporation participated in committees covering a variety of topics relating to pilotage services and navigation safety.</p> <p>The corporation followed up on complaints and documented the actions taken.</p>	




Legend—Assessment against the criteria

-  Met the criteria
-  Met the criteria, with improvement needed
-  Did not meet the criteria




Recruitment, training,
and development

41. **Findings.** We found that the corporation had good systems and practices for apprentice pilot recruitment and training. However, improvements were needed in assessing the performance of launch crew employees and in monitoring pilot training (Exhibit 8).

Exhibit 8—Recruitment, training, and development—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Apprentice pilot recruitment and training	The corporation recruited qualified candidates and ensured they acquired the knowledge, skills, and competencies needed to apply for a pilotage licence.	<p>The corporation had processes in place to recruit qualified apprentice pilots who met the requirements of the <i>General Pilotage Regulations</i>.</p> <p>The corporation developed training programs for apprentice pilots to acquire the knowledge and skills and develop the competencies needed to apply for a pilotage licence.</p> <p>The corporation had a process in place to ensure that candidates in the apprentice program met the requirements of its training programs.</p> <p>The corporation ensured licence applications it submitted to the Minister of Transport for approval met the requirements of the <i>General Pilotage Regulations</i>.</p>	
Launch crew training and development	The corporation ensured that launch crews had the knowledge, skills, and competencies needed to carry out their duties.	<p>The corporation required new launch crew employees to undergo training.</p> <p>The corporation had a process to ensure that launch crew employees had valid competency, medical, and training certificates.</p> <p>The corporation conducted weekly recovery drills to ensure that launch crew employees were familiar with their duties and the safety equipment aboard the pilot launches.</p> <p>Weakness</p> <p>The corporation did not conduct performance assessments of its launch crew employees.</p>	
Pilot training, qualifications, and competencies	The corporation ensured that pilots had the required qualifications, skills, and competencies needed to carry out their duties.	<p>The corporation had quality assurance programs to ensure pilots had the required qualifications, skills, and competencies to carry out their duties. These programs included familiarization trips on ships or sessions in the pilotage simulator, training, and assessments.</p> <p>Pilots had current medical certificates as required by the <i>General Pilotage Regulations</i>.</p> <p>Weakness</p> <p>The corporation did not conduct ongoing monitoring to ensure that pilots met all requirements of its quality assurance programs.</p>	

Legend—Assessment against the criteria

-  Met the criteria
-  Met the criteria, with improvement needed
-  Did not meet the criteria

42. **Weakness—Launch crew training and development.** The corporation had processes in place to ensure that launch crew employees were trained and that they performed weekly recovery drills to remain familiar with their duties and the safety equipment aboard pilot launches. However, we found that the corporation did not conduct performance assessments of its launch crew employees. Performance assessments would enable the corporation to determine whether adjustments to its training and recovery drills are required in order for its launch crew employees to develop and maintain their skills and competencies. This is important for the safety of pilot boarding operations.

43. **Recommendation.** The corporation should conduct regular performance assessments of its launch crew employees.

***The corporation's response.** Agreed. By the end of 2024, the corporation will formalize regular performance assessments of its launch crew employees.*

44. **Weakness—Pilot training, qualifications, and competencies.** The corporation had quality assurance programs aimed at ensuring that pilots had the proper skills, competencies, and experience. We found that the corporation did not conduct ongoing monitoring to ensure that pilots met all requirements of its quality assurance programs. We selected 20 pilots and found that the following requirements were not met:

- Twelve pilots had not taken at least 1 refresher course as required for the purpose of ongoing professional development to ensure that pilots maintained their competencies and mastered the skills needed to perform their duties.
- One pilot had not performed all of the required familiarization trips on ships or any training sessions in the simulator for the purpose of acquiring experience in the conduct of different types and sizes of ships in various conditions.




45. **Recommendation.** The corporation should ensure that all pilots take the required training, and it should conduct ongoing monitoring to ensure that pilots meet all requirements of its quality assurance programs.

***The corporation's response.** Agreed. By the end of 2024, the corporation will ensure that all pilots take the required training, and it will implement a protocol to regularly monitor training records to ensure that pilot training is delivered within required timelines.*




Pilotage operations

46. **Findings.** We found that there was a significant deficiency in the pilotage waiver process and that improvements were needed in pilot boarding. However, we found that the corporation had good systems and practices for pilot dispatching (Exhibit 9).

Exhibit 9—Pilotage operations—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Pilot dispatching	The corporation dispatched pilots effectively.	<p>The corporation had a process in place to dispatch pilots effectively, in accordance with the requirements of the <i>General Pilotage Regulations</i> and of its quality assurance programs. The process included a software and a dispatch manual.</p> <p>The corporation had a key performance indicator and target for the dispatch of pilots, tracked its performance against the target, and reported on progress quarterly to the board.</p>	
Pilot boarding	The corporation provided safe and effective pilot boarding services.	<p>The corporation established procedures for pilot boarding operations, including recovery drills, and for inspections of safety equipment and of pilot launches.</p> <p>Recovery drills were performed at the frequency established by the procedures.</p> <p>The corporation developed a procedure for investigating accidents and incidents involving pilot launches. This included identifying the underlying causes, developing recommendations, and following up on corrective or preventive actions.</p> <p>Weakness</p> <p>The corporation did not follow some of its measures related to recovery drills and inspections.</p>	
Pilotage waiver process	The corporation effectively administered waivers of compulsory pilotage.	<p>The corporation had a process in place to issue or renew waivers of compulsory pilotage.</p> <p>Significant deficiency</p> <p>The corporation granted waivers for applicants who did not meet the navigation experience condition of the <i>General Pilotage Regulations</i>.</p> <p>The corporation did not perform ongoing monitoring of compliance with waiver conditions.</p>	

Legend—Assessment against the criteria

-  Met the criteria
-  Met the criteria, with improvement needed
-  Did not meet the criteria

47. **Weakness—Pilot boarding.** In relation to pilot boarding operations, the corporation established safety measures that included inspections and maintenance of safety equipment and pilot launches, person overboard recovery drills, and an annual recovery drill. These measures are important, as they contribute to mitigating the risk related to the pilot's safety while boarding ships to which the pilot has been dispatched. We found that the following measures were not performed as prescribed:

- **Annual recovery drill.** Eleven of 18 launch crew members that we examined did not participate in the annual board-mandated recovery drill and did not perform such a drill at a later date as required. This exercise is a means for the corporation to examine the crew members' familiarity with the launch safety equipment, pilot boarding operations, and the established procedures.
- **Inspections.** We examined 19 completed monthly inspections of safety equipment. The crew member responsible for the safe operation of the pilot launch is required to document the inspections. We found that someone else documented 6 of the 19 inspections. In addition, routine inspections are done daily, but for 1 pilot launch during the period covered by the audit, none of the Saturday inspections were completed. These inspections are a means for the corporation to ensure that emergency, firefighting, and life-saving equipment is properly functioning and available to use in the case of an emergency.

48. **Recommendation.** The corporation should ensure that its established safety measures related to the annual board-mandated recovery drill and inspections of safety equipment and of pilot launches are followed.

The corporation's response. *Agreed. For the annual board-mandated recovery drill scheduled in May 2024, the corporation will ensure that all launch crew members participate and, if not, that they perform such a drill at a later date as required. For inspections, starting in April 2024, the corporation will either follow or amend documented procedures to reflect current practices.*

49. **Significant deficiency—Pilotage waiver process.** The corporation had a process in place for granting waivers to ships, which was permitted under the *General Pilotage Regulations*. One condition for granting a waiver was recent accumulated navigation experience in the Pacific region as a person in charge of the deck watch. We found that the corporation granted waivers to ships for people who did not meet this condition. Of the 120 new people included in waivers granted to ships in 2023, the corporation informed us that it had approved 8 who did not have the required navigation experience. For them, the corporation considered navigation experience other than as a person in charge of the deck watch and requested companies to provide specific risk mitigation measures, such as training.

50. We also found that the corporation did not perform ongoing monitoring of ships that operate under a pilotage waiver to ensure that they continue to comply with the waiver conditions, including having the appropriate persons in charge of the deck watch on board the ships. This significant deficiency matters because monitoring would mitigate the navigation safety risk in the Pacific region.

51. **Recommendation.** The corporation should ensure that the navigation condition of the *General Pilotage Regulations* is met when granting waivers.

The corporation's response. *Agreed. Since January 2024, the corporation is ensuring that the navigation condition of the General Pilotage Regulations is met when granting waivers. The corporation will work with Transport Canada Marine Safety and Security to review the assessment of navigation experience and sea time applicable to waiver applications. The corporation will also work to support Transport Canada's work in modernizing the Pilotage Act regulations to reflect advances in technology and training and to better incorporate current safety considerations and contemporary operations in the maritime industry.*

52. **Recommendation.** The corporation should perform ongoing monitoring of ships that operate under a pilotage waiver to ensure that they continue to comply with the waiver conditions.

The corporation's response. *Agreed. By the end of 2024, the corporation will implement sample-based audits of vessels operating under pilotage waivers to monitor ongoing compliance with waiver conditions.*

Conclusion

53. In our opinion, on the basis of the criteria established, there was a significant deficiency in the corporation's pilotage waiver process, but there was reasonable assurance that there were no significant deficiencies in the other systems and practices we examined. We concluded that except for this significant deficiency, the Pacific Pilotage Authority maintained its systems and practices during the period covered by the audit in a manner that provided the reasonable assurance required under subsection 138(1) of the *Financial Administration Act*.

About the Audit

This independent assurance report was prepared by the Office of the Auditor General of Canada on the Pacific Pilotage Authority. Our responsibility was to express

- an opinion on whether there was reasonable assurance that during the period covered by the audit, there were no significant deficiencies in the corporation's systems and practices we selected for examination
- a conclusion on whether the corporation complied in all significant respects with the applicable criteria

Under section 131 of the *Financial Administration Act*, the corporation is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that

- its assets are safeguarded and controlled
- its financial, human, and physical resources are managed economically and efficiently
- its operations are carried out effectively

Also, subsection 138(2) of the act requires the corporation to have a special examination of these systems and practices carried out at least once every 10 years.

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001—Direct Engagements, set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook—Assurance.

The Office of the Auditor General of Canada applies the Canadian Standard on Quality Management 1—Quality Management for Firms That Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements. This standard requires our office to design, implement, and operate a system of quality management, including policies or procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we complied with the independence and other ethical requirements of the relevant rules of professional conduct applicable to the practice of public accounting in Canada, which are founded on fundamental principles of integrity, objectivity, professional competence, due care, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from the corporation:

- confirmation of management's responsibility for the subject under audit
- acknowledgement of the suitability of the criteria used in the audit
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided
- confirmation that the audit report is factually accurate

Audit objective

The objective of this audit was to determine whether the systems and practices we selected for examination at the Pacific Pilotage Authority were providing the corporation with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively, as required by subsection 138(1) of the *Financial Administration Act*.

Scope and approach

Our audit work examined the Pacific Pilotage Authority. The scope of the special examination was based on our assessment of the risks that could affect the corporation's ability to meet the requirements set out by the *Financial Administration Act*.

In performing our work, we reviewed key documents related to the systems and practices selected for examination. We also interviewed members of the Board of Directors, senior management, and other employees of the corporation. In addition, we observed meetings of the board and its committees.

We also tested the systems and practices in place to obtain the required level of audit assurance. We selected, based on professional judgment, certain activities to determine whether measures had been put in place and whether they were working as intended. These activities related to the board's coverage of the items set out in its work plans, the implementation of risk mitigation measures, pilotage licence applications submitted in accordance with regulatory requirements, pilot dispatching assignments, waivers granted, and recovery drills and inspections of pilot boats.

In our examination of the management of pilotage services, we carried out the following random sampling:

- selected 19 safety equipment inspections, 21 person overboard recovery drills, and 24 daily routine inspections of pilot boats as required under the corporation's procedures to examine whether they had been carried out and whether there had been documented follow-up on instances of non-compliance
- selected 6 apprentices and 6 pilots in order to examine whether pilotage licence applications the corporation recommended to the Minister of Transport for approval met the requirements of the *General Pilotage Regulations*
- selected 20 pilots in order to examine whether they had a current medical certificate and received ongoing training as required by the corporation's quality assurance programs
- selected 22 pilot dispatching assignments to examine whether they were in accordance with the requirements of the *General Pilotage Regulations* and the corporation's quality assurance programs
- selected 35 waivers of compulsory pilotage granted to companies to examine whether the corporation had a process in place to issue or renew those waivers

The systems and practices selected for examination for each area of the audit are listed in the exhibits throughout the report.

In carrying out the special examination, we did not rely on any internal audits.

Sources of criteria

The criteria used to assess the systems and practices selected for examination are listed in the exhibits throughout the report.

Corporate governance

Practice Guide: Assessing Organizational Governance in the Public Sector, The Institute of Internal Auditors, 2014

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Charters and Terms of Reference of the Board of Directors and its committees, Pacific Pilotage Authority, 2021

Board of Directors skills matrix, Pacific Pilotage Authority, 2021

Bylaws of the Pacific Pilotage Authority, 2021

Pilotage Act

Conflict of Interest Act

Financial Administration Act

Strategic planning

Guidance for Crown Corporations on Preparing Corporate Plans and Budgets, Treasury Board of Canada Secretariat, 2019

Recommended Practice Guideline 3, Reporting Service Performance Information, International Public Sector Accounting Standards Board, 2015

Financial Administration Act

Pilotage Act

Crown Corporation Corporate Plan, Budget and Summaries Regulations

Corporate risk management

Enterprise Risk Management—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2017

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

ISO 31000—Risk Management—Guidelines, International Organization for Standardization, 2018

Enterprise Risk Management Policy, Pacific Pilotage Authority, 2022

Enterprise Risk Management System User Guide, Pacific Pilotage Authority, 2022

Management of pilotage services

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Pilotage services contract between the Pacific Pilotage Authority and British Columbia Coast Pilots Ltd., 2022

Strategic Partnership Agreement between the Pacific Pilotage Authority and British Columbia Coast Pilots Ltd., 2022

Pilotage Waiver Standard of Care, Pacific Pilotage Authority, 2017

Launch Crew Standing Orders, Pacific Pilotage Authority, 2023

Quality Assurance Program for Coast Pilots, Pacific Pilotage Authority, 2022

Quality Assurance Program for Fraser River Pilots, Pacific Pilotage Authority, 2022

Financial Administration Act

Pilotage Act

General Pilotage Regulations

Period covered by the audit

The special examination covered the period from 1 October 2022 to 30 September 2023. This is the period to which the audit conclusion applies. However, to gain a more complete understanding of the significant systems and practices, we also examined certain matters that preceded the start date of this period.

Date of the report

We obtained sufficient and appropriate audit evidence on which to base our conclusion on 26 March 2024, in Ottawa, Canada.

Date of the presentation of the report to the Board of Directors

The report was presented to the Board of Directors on 25 July 2024.

Audit team

This special examination was completed by a multidisciplinary team from across the Office of the Auditor General of Canada led by Nathalie Chartrand, Principal. The principal has overall responsibility for audit quality, including conducting the audit in accordance with professional standards, applicable legal and regulatory requirements, and the office's policies and system of quality management.

Recommendations and the Corporation's Responses

In the following table, the paragraph number preceding the recommendation indicates the location of the recommendation in the report.

Recommendation	Response
<p>21. The corporation should document actions to be taken or the rationale for not taking any actions in relation to conflicts of interest declared by board members.</p>	<p>The corporation's response. Agreed. Starting in May 2024, the corporation will document actions to be taken or the rationale for not taking actions in relation to conflicts of interest declared by board members.</p>
<p>23. The corporation should put in place a conflict-of-interest disclosure process for all employees, including a declaration of their compliance with the code of conduct, and should report on this to the Board of Directors.</p>	<p>The corporation's response. Agreed. The corporation will put in place a conflict-of-interest disclosure process for all employees, including a declaration of their compliance with the code of conduct, by fall 2024. The corporation will then report on results to the board.</p>
<p>28. The corporation should compare its residual risks with its tolerance levels to determine whether additional mitigation measures should be put in place.</p>	<p>The corporation's response. Agreed. The corporation will assess the residual risks against tolerance levels during the annual risk review process to determine whether additional mitigation measures are needed and will report results for key risks to the Board of Directors. This will be completed by the end of 2024.</p>
<p>29. The corporation should update its emergency plan and associated procedures for the new pilot dispatching system and should test the plan.</p>	<p>The corporation's response. Agreed. The corporation will update the emergency plan and associated procedures by the end of 2024 for the new pilot dispatching system. Once completed, the corporation will conduct a drill within 6 months to test its emergency preparedness.</p>
<p>30. The corporation should ensure that risk mitigation measures are implemented as intended, take the necessary actions should such measures not be in place, and report on progress to the Board of Directors.</p>	<p>The corporation's response. Agreed. By the end of 2024, the corporation will add a control effectiveness rating to its risk register. The effectiveness of risk mitigation measures will be assessed during the corporation's ongoing risk review process. The effectiveness of mitigation measures for key risks will be reported to the Board of Directors.</p>
<p>43. The corporation should conduct regular performance assessments of its launch crew employees.</p>	<p>The corporation's response. Agreed. By the end of 2024, the corporation will formalize regular performance assessments of its launch crew employees.</p>

Recommendation	Response
<p>45. The corporation should ensure that all pilots take the required training, and it should conduct ongoing monitoring to ensure that pilots meet all requirements of its quality assurance programs.</p>	<p>The corporation's response. Agreed. By the end of 2024, the corporation will ensure that all pilots take the required training, and it will implement a protocol to regularly monitor training records to ensure that pilot training is delivered within required timelines.</p>
<p>48. The corporation should ensure that its established safety measures related to the annual board-mandated recovery drill and inspections of safety equipment and of pilot launches are followed.</p>	<p>The corporation's response. Agreed. For the annual board-mandated recovery drill scheduled in May 2024, the corporation will ensure that all launch crew members participate and, if not, that they perform such a drill at a later date as required. For inspections, starting in April 2024, the corporation will either follow or amend documented procedures to reflect current practices.</p>
<p>51. The corporation should ensure that the navigation condition of the <i>General Pilotage Regulations</i> is met when granting waivers.</p>	<p>The corporation's response. Agreed. Since January 2024, the corporation is ensuring that the navigation condition of the <i>General Pilotage Regulations</i> is met when granting waivers. The corporation will work with Transport Canada Marine Safety and Security to review the assessment of navigation experience and sea time applicable to waiver applications. The corporation will also work to support Transport Canada's work in modernizing the <i>Pilotage Act</i> regulations to reflect advances in technology and training and to better incorporate current safety considerations and contemporary operations in the maritime industry.</p>
<p>52. The corporation should perform ongoing monitoring of ships that operate under a pilotage waiver to ensure that they continue to comply with the waiver conditions.</p>	<p>The corporation's response. Agreed. By the end of 2024, the corporation will implement sample-based audits of vessels operating under pilotage waivers to monitor ongoing compliance with waiver conditions.</p>

