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CANADA

**CHAPTER 5, OVERSIGHT OF CIVIL AVIATION —
TRANSPORT CANADA, OF THE SPRING 2012
REPORT OF THE AUDITOR GENERAL OF
CANADA**

**Report of the Standing Committee on
Public Accounts**

**David Christopherson
Chair**

MARCH 2013

41st PARLIAMENT, FIRST SESSION



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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

TWELFTH REPORT

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied Chapter 5, Oversight of Civil Aviation — Transport Canada, of the Spring 2012 Report of the Auditor General of Canada, and has agreed to report the following:

INTRODUCTION

A safe transportation system is an essential element of the federal government's commitment to protect the health and well-being of Canadians. The Department of Transport Canada, through its Civil Aviation Directorate, is responsible for developing and administering the policies, regulations, and standards required for the safe conduct of civil aviation within Canada's borders. The Department is also responsible for overseeing whether aviation companies have complied with this safety framework, and for taking appropriate enforcement action where necessary. The overall responsibility for the maintenance of safe, regular, and efficient civil aviation operations, including the manufacturing and maintenance of aircraft, rests with the aviation industry.

Since 2008, Transport Canada has regulated the implementation of the safety management systems (SMS) approach in the aviation industry for air operators whose aircraft carry 20 passengers or more and their maintenance organizations (referred to as large civil aviation companies). The goal of the SMS approach is to allow for more consistent and rigorous surveillance of aviation companies' compliance with safety regulations.

The Office of the Auditor General (OAG) previously examined Transport Canada's civil aviation program in 2008. In its *May 2008 Report*, Chapter 3, "Oversight of Air Transportation Safety—Transport Canada," the OAG found that Transport Canada's management of the transition to the new SMS approach had several weaknesses.¹

In April 2012, the OAG released a performance audit on the oversight of civil aviation by Transport Canada. In its *Spring 2012 Report*, Chapter 5, "Oversight of Civil Aviation—Transport Canada," the OAG examined whether Transport Canada managed the risks associated with overseeing its civil aviation safety program.² The audit focused on Transport Canada's surveillance of air carriers, aircraft maintenance organizations,

¹ Auditor General of Canada, "Oversight of Air Transportation Safety—Transport Canada," Chapter 3 of the *May 2008 Report*, Ottawa, 2008.

² Auditor General of Canada, "Oversight of Civil Aviation—Transport Canada," Chapter 5 of the *Spring 2012 Report*, Ottawa, April 2012.

and airports in the National Airports System. Overall, the OAG found that while some aspects of surveillance are working well, there were weaknesses in how Transport Canada plans, conducts, and reports on its surveillance activities.

Given the importance of civil aviation safety, the Standing Committee on Public Accounts (the Committee) held a hearing on this audit on November 27, 2012.³ The OAG was represented by Michael Ferguson, Auditor General of Canada; Maurice Laplante, Assistant Auditor General; and Lucie Talbot, Director. Transport Canada was represented by Anita Biguzs, Associate Deputy Minister; Gerard McDonald, Assistant Deputy Minister, Safety and Security; and Martin J. Eley, Director General, Civil Aviation. This report presents the Committee's observations and recommendations on its study.

TRANSPORT CANADA'S ACTION PLAN

In April 2012, prior to the release of the OAG's most recent audit results, Transport Canada prepared an internal action plan, *Improving Canada's Civil Aviation Safety Program: An Action Plan to April 2013*. The detailed action plan was shared with the Committee just prior to the hearing. According to Transport Canada, the discussions generated by the most recent OAG audit helped Transport Canada identify additional opportunities to strengthen the civil aviation program. The action plan comprises some 61 different management commitments.

To track progress on its action plan, Transport Canada established a steering committee which meets every two weeks. On the status of the action plan, Anita Biguzs, Associate Deputy Minister, stated, "I'd say we're roughly at 75% or 77%. We are confident that by the end of March [2013] we will be at 99% complete."⁴ Recognizing the importance of strengthening the civil aviation program, Anita Biguzs stated that, "Putting the action plan to work has been a departmental priority this year with focused attention

³ House of Commons, Standing Committee on Public Accounts, *Evidence*, 1st Session, 41st Parliament, November 27, 2012, Meeting 67.

⁴ Meeting 67, 1120.

from me and the deputy minister at the most senior levels of the department, as well as from the departmental audit committee.”⁵

Although the OAG has not completed an audit of the action plan itself, the Auditor General stated that, “In April 2012, Transport Canada shared its detailed action plan with us, and it appears to be sufficient if implemented.”⁶

The Committee recognizes the relevance of Transport Canada’s detailed action plan, and it is critical that Transport Canada fully implement its plan to address all of the OAG’s audit findings in a timely manner. On December 21, 2012, Transport Canada provided the Committee with an update on progress in implementing its action plan.

Anita Biguzs stated that, “We still have dates that are further out that take us into the early part of the new year. So certainly we would be pleased to give an update to the committee... at the end of the fiscal year.”⁷ Therefore, the Committee recommends:

RECOMMENDATION 1

That by March 31, 2013, Transport Canada provide to the Standing Committee on Public Accounts an update on its action plan, demonstrating that it has addressed the Auditor General’s recommendations.

REGULATORY FRAMEWORK

Aviation companies that want authorization to operate commercially in Canada must meet the minimum safety standards required for the safe conduct of civil aviation, as outlined in the *Aeronautics Act* and the *Canadian Aviation Regulations*.

In its audit, the OAG found that Transport Canada had implemented a comprehensive regulatory framework that was consistent with the minimum safety requirements established by the International Civil Aviation Organization’s (ICAO) standards and recommended practices (SARPs). The Auditor General stated, “the Department has developed a standardized methodology to enable consistent

⁵ Meeting 67, 1110.

⁶ Meeting 67, 1105.

⁷ Meeting 67, 1125.

inspections of companies' compliance with regulations across Canada. This surveillance approach is consistent with the safety management system-based approach in the aviation industry, and inspections are carried out under its instructions."⁸ On the regulatory framework in place, the Auditor General later stated that, "At the time of the audit [Transport Canada] had put in place [...] manuals and procedures that seemed to be complete, so at that general framework level we found that things were in pretty good shape."⁹

The audit found that Transport Canada's process effectively identified safety issues, as required by the ICAO. However, it was noted that the time between identification of some safety issues by the Department and the date when they were finally addressed was long—in some cases, more than ten years. In response, Gerard McDonald, Assistant Deputy Minister, stated that, "The idea of pulling together the right people at the right time on the right issue is really the mantra that we're using in trying to adjust our consultative process, and to make sure when there are critical safety issues that we respond in as timely a fashion as possible."¹⁰ According to Anita Biguzs:

We have been making a lot of effort in terms of trying to streamline our process in terms of working with stakeholders in the industry to make sure we can respond in a very timely way to incidents as they emerge. Under the regulations we have an advisory committee process that engages stakeholders. We're working diligently to try to make sure it is as efficient as possible. In fact, we have revisions to the system that we're actually presenting this December to that committee and hope to move forward very quickly so we can respond in a timely way to issues as they may emerge.¹¹

It is important for Transport Canada to act quickly on emerging safety issues in order to maintain public confidence in the aviation industry, and for the industry to have clarity about what is expected. As the Committee would like greater specificity on how Transport Canada would improve its processes, it recommends:

⁸ Meeting 67, 1100.

⁹ Meeting 67, 1135.

¹⁰ Meeting 67, 1235.

¹¹ Meeting 67, 1230.

RECOMMENDATION 2

That by March 31, 2013, as part of the update on its action plan, Transport Canada provide to the Standing Committee on Public Accounts details on the specific measures being taken to accelerate its ability to address safety issues in a timely manner.

SURVEILLANCE

As the regulatory authority for civil aviation in Canada, Transport Canada must verify that aviation companies have effective systems for managing the safety of their operations. To do so, Transport Canada must rely on an effective, risk-based surveillance regime to get the assurance that the industry is complying with Canada's civil aviation regulatory framework. Given the size of the industry, annual inspection and surveillance of all aviation companies is not possible. On surveillance activities, Martin Eley explained the varying approaches:

If we're doing an assessment, we're going in at a high level. Program validation inspection is a part of the overall program. Process inspection is in detail. But each of those levels, we always have the ability to go and sample. So whereas we might have looked at a whole bunch of aircraft at a detailed level in the past, now that would be sampling to validate what we'd found within the systems. Without sampling, a quality assurance approach doesn't work, so there is still a need to go and kick the tires occasionally, if you like to put it at that basic a level, to verify what we're finding with the system. So it's a combination of those things. It's not exclusively at a paperwork level.¹²

While Transport Canada has in place a general framework for its oversight role on civil aviation, the Auditor General found that there were issues in the implementation of that framework and noted that, "the training wasn't complete, the documentation wasn't always consistent, the management oversight wasn't always there."¹³

The audit found that there was a lack of rigour around risk-based planning. Information for assessing the risk indicators used to identify high-risk aviation companies that should be inspected is not always available or kept up to date. The audit

¹² Meeting 67, 1240.

¹³ Meeting 67, 1135.

also found that Transport Canada's risk methodology did not specify what information is to be used by inspectors in assessing a company against the standard risk indicators. For example, it is not clear what type of financial information should be used to assess the risk of a company being in "financial difficulty." In response, Anita Biguzs stated that:

Among the measures ... that we're undertaking in terms of our surveillance plan, is to actually try to standardize and provide clarity to our inspectors in terms of the kind of information needed to support the work in risk profiling of companies. The criteria ... include a number of issues, looking at things like labour difficulties, management practices, contracting, turnover, key personnel. We have identified a series of standard questions for inspectors to follow to assist them in terms of determining whether, in fact, there are any issues that fall into those categories.¹⁴

The OAG recommended that Transport Canada clarify what information on industry and aviation companies should be used in making risk-based decisions, collect that information, assess its completeness and reliability, and develop risk profiles when preparing annual surveillance plans in the regions. In response to this area of concern, Gerard McDonald noted, "We have, as we indicate in our action plan, undertaken the steps to develop a comprehensive, national-based system, one that assesses various factors consistently across the country with respect to the risk that a particular operator might pose. We then factor that into our surveillance plans."¹⁵

In completing its risk based planning, Transport Canada decided that it would not assess the financial well-being of aviation companies, given that inspectors are generally not qualified to do so, and that this information is not consistently available from companies. On the matter of reviewing financial information, Martin Eley stated:

I'd just like to confirm that during the pilot phase of our risk profiling tool, we did have the financial wellbeing as one of the factors. We quite quickly realized that it wasn't something that our inspectors, generally speaking, were qualified to assess. So in fact it is not present. There are certainly a lot of other indicators about the health of the company. The financial aspect has actually been removed from part of that profile. [...] We've

¹⁴ Meeting 67, 1245.

¹⁵ Meeting 67, 1205.

come to the conclusion that there are a lot of other indicators in this company that we can assess more directly to get us what we need without specifically going back to that¹⁶

The audit also found that a minimum acceptable level of surveillance had not been clearly established to indicate how long aviation companies can operate without being inspected and only 67% of planned inspections had been carried out.¹⁷ The Auditor General stated that, "In our estimation, the most important thing is that, if this is the approach that is going to be used, then the way that it's put in place needs to be rigorous, the way it's put in place needs to be in accordance with the framework so that all of the necessary inspections are done."¹⁸ In addressing this finding, Transport Canada had established a risk-based surveillance plan, which considers risk indicators and risk exposure, and assigns an inspection interval of between one to five years in order to focus the Department's resources in the areas of highest risk. As such, the risk-based surveillance plan aims to ensure that all companies are inspected regularly, with higher-risk companies inspected more frequently than lower-risk companies.

The OAG recommended that Transport Canada should ensure that all staff involved in inspections are trained in a timely manner so they can carry out their responsibilities. Transport Canada responded that they have effectively met the target set for training. Anita Biguzs stated, "we have had 99.2% of our inspectors trained on the new surveillance procedures. All of the new procedures have been documented and distributed, and training has been updated and provided."¹⁹

The audit also found that most inspections were not consistently conducted according to established methodology and documentation of key decisions was weak. Inspection plans were prepared before inspection work began in about 35% of the files reviewed.²⁰ The Auditor General stated that, "Because there are no requirements for minimum documentation of work done and reporting of inspection results, the quality of

¹⁶ Meeting 67, 1250.

¹⁷ Chapter 5, paragraph 5.47.

¹⁸ Meeting 67, 1215.

¹⁹ Meeting 67, 1205.

²⁰ Chapter 5, paragraph 5.55.

the documentation varied significantly among inspectors and across regions.”²¹ To address this concern, Anita Biguzs responded that, “We're improving our documentation, our guidance documents for inspectors. We've been on a cross-country regional outreach with our inspectors to make sure that we get feedback from them in terms of being able to ensure that the guidance that we prepare reflects their needs in terms of as we move to new approaches and how we do things.”²² Similarly, Gerard McDonald stated:

I'm happy to report that we have reviewed and updated our surveillance procedure documentation and we are now in the process of focus-testing these changes with our inspectorate to ensure it meets their needs. A centralized surveillance information management system will be ready in December, along with associated user training completed by March 2013.²³

Finally, the OAG noted that there was a lack of sufficient management involvement in surveillance activities, which was demonstrated by the lack of management approval of important planning decisions, such as inspection plans. Subsequently, Transport Canada put in place several measures to enhance management oversight, including the approval and monitoring of surveillance plans by senior management. According to Anita Biguzs, “Senior management meets monthly, reviews the plans against what we're actually achieving in terms of actual inspections. Any deviations have to be signed off by supervisors, so we actually have ratcheted up the amount of oversight on inspection plans.”²⁴

The Committee recognizes the importance of Transport Canada's surveillance planning and surveillance activities, and thus encourages the Department to rectify the weaknesses identified and fully address the OAG's recommendations.

HUMAN RESOURCE PLANNING

²¹ Meeting 67, 1105.

²² Meeting 67, 1120.

²³ Meeting 67, 1110.

²⁴ Meeting 67, 1120.

In its 2008 audit, the OAG looked at whether the Department had enough inspectors with the right skills and competencies, in the right place at the right time, to carry out its mandate. At that time, the OAG noted that Transport Canada had not yet identified how many inspectors and engineers it needed, with what competencies, during and after the transition to SMS. In the 2012 audit, the OAG found that although Transport Canada developed a national human resources plan for the oversight of civil aviation, the plan did not specify the number of inspectors and engineers that are needed. The audit found that the lengthy reorganization within Transport Canada and resistance from some inspectors had hampered the ability of the Department to fully implement key human resources strategies. The OAG reiterated its 2008 recommendation in its 2012 audit, that Transport Canada should identify the number of resources and the competencies it will need to plan and conduct inspections under its new surveillance approach.²⁵

The Committee was told that in implementing reduction measures, Transport Canada had consolidated certain administrative functions, reduced travel expenditures and professional services. Transport Canada had not reduced the number of front-line inspector positions in the civil aviation program, which remains at 881 inspector positions. Nonetheless, Transport Canada faces a challenge of attracting and retaining qualified inspectors. According to Anita Biguzs, “[Transport Canada’s] occupancy rate is somewhere up in the high 80% right now, and we’re doing everything we can to bring us to as full staffing as possible, but the number of positions at Transport Canada has not changed.”²⁶

To address the gap between the number of inspectors and inspector positions, Anita Biguzs responded that, “we’re actively recruiting inspectors to make sure that vacancies are filled as individuals retire.”²⁷ She further explained that, “our demographic

²⁵ Chapter 5, paragraph 5.74.

²⁶ Meeting 67, 1140.

²⁷ Meeting 67, 1200.

is an older demographic so it is a challenge that we have in terms of people retiring and moving out of the system.”²⁸

When asked about providing an updated human resources plan to the Committee, including the number of inspectors required, Gerard McDonald stated, “We could commit to June 2013 to have that plan available for you. We have to use the data from this year's surveillance plan to be able to work that in.”²⁹ As the Committee wants to ensure that Transport Canada implements the OAG’s recommendation that the Department identify the number of resources needed to plan and conduct inspections, it recommends:

RECOMMENDATION 3

That by June 30, 2013, Transport Canada provide to the Standing Committee on Public Accounts its updated human resources plan for the Civil Aviation Directorate, including an assessment of the number of inspectors and engineers required to carry out its civil aviation activities.

CONCLUSION

In 2011, Canada recorded the lowest number of accidents for Canadian-registered aircraft since 1976. Moreover, accident rates have decreased by as much as 25% over the past 10 years or so. Statistics such as these reinforce the fact that Canada has one of the safest aviation systems in the world. According to the OAG, although Canada compares favourably with many other countries in its aviation safety record, any deterioration would significantly erode public confidence.

Overall, the OAG found that while some aspects of surveillance are working well, there are weaknesses in how Transport Canada plans, conducts, and reports on its surveillance activities. Nonetheless, Transport Canada has developed a detailed action plan to address these weaknesses, in order to build a strong, risk-based safety program. The Committee will continue to monitor Transport Canada’s progress on

²⁸ Meeting 67, 1200.

²⁹ Meeting 67, 1255.

implementing its action plan, the recommendations of the OAG and those of the Committee.

The oversight of civil aviation is an important part of the government's responsibility to ensure the safety and well-being of Canadians. The OAG noted that, "The ICAO has forecasted that air traffic volume will likely increase in North America by about four percent each year. This increase may more than double the [2005] volume of air traffic in North America by 2025—the end of the forecast period."³⁰ It is vital that the government continues to maintain an extremely high level of safety standards in the aviation industry. To this end, Transport Canada needs to be diligent in its oversight of the safety systems of aviation companies.

³⁰ Chapter 5, paragraph 5.14.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Department of Transport	2012/11/27	67
Anita Biguzs, Associate Deputy Minister		
Martin J. Eley, Director General, Civil Aviation		
Gerard McDonald, Assistant Deputy Minister, Safety and Security		
Office of the Auditor General of Canada		
Michael Ferguson, Auditor General of Canada		
Maurice Laplante, Assistant Auditor General		
Lucie Talbot, Director		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings (41st Parliament, 1st Session: [Meetings Nos. 67, 74 to 76 and 78](#)) is tabled.

Respectfully submitted,

David Christopherson

Chair