

# Special Examination

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



## Independent Auditor's Report | 2023



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 determines 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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Cover photo: Laurentian Pilotage Authority

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# Audit Summary

We examined how the Laurentian 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 systems and practices related to pilot boarding safety measures. We also found that improvements were needed in the approval of training and apprenticeship programs and in the monitoring of training. In examining corporate management practices, we found that improvements were needed in the functioning of the Board of Directors, the monitoring of performance against strategic objectives, and the mitigation and monitoring of corporate risks.

Except for the significant deficiency and despite the weaknesses, the corporation maintained reasonable systems and practices to carry out its mandate.

## Introduction

### Background

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#### Role and mandate

1. The Laurentian 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 establishes the corporation's mission, which is to establish, operate, maintain, and manage, in the interests of navigation safety, an efficient pilotage service in the Laurentian region, specifically on the St. Lawrence and Saguenay rivers.
2. Following amendments to the *Pilotage Act* that came into force between 2019 and 2021, the corporation no longer has the power to make regulations concerning the provision of pilotage services. That responsibility was transferred to the **Governor in Council**<sup>1</sup>, who may make regulations on the recommendation of the Minister of Transport. In particular, the Governor in Council may make regulations on compulsory pilotage areas, ships or classes of ships that are subject to compulsory pilotage, 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, and the examinations required to determine whether the licence qualifications have been met.

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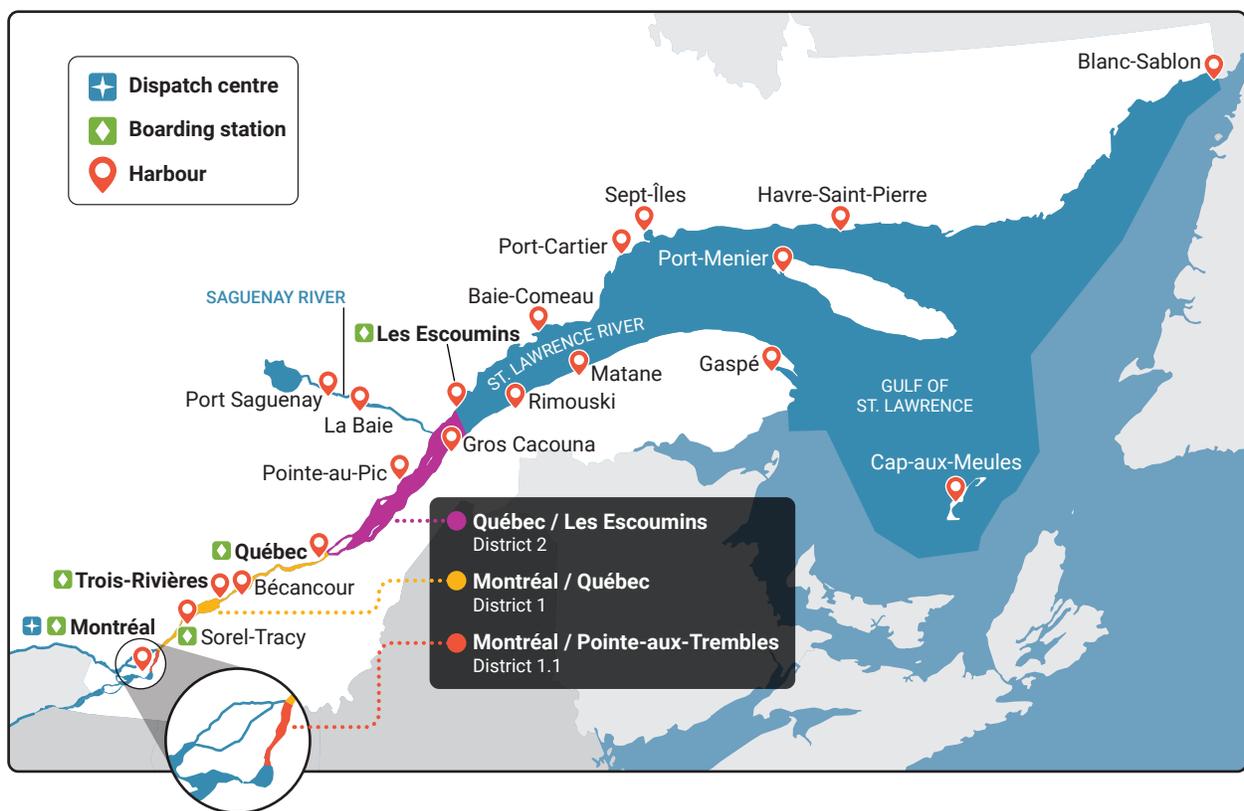
<sup>1</sup> **Governor in Council**—The Governor General, acting on the advice of Cabinet, as the formal executive body that gives legal effect to those decisions of Cabinet that are to have the force of law.

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 3 compulsory pilotage districts for the Laurentian Pilotage Authority: the navigable waters between Montréal and Pointe-aux-Trembles (District 1.1); the navigable waters between Montréal and the City of Québec (District 1); and the navigable waters between the City of Québec and Les Escoumins, including the Saguenay River (District 2) (Exhibit 1).

Exhibit 1 Geographical limits of Laurentian Pilotage Authority activities



Source: Adapted from a Laurentian Pilotage Authority map

5. The regulations also set out the criteria for determining which ships or classes of ships are subject to compulsory pilotage. Ships that travel through the compulsory pilotage areas in the Laurentian Pilotage Authority region must be under the conduct of a licensed pilot (that is, a person who does not belong to a ship and has the conduct of it) or a pilotage certificate holder. Pilotage services in each district are provided by 2 pilot organizations that are independent of the corporation.

6. The regulations establish the classes of licences that can be issued and the qualifications that applicants and licence holders must meet for the Laurentian region.
7. The corporation has around 60 employees working at its head office in Montréal, at the Les Escoumins pilot boarding station, and on the Ville-Marie shuttle serving the Port of Montréal.
8. The corporation's expenses are financed by pilotage revenues, which come primarily from what it charges its clients for pilotage services. Most of the corporation's expenses are related to pilots' fees. Exhibit 2 presents the financial results for the last 4 fiscal years.

**Exhibit 2 Financial results for the Laurentian Pilotage Authority (thousands of dollars)**

Fiscal year (ended December 31)	Revenues	Expenses	Comprehensive income	Retained earnings at the end of the year
2021	98,914	100,269	(1,355)	25,522
2020	93,971	96,535	(2,564)	26,877
2019	108,293	107,680	613	29,441
2018	105,902	106,512	(610)	28,828

Source: Annual reports, Laurentian Pilotage Authority, 2018 to 2021

**Focus of the audit**

9. Our objective for this audit was to determine whether the systems and practices we selected for examination at the Laurentian 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 section 138 of the *Financial Administration Act*.
10. In addition, 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 define and 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 found 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 in some areas but improvements were needed in governance, performance monitoring, and risk management**

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#### What we found

13. We found that the corporation had some good corporate management practices in place. However, we found opportunities for improvement in board independence and oversight; performance monitoring; and risk mitigation, monitoring, and reporting.

14. The analysis supporting this finding discusses the following topics:

- Corporate governance
- Strategic planning
- Corporate risk management

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#### Context

15. The corporation's Board of Directors consists of the Chair and a maximum of 6 other members. All board members are 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 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.

16. The board is supported by the Audit Committee and the Governance and Human Resources Committee.

17. In May 2022, the corporation announced the upcoming departure of the Chief Executive Officer, who left at the end of October 2022, after the period covered by the audit. The position was staffed on an acting basis pending the appointment of a new chief executive officer by the board.

18. 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 objectives, strategies, 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.

19. The corporation's 2022–26 corporate plan summary lists the following 3 strategic priorities:

- Optimize the establishment, operation, maintenance, and management, for navigation safety, of an effective and efficient pilotage service in the navigable waters under its jurisdiction and ensure sound risk management taking technological developments into account.
- Maintain the corporation's financial self-sufficiency in order to reach strategic objectives, ensure the sustainability of assets, cover unforeseen circumstances, and provide quality services while maintaining fair and reasonable pilotage charges.
- Support the government's objectives with respect to safety, the efficiency and effectiveness of the marine transportation system, the safety of marine personnel and the protection of the public, property, and the environment in keeping with the policies, directives, and instructions of the Minister of Transport and the Government of Canada.

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## Recommendations

20. Our recommendations in this area of examination appear at paragraphs 25, 26, 29, 33, 40, 41, and 42.

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## Corporate governance

21. **Analysis.** We found that the corporation had good systems and practices for providing strategic direction and for board appointments and competencies. 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 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 obligations of board members concerning conflicts of interest were clearly defined.</p> <p><b>Weaknesses</b></p> <p>The corporation had no systematic process in place for board members to regularly declare any types of conflicts of interest (real, apparent, or potential) or for documenting measures taken in that regard.</p> <p>The corporation did not have a code of conduct for board members.</p>	
Providing strategic direction	The board provided strategic direction.	<p>The board participated in setting the corporation's strategic priorities.</p> <p>The board participated in setting annual performance objectives for the chief executive officer, which were aligned with the corporation's strategic priorities.</p> <p>The board assessed the performance of the chief executive officer against these objectives.</p>	
<p><b>Legend—Assessment against the criteria</b></p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board appointments and competencies	The board collectively had capacity and competencies to fulfill its responsibilities.	<p>The board determined the competencies it needed to be effective and carry out its responsibilities.</p> <p>The board solicited independent advice to help it carry out its responsibilities.</p> <p>The corporation provided the board competency grid to the responsible department.</p> <p>The corporation informed the responsible department about the vacancy in the board chair position and about members' terms that were expiring.</p> <p>Board members had the opportunity to take training.</p> <p>During the period covered by the audit, the position of board chair had been filled on an acting basis as of June 2020, and the terms of 3 of the 6 board members had expired as of September 2021. Because the 3 members concerned were still serving, quorum was not at risk. This situation was partly resolved in October 2022, when the terms of the 3 members were renewed. (For more information, see <b>Subsequent Event</b> at the end of the report.)</p>	
<p><b>Legend—Assessment against the criteria</b></p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

Systems and practices	Criteria used	Key findings	Assessment against the criteria
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 preparing 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, activities related to the strategic priorities, the corporation's compliance with applicable laws and regulations, operational activities, and senior management succession planning.</p> <p>The board launched a recruitment process to fill the Chief Executive Officer position.</p> <p>The internal audit function regularly performed audits, and the results were presented to the Audit Committee.</p> <p><b>Weakness</b></p> <p>The board did not receive complete information on the corporation's ethical performance or on risks.</p>	
<p><b>Legend—Assessment against the criteria</b></p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

22. **Weaknesses—Board independence.** Obligations of board members in relation to conflicts of interest were clearly defined, and the members annually disclosed the names of any companies with which they or their close family had employment or business ties if those companies were likely to have a business relationship with the corporation. However, we found that those disclosures did not address all types of conflicts of interest, and that the board and its committees did not systematically ask their members to declare any conflicts of interest at the start of meetings. In addition, the corporation did not have a systematic process in place to document the measures taken regarding disclosed conflicts of interest.

23. We also found that the corporation had informed board members of the statutory requirements and guidelines to which they were subject concerning values, ethics, behaviour, and conflicts of interest. The corporation had also provided board members with the employee code of conduct. However, the corporation did not have a code of conduct for board members, supported by a process for ensuring compliance. A code of conduct sets out the values and behaviour expected in the performance of professional duties.

24. These weaknesses matter because the regular disclosure of potential conflicts of interest and the documentation of safeguard measures to address such conflicts are important for establishing the corporation's credibility and fostering sound governance and accountability. In addition, establishing a process to ensure compliance with a code of conduct for board members would help the members carry out their duties as expected.

25. **Recommendation.** The corporation should establish a regular disclosure process for members of the Board of Directors covering all types of conflicts of interest, and should document any measures taken, if necessary.

***The corporation's response.** Agreed. The corporation will improve the current disclosure process by December 2023 so that it covers all types of conflicts of interest and will document any measures taken to address disclosed conflicts of interest. In addition, as of March 2023, an item will be systematically added to the Board of Directors' meeting agenda so that at the start of meetings, members can declare conflicts of interest, if necessary.*

26. **Recommendation.** The corporation should establish a code of conduct for members of the Board of Directors and ensure compliance with the code.

***The corporation's response.** Agreed. A draft code of conduct for members of the Board of Directors was submitted to the Governance and Human Resources Committee in August 2022. The corporation will put in place an annual process for board members to declare their compliance with the code. The corporation will finalize the code and implement the process for compliance with the code by fall 2023.*

27. **Weakness—Board oversight.** We found that management had not provided the board with the following information that would enable it to exercise comprehensive oversight:

- **Ethical performance.** The corporation had a code of conduct covering conflict-of-interest requirements and expected behaviour for all employees. We found that the corporation's employees did not declare their commitment to comply with the code, either at the time of hiring or at a later date. In addition, although there was an annual disclosure process for certain types of conflict of interest, it did not apply to all types of conflict of interest or all employees. We also found that the board was not informed of the results of the disclosure process.
- **Risk management.** We found that the board had received some information about corporate risks, and that it had contributed to the risk identification and assessment process. However, the board was

not provided with complete information enabling it to ensure that measures were in place to mitigate the risks (see Exhibit 5, under Risk monitoring and reporting).

28. This weakness matters because the board must ensure that the corporation is managing its operations effectively. Without comprehensive ethical performance measures and complete information on ethical performance and risks, the board was unable to fully perform its oversight role.

29. **Recommendation.** The corporation should put in place a process enabling employees to declare their compliance with the code of conduct, supported by an annual conflict-of-interest disclosure process, and should report on this to the Board of Directors. The corporation should also provide the board with complete information on risk management.

***The corporation's response.** Agreed. The corporation will put in place a process enabling employees to declare their compliance with the code of conduct and annually disclose all types of conflict of interest, starting in fall 2023. In addition, as of December 2023, the corporation will provide the Board of Directors with complete information on the results of its conflict-of-interest disclosure process. Concerning risk management, since November 2022, the corporation has been providing additional information to the Audit Committee about monitoring the main risks.*

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## Strategic planning

30. **Analysis.** We found that the corporation had good systems and practices for strategic planning. However, performance monitoring needed improvement (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 defined 3 strategic priorities, along with objectives and expected results, and communicated them in its corporate plan.</p> <p>The objectives set by the corporation were aligned with its mandate.</p> <p>The corporation had an information technology master plan and a strategic plan for human resource management.</p> <p>The corporation was in the process of preparing a sustainable development plan that will include economic, social, environmental, and governance objectives and actions, with timelines.</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, several with targets, in support of its strategic objectives.</p> <p>The Board of Directors received regular updates on strategic and operational activities.</p> <p><b>Weakness</b></p> <p>The corporation did not monitor progress against all performance indicators and targets set for its strategic objectives.</p>	
<p><b>Legend—Assessment against the criteria</b></p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

31. **Weakness—Performance measurement, monitoring, and reporting.** The corporation established organizational and operational performance indicators to support the achievement of its strategic objectives, and set targets for several of those indicators. However, we found that the corporation did not monitor progress against all performance indicators and did not monitor progress against any of the targets set.

32. This weakness matters because without monitoring performance indicators and related targets, the corporation cannot fully assess the achievement of its strategic objectives or determine whether corrective action is needed.

33. **Recommendation.** The corporation should regularly monitor progress against the performance indicators and targets it has set in support of its strategic objectives and should report on that progress to the Board of Directors.

**The corporation's response.** *Agreed. The corporation plans to review the performance indicators and targets by fall 2023 to ensure that they are adequate and relevant. In addition, starting in March 2024, the corporation will regularly monitor the performance indicators and targets and will report back to the Board of Directors.*

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**Corporate  
risk management**

34. **Analysis.** We found that the corporation had good systems and practices for identifying and assessing risks. However, improvements were needed in risk mitigation and monitoring and in reporting on progress to the board (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 identified its organizational and operational risks.  The corporation assessed the inherent and residual risks for each risk identified.	
<p><b>Legend—Assessment against the criteria</b></p> <ul style="list-style-type: none"> <li> Met the criteria</li> <li> Met the criteria, with improvement needed</li> <li> Did not meet the criteria</li> </ul>			

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Risk mitigation	The corporation defined and implemented risk mitigation measures.	<p>The corporation defined risk mitigation measures for each risk identified. It also determined the actions to be taken for the main risks it identified.</p> <p>The corporation had some measures in place to mitigate cybersecurity risks, such as phishing tests and staff training.</p> <p><b>Weaknesses</b></p> <p>Some mitigation measures for pilotage services were not fully in place.</p> <p>The corporation did not develop a comprehensive business continuity and disaster recovery plan.</p> <p>The corporation did not set its risk appetite and tolerance levels to guide management’s decision making.</p>	
Risk monitoring and reporting	The corporation monitored and reported on the implementation of risk mitigation measures.	<p>Senior management discussed risks with the Board of Directors several times a year.</p> <p><b>Weakness</b></p> <p>The corporation did not monitor the actions to be taken concerning the main risks that it had selected and did not report on progress to the board.</p>	
<p><b>Legend—Assessment against the criteria</b></p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

35. **Weaknesses—Risk mitigation, monitoring, and reporting.** The corporation had a register in which it documented organizational and operational risks, along with the inherent and residual risks for each. In addition, the corporation identified mitigation measures for each risk. We found that the corporation had not fully put in place some mitigation measures for risks related to boarding operations (see paragraphs 52 and 53).

36. We also found that the corporation had some elements of a business continuity and disaster recovery plan, but that other elements were missing. The corporation had basic procedures for dealing with an emergency and had recovery procedures to follow in the event of computer failures. It also had an off-site backup system to ensure redundancy for priority systems. However, the corporation did not carry out an analysis of the potential threats, the most critical functions, or the

impact on operations. A comprehensive plan would also include roles and responsibilities, information on coordinating activities internally and with stakeholders, detailed emergency procedures for each operational area, and a test plan.

37. We also found that the corporation did not set its risk appetite and tolerance levels. The risk appetite level is the degree of risk that the corporation is prepared to accept in pursuing its objectives. The risk tolerance level, which represents the extent to which the corporation is willing to assume a particular risk in relation to its risk appetite, enables the corporation to determine whether additional measures are required.

38. The corporation identified actions for mitigating the main risks that it had identified. We found that the corporation did not monitor the implementation of those actions and did not report on the results to the board.

39. These weaknesses matter because it is important to put in place measures for responding to identified risks that require mitigation and to report on the progress made. In addition, a business continuity and disaster recovery plan contributes to ensuring continued operations and helps protect the corporation's data and assets. Risk appetite and tolerance levels guide decision making and help an organization select the risks that require additional mitigation measures and monitoring.

40. **Recommendation.** The corporation should monitor the implementation of risk mitigation measures, 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. Starting in summer 2023, the corporation will strengthen its monitoring of the implementation of mitigation measures for the main risks identified. It will document the necessary actions taken and will report to the Audit Committee on the progress made.

41. **Recommendation.** The corporation should develop and test a business continuity and disaster recovery plan.

**The corporation's response.** Agreed. *The corporation will develop a comprehensive business continuity and disaster recovery plan, which will include the existing emergency procedures and the recovery procedures to follow in the event of computer failures. This plan will be adequately tested. All of this work will be completed in spring 2024.*

42. **Recommendation.** The corporation should set its risk appetite and tolerance levels.

**The corporation's response.** Agreed. *The corporation expects to finish its review of its risk management policy by spring 2024. As part of the review, the corporation will set its risk appetite and tolerance levels.*

## Management of pilotage services

### Pilot boarding systems and practices had a significant deficiency, and improvements were needed in the approval of training and apprenticeship programs and in the monitoring of training

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#### What we found

43. We found a significant deficiency in the systems and practices for pilot boarding because the corporation had not implemented the safety measures for Les Escoumins station as intended. In addition, the corporation conducted only limited oversight of the safety measures put in place by an independent organization that it had a contract with. We also found that the corporation had not approved the pilot and apprentice pilot training programs for 1 of the pilot corporations and had not conducted any monitoring of the training.

44. The analysis supporting this finding discusses the following topic:

- Management of pilotage services

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#### Context

45. The corporation's pilotage services are provided by pilots from 2 organizations that are independent and that share a distinct geographical area. The corporation has service contracts with each organization. More than 200 licensed pilots, about 10 apprentice pilots, and 2 pilotage certificate holders cover the compulsory pilotage areas serviced by the corporation.

46. The pilots are assigned to ships by the corporation's dispatch centre at its headquarters in Montréal. The centre operates 24 hours a day, 365 days a year. The Marine Safety and Efficiency, Finance and Administration, and Legal Affairs departments are also located at headquarters.

47. Pilot boats ferry pilots to and from ships that are moving or at anchor (Exhibit 6). There are 5 boarding stations. The Québec, Trois-Rivières, Sorel, and Montréal stations are owned and managed by an independent organization contracted by the corporation. Les Escoumins station is owned and operated by the corporation and ferries pilots with its 2 pilot boats. Boarding operations involve risk, and a boarding incident or accident could result in serious or even fatal injuries.

## Exhibit 6 Ferrying by pilot boat

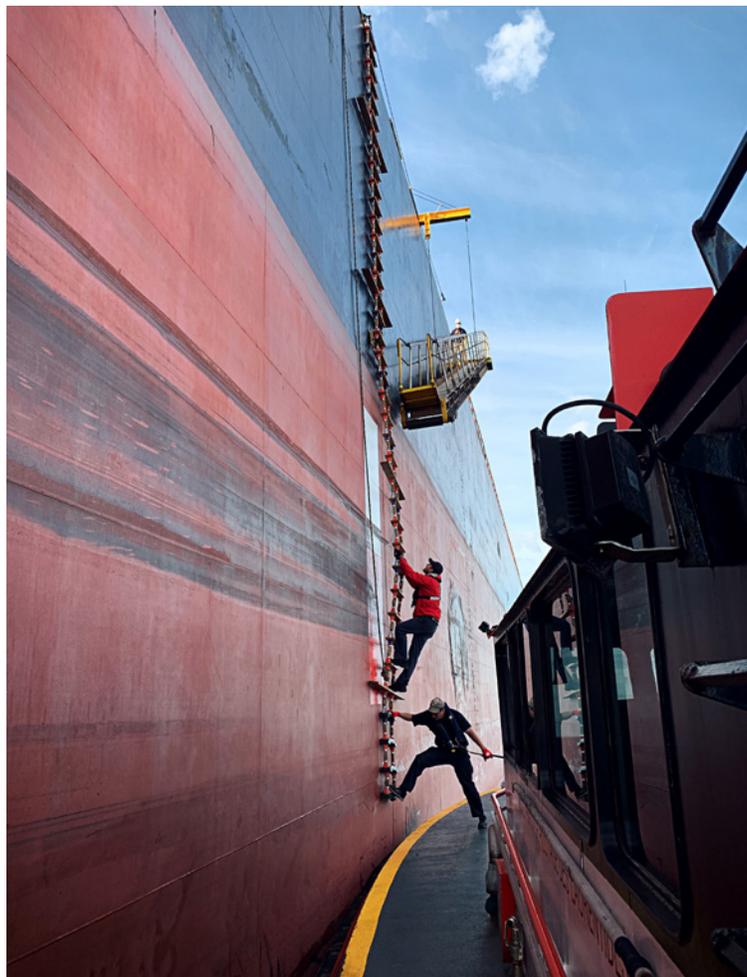


Photo: Jessy Bédard

48. According to a 2018 study on the economic impacts of shipping in the Great Lakes–St. Lawrence region, available on the Chamber of Marine Commerce website, every year ships deliver more than 230 million metric tonnes of cargo, worth over \$100 billion, in the region. In 2021, the corporation reported that 1,288 different ships received marine pilotage services, for a total of 21,153 assignments and 14,858 boardings (around 30% at Les Escoumins station and 70% at the other stations). Note that a particular ship may have made a number of trips throughout the year, each requiring the assignment of several pilots depending on the itinerary or type of ship. In addition, not all assignments require boarding services because pilots sometimes board ship at the dock.

49. The corporation reported 8 **incidents or accidents**<sup>2</sup> involving a ship under the conduct of a pilot in 2021, but none of them were qualified as major by the corporation. The corporation reported no incidents or accidents involving its own pilot boats or those of the independent organization in 2021.

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**Recommendations**

50. Our recommendations in this area of examination appear at paragraphs 55, 56, and 59.

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**Management of pilotage services**

51. **Analysis.** We found that there was a significant deficiency in the systems and practices for pilot boarding, and that improvements were needed in the approval of pilot and apprentice pilot training programs and in the monitoring of training. However, we found that the corporation had good systems and practices for the planning of pilotage services; the setting of pilotage charges; pilot dispatching; and relations with clients, the responsible department, and other stakeholders (Exhibit 7).

**Exhibit 7 Management of pilotage services—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.	The corporation's planning of pilotage services included establishing budgets that took into consideration traffic forecasts by type of ship and regularly monitoring progress against budgets.  Performance objectives for senior management took into account operational risks and were aligned with the corporation's strategic objectives. Annual assessments measured performance against set objectives.	
<p><b>Legend—Assessment against the criteria</b></p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

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<sup>2</sup> **Major incident or accident**—An event resulting from a grounding, collision, or damage to facilities that have serious consequences, such as loss of life, pollution, traffic interruptions, or major damage to a ship.

Source: Laurentian Pilotage Authority

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Setting of pilotage charges	The corporation set fair and reasonable pilotage charges, allowing it to be financially self-sufficient.	<p>The corporation used the methodology approved by the Board of Directors to set the 2022 pilotage charges in order to ensure its financial self-sufficiency.</p> <p>The corporation consulted with stakeholders when revising its 2022 pilotage charges.</p> <p>The board approved the 2022 pilotage charges.</p>	
Pilot dispatching	The corporation dispatched pilots effectively.	<p>The corporation had a process to dispatch pilots effectively, taking into account regulatory requirements. The process included a software program, policies, manuals, and a training program for new employees responsible for pilot dispatching.</p> <p>Contracts with the pilot corporations included pilot dispatching requirements.</p>	
Pilot boarding	The corporation provided safe and effective pilot boarding services.	<p>The corporation had documented programs and procedures for pilot boarding and for pilot boat inspections.</p> <p>The corporation had a documented procedure for investigating accidents and incidents involving its own pilot boats. For the other pilot boats, the independent organization was required to provide the corporation with information in the event of an accident or incident.</p> <p><b>Significant deficiency</b></p> <p>Safety measures set out in the pilot boat operating manuals for Les Escoumins station were not implemented as intended.</p> <p>The corporation conducted limited oversight of some of the safety measures related to boarding operations carried out by an independent organization.</p>	
<p><b>Legend—Assessment against the criteria</b></p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Pilot and apprentice pilot competencies and qualifications	The corporation ensured that pilots and apprentice pilots had the required competencies and qualifications.	<p>The corporation made recommendations to the Minister of Transport on the issuance of apprentice pilot permits and pilotage licences in accordance with the requirements of the <i>General Pilotage Regulations</i>.</p> <p>The corporation ensured that pilots were medically fit and had the qualifications required under the <i>General Pilotage Regulations</i>.</p> <p><b>Weakness</b></p> <p>The corporation had not approved all training and apprenticeship programs for pilots and apprentice pilots and had not conducted any monitoring of the training taken.</p>	
Relations with clients, the responsible department, and other stakeholders	The corporation communicated, consulted, and exchanged information with clients, the responsible department, and other stakeholders.	<p>The corporation followed up on complaints and put in place appropriate measures where necessary.</p> <p>The corporation provided stakeholders with information at an annual public meeting.</p> <p>The corporation consulted and exchanged information with the pilot corporations.</p> <p>The corporation provided information to the responsible department, particularly on pilotage licences and apprentice pilot permits.</p> <p>The corporation participated in committees covering a variety of topics relating to pilotage services and navigation safety.</p>	
<p><b>Legend—Assessment against the criteria</b></p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

52. **Significant deficiency—Pilot boarding.** The corporation had pilot boat operating manuals for Les Escoumins station. The manuals covered, in particular, training for pilot boat captains and engineers, boarding procedures, emergency measures, the health and safety committee, pilot boat and safety equipment inspections, and safety operating procedures. We found that the following safety measures were not implemented in accordance with the manuals:

- Fire drills, search and rescue exercises for a person overboard, and pilot boat and safety equipment inspections were not conducted monthly, as specified in the manuals.

- Random audits of pilot boats and of staff knowledge that should have been conducted throughout the year had not been carried out since August 2021.
- The health and safety committee was inactive from July 2020 to February 2022, despite the fact that meetings should have been held at least twice a year.
- The annual training program had not been developed for pilot boat crew members.
- Some instances of non-compliance identified during pilot boat inspections were not recorded in the report used by the corporation for performing the necessary follow-up.

53. Regarding boarding operations carried out by the independent organization, we found that the corporation conducted limited oversight of the following safety measures set out in the service contracts:

- **Inspections of pilot boats and their equipment.** The corporation could conduct inspections at any time and did so once a year. We found that the corporation did not adopt a systematic method to support the frequency and coverage of inspections. During the 2021 inspection visit, 6 pilot boats, or around one third, were not inspected.
- **Inspection observations.** The corporation informed pilot boat crews about the observations made during inspections. We found that it did not follow up to ensure that measures had been taken in response to the observations.
- **Search and rescue exercises for a person overboard.** The corporation could conduct such exercises at any time. We found that the corporation did not adopt a systematic method to support the frequency and coverage of these exercises.
- **Competencies of the independent organization's crews.** The corporation could request confirmation from the independent organization that all crew members had taken the required training. We found that the corporation did not ask for that confirmation.

54. This significant deficiency matters because

- The measures set out in the pilot boat operating manuals help mitigate some of the risks related to the safety of boarding operations at Les Escoumins station.
- Proper documentation for instances of non-compliance identified during inspections helps to ensure and demonstrate that follow-up has taken place.
- Oversight of the safety measures set out in the service contracts and of crew training helps ensure that the independent organization properly manages the risks related to pilot boarding.

55. **Recommendation.** The corporation should conduct monitoring to ensure that the safety measures set out in the operating manuals for the pilot boats at Les Escoumins station are implemented.

**The corporation's response.** *Agreed. By May 2023, the corporation will develop and implement a plan for monitoring the measures set out in the operating manuals.*

56. **Recommendation.** The corporation should increase its oversight of the pilot boarding safety measures put in place by the independent organization.

**The corporation's response.** *Agreed. The corporation will increase its oversight by developing and implementing a plan by July 2023 for monitoring the safety measures set out in the current boarding services contracts. In addition, the new boarding services contracts that come into effect in 2024 will include additional indicators and oversight tools, which will enable the corporation to increase its oversight of the independent organization's operational safety measures.*

57. **Weakness—Pilot and apprentice pilot competencies and qualifications.** The service contracts with the pilot corporations stipulate that the corporation must approve pilot training programs and assessment grids, and apprenticeship programs for apprentice pilots. We found that the programs and assessment grid had been approved for 1 of the 2 pilot corporations. For the other pilot corporation, the draft pilot training program had been received without the assessment grid. However, the corporation had not yet approved the training program and had not received the apprenticeship program for apprentice pilots. In addition, although the corporation had obtained information on some of the training received by pilots, it had not conducted any monitoring to ensure that the pilots had completed the training prescribed in the training programs. In addition, the corporation had received apprenticeship progress reports for apprentice pilots from only 1 of the pilot corporations.

58. This weakness matters because monitoring of the training taken is an essential part of enabling the corporation to ensure that pilots and apprentice pilots have acquired, maintained, and mastered the competencies and skills needed to perform their duties.

59. **Recommendation.** The corporation should obtain and approve the pilot training programs and apprenticeship programs for apprentice pilots and should follow up to ensure their completion.

**The corporation's response.** *Agreed. By December 2022, the corporation had received all pilot training programs and expects to approve them by March 2023. The apprenticeship programs for apprentice pilots will be obtained and approved by December 2023. The corporation will implement a tracking process to ensure their completion once the regulations governing these matters enter into force.*

## Conclusion

60. In our opinion, on the basis of the criteria established, there was a significant deficiency in the corporation's systems and practices for pilot boarding, 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 Laurentian Pilotage Authority maintained its systems and practices during the period covered by the audit in a manner that provided the reasonable assurance required under section 138 of the *Financial Administration Act*.

## Subsequent Event

61. The corporate governance section of this report discusses our finding about positions on the Board of Directors. At the end of July 2022, the position of Chair of the Board was vacant and the terms of 3 board members had expired. On 28 October 2022, the Governor in Council approved the reappointment for these 3 members. At the time of finalizing our report, the position of Chair of the Board was still vacant but had been filled on an acting basis.

## About the Audit

This independent assurance report was prepared by the Office of the Auditor General of Canada on the Laurentian 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 about 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 of the following:

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

In addition, section 138 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 and 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 Laurentian 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 section 138 of the *Financial Administration Act*.

## Scope and approach

Our audit work examined the Laurentian 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, recommendations made on the issuing of apprentice pilot permits and pilotage licences in accordance with statutory requirements, monthly inspections of pilot boats at Les Escoumins station, and follow-up on complaints.

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

- selection of 22 daily inspections built into the corporation's procedures for the pilot boats at Les Escoumins station, in order to examine whether they had been carried out, whether the results had been recorded in the inspection forms, and whether there had been documented follow-up on instances of non-compliance
- selection of 24 pilots, in order to examine whether there was supporting documentation on file confirming that they were medically fit and had the qualifications required under the *General Pilotage Regulations*

The systems and practices selected for examination for each area of the audit are found 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 found 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 of the Board of Directors and its committees, Laurentian Pilotage Authority, 2021

Competency grid for members of the Board of Directors, Laurentian Pilotage Authority, 2021

Bylaws of the Laurentian 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

Bylaws of the Laurentian Pilotage Authority, 2021

*Financial Administration Act*

*Pilotage Act*

*Crown Corporation Corporate Plan, Budget and Summaries Regulations*

Strategic Plan for Human Resources Management, Laurentian Pilotage Authority, 2020

Information Technology Master Plan, Laurentian Pilotage Authority, 2021

## 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

Integrated Risk Management Policy, Laurentian Pilotage Authority, 2010

## Management of pilotage services

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

Pilotage services contract between the Laurentian Pilotage Authority and the Corporation of Mid St. Lawrence Pilots, 2021

Pilotage services contract between the Laurentian Pilotage Authority and the Corporation of Lower St. Lawrence Pilots, 2016

Pilot boat services contract between the Laurentian Pilotage Authority and Ocean Group, 2014

Bylaws of the Laurentian Pilotage Authority, 2021

*Financial Administration Act*

*Pilotage Act*

*General Pilotage Regulations*

## Period covered by the audit

The special examination covered the period from 1 October 2021 to 31 July 2022. 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 14 February 2023, in Montréal, Canada.

## 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.

## List of Recommendations

The following table lists the recommendations and responses found in this report. The paragraph number preceding the recommendation indicates the location of the recommendation in the report.

Recommendation	Response
<p><b>25.</b> The corporation should establish a regular disclosure process for members of the Board of Directors covering all types of conflicts of interest, and should document any measures taken, if necessary.</p>	<p><b>The corporation's response.</b> Agreed. The corporation will improve the current disclosure process by December 2023 so that it covers all types of conflicts of interest and will document any measures taken to address disclosed conflicts of interest. In addition, as of March 2023, an item will be systematically added to the Board of Directors' meeting agenda so that at the start of meetings, members can declare conflicts of interest, if necessary.</p>
<p><b>26.</b> The corporation should establish a code of conduct for members of the Board of Directors and ensure compliance with the code.</p>	<p><b>The corporation's response.</b> Agreed. A draft code of conduct for members of the Board of Directors was submitted to the Governance and Human Resources Committee in August 2022. The corporation will put in place an annual process for board members to declare their compliance with the code. The corporation will finalize the code and implement the process for compliance with the code by fall 2023.</p>
<p><b>29.</b> The corporation should put in place a process enabling employees to declare their compliance with the code of conduct, supported by an annual conflict-of-interest disclosure process, and should report on this to the Board of Directors. The corporation should also provide the board with complete information on risk management.</p>	<p><b>The corporation's response.</b> Agreed. The corporation will put in place a process enabling employees to declare their compliance with the code of conduct and annually disclose all types of conflict of interest, starting in fall 2023. In addition, as of December 2023, the corporation will provide the Board of Directors with complete information on the results of its conflict-of-interest disclosure process. Concerning risk management, since November 2022, the corporation has been providing additional information to the Audit Committee about monitoring the main risks.</p>
<p><b>33.</b> The corporation should regularly monitor progress against the performance indicators and targets it has set in support of its strategic objectives and should report on that progress to the Board of Directors.</p>	<p><b>The corporation's response.</b> Agreed. The corporation plans to review the performance indicators and targets by fall 2023 to ensure that they are adequate and relevant. In addition, starting in March 2024, the corporation will regularly monitor the performance indicators and targets and will report back to the Board of Directors.</p>

Recommendation	Response
<p><b>40.</b> The corporation should monitor the implementation of risk mitigation measures, take the necessary actions should such measures not be in place, and report on progress to the Board of Directors.</p>	<p><b>The corporation's response.</b> Agreed. Starting in summer 2023, the corporation will strengthen its monitoring of the implementation of mitigation measures for the main risks identified. It will document the necessary actions taken and will report to the Audit Committee on the progress made.</p>
<p><b>41.</b> The corporation should develop and test a business continuity and disaster recovery plan.</p>	<p><b>The corporation's response.</b> Agreed. The corporation will develop a comprehensive business continuity and disaster recovery plan, which will include the existing emergency procedures and the recovery procedures to follow in the event of computer failures. This plan will be adequately tested. All of this work will be completed in spring 2024.</p>
<p><b>42.</b> The corporation should set its risk appetite and tolerance levels.</p>	<p><b>The corporation's response.</b> Agreed. The corporation expects to finish its review of its risk management policy by spring 2024. As part of the review, the corporation will set its risk appetite and tolerance levels.</p>
<p><b>55.</b> The corporation should conduct monitoring to ensure that the safety measures set out in the operating manuals for the pilot boats at Les Escoumins station are implemented.</p>	<p><b>The corporation's response.</b> Agreed. By May 2023, the corporation will develop and implement a plan for monitoring the measures set out in the operating manuals.</p>
<p><b>56.</b> The corporation should increase its oversight of the pilot boarding safety measures put in place by the independent organization.</p>	<p><b>The corporation's response.</b> Agreed. The corporation will increase its oversight by developing and implementing a plan by July 2023 for monitoring the safety measures set out in the current boarding services contracts. In addition, the new boarding services contracts that come into effect in 2024 will include additional indicators and oversight tools, which will enable the corporation to increase its oversight of the independent organization's operational safety measures.</p>
<p><b>59.</b> The corporation should obtain and approve the pilot training programs and apprenticeship programs for apprentice pilots and should follow up to ensure their completion.</p>	<p><b>The corporation's response.</b> Agreed. By December 2022, the corporation had received all pilot training programs and expects to approve them by March 2023. The apprenticeship programs for apprentice pilots will be obtained and approved by December 2023. The corporation will implement a tracking process to ensure their completion once the regulations governing these matters enter into force.</p>

