

2010



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

SPRING

Chapter 6
Special Examinations of Crown Corporations—2009



Office of the Auditor General of Canada

The Spring 2010 Report of the Auditor General of Canada comprises a Message from the Auditor General of Canada, Main Points—Chapters 1 to 5, and six chapters. The main table of contents for the Report is found at the end of this publication.

The Report is available on our website at www.oag-bvg.gc.ca.

For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
240 Sparks Street, Stop 10-1
Ottawa, Ontario
K1A 0G6

Telephone: 613-952-0213, ext. 5000, or 1-888-761-5953
Fax: 613-943-5485
Hearing impaired only TTY: 613-954-8042
Email: distribution@oag-bvg.gc.ca

Ce document est également publié en français.

© Minister of Public Works and Government Services Canada 2010
Cat. No. FA1-2010/1-6E-PDF
ISBN 978-1-100-15346-9
ISSN 0821-8110

Chapter

6

Special Examinations of Crown
Corporations—2009

Table of Contents

Special Examinations of Crown Corporations	1
Importance of Crown corporations	1
Role of the Office of the Auditor General	2
Definition and objective of a special examination	2
Special examination results for 2009	3
Main Points of Special Examinations—2009	5
Business Development Bank of Canada	5
Canada Development Investment Corporation	7
Canada Mortgage and Housing Corporation	10
Canada Post Corporation	13
Canada Science and Technology Museum Corporation	17
Canadian Commercial Corporation	19
Enterprise Cape Breton Corporation	21
Export Development Canada	23
Marine Atlantic Inc.	25
National Gallery of Canada	28
Standards Council of Canada	30
About the Chapter	32



Special Examinations of Crown Corporations—2009

Special Examinations of Crown Corporations

6.1 This chapter presents the main points of special examination reports of Crown corporations that were issued to their boards of directors between 1 January 2009 and 31 December 2009 and that have subsequently been made public. These reports were transmitted throughout the year, and the respective systems and practices were examined during different periods of time.

Importance of Crown corporations

6.2 Crown corporations are distinct legal entities whose names, mandates, powers, and objectives are set out in either the constituent legislation for the parent Crown corporation or the articles of incorporation under the *Canada Business Corporations Act*.

6.3 Crown corporations have more autonomy than most other government entities, in part because they have commercial objectives as well as public policy objectives. They account for a significant portion of government activity and operate in many sectors of the Canadian economy, including transportation, energy, agriculture and fisheries, financial services, culture, and government services.

6.4 As of 31 December 2009, there were 46 parent Crown corporations and three subsidiaries that were directed to report as parent Crown corporations. These Crown corporations employed over 91,000 people. More than 82 percent of these employees worked at four corporations: Canada Post Corporation, Canadian Broadcasting Corporation, Atomic Energy of Canada Limited, and VIA Rail Canada Inc. The vast majority of Crown corporations had fewer than 3,000 employees.

6.5 Crown corporations manage more than \$300 billion in assets. The corporations fund their operations in a variety of ways. Some corporations are required by their enabling legislation to be financially self-sustaining and thus receive no parliamentary appropriations. Some are funded mainly through parliamentary appropriations. Others receive federal funding but also generate revenue. In the 2008–09 fiscal year, 25 of the corporations received just over \$5.9 billion in appropriations. Five of these accounted for 80 percent of the appropriations: Canada

Mortgage and Housing Corporation, Canadian Broadcasting Corporation, Atomic Energy of Canada Limited, Canadian Air Transport Security Authority, and VIA Rail Canada Inc. New Crown corporations are created periodically, although none was created in 2009.

6.6 A board of directors or a similar governing body oversees the management of each corporation and holds management responsible for the corporation's performance. The board of a parent Crown corporation is, in turn, accountable to Parliament through the responsible minister.

Role of the Office of the Auditor General

6.7 Under Part X of the *Financial Administration Act* (FAA), the Auditor General is appointed to conduct annual audits of the financial statements and periodic special examinations of Crown corporations, either on her own or jointly with a private sector audit firm, unless she waives the appointment.

Definition and objective of a special examination

6.8 A special examination is an important mechanism of accountability for Crown corporations. The objective of a special examination is to provide an independent opinion on whether there is reasonable assurance that a Crown corporation has systems and practices in place to ensure that

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

6.9 Any major weakness in the key corporate systems and practices that could prevent a corporation from achieving these objectives is reported as a **significant deficiency**. When planning a special examination, we conduct a risk analysis to identify the systems and practices that we consider essential to providing the corporation with this assurance. We also establish criteria that we use to examine the corporation's systems and practices. They are based on our experience with performance auditing and our knowledge of the subject matter and are selected in consultation with the corporation.

6.10 The opinion we present in the special examination can take one of three forms. One conclusion is that there is reasonable assurance that there were no significant deficiencies in the systems and practices maintained by the corporation to achieve the objectives above. The second form concludes there is one or more significant deficiency. Lastly, in rare situations, we may find there is not reasonable assurance that a corporation's systems and practices achieve the objectives.

Significant deficiency—A major weakness in a Crown corporation's key systems and practices that could prevent it from having reasonable assurance that its assets were safeguarded and controlled, its resources were managed efficiently and economically, or its operations were carried out effectively.

6.11 The frequency of special examinations, as determined by the *Financial Administration Act* (FAA), is at least once every 10 years. However, special examinations could be carried out more frequently, if required by the Governor in Council (the Cabinet acting in a legal capacity), the appropriate minister, the board of directors of the corporation, or the Auditor General.

6.12 As part of the mechanism of accountability for Crown corporations, special examinations are reported to the board of directors of a Crown corporation or any similar governing body. Furthermore, the Auditor General may bring information from the special examination to the attention of the appropriate minister, after consulting the board of directors or any similar governing body. The Auditor General may also bring such information to Parliament's attention, after consulting the appropriate minister and the board of directors, by including it in the corporation's annual report.

6.13 The *Financial Administration Act* requires that the board of directors submit all special examination reports to the appropriate minister and the President of the Treasury Board within 30 days of receiving them. The Act also requires that the board of directors make the reports available to the public within 60 days of receiving them.

Special examination results for 2009

6.14 Reports were issued for the following 11 Crown corporations, between 1 January 2009 and 31 December 2009, and have been subsequently made public:

- Business Development Bank of Canada
- Canada Development Investment Corporation
- Canada Mortgage and Housing Corporation
- Canada Post Corporation
- Canada Science and Technology Museum Corporation
- Canadian Commercial Corporation
- Enterprise Cape Breton Corporation
- Export Development Canada
- Marine Atlantic Inc.
- National Gallery of Canada
- Standards Council of Canada

6.15 Of these eleven special examination reports, eight identified no significant deficiencies. Three identified one or more significant deficiencies:

- Canada Post Corporation had a significant deficiency relating to a strategic risk due to lack of funding for the postal transformation initiative.
- Canada Science and Technology Museum Corporation had a significant deficiency related to its human resource management systems and practices.
- Marine Atlantic Inc. had two significant deficiencies: one relating to unresolved strategic challenges, and the other relating to systems and practices in operational planning and capital asset management. Due to these significant deficiencies, we concluded that Marine Atlantic did not have the reasonable assurance required by section 131 of the *Financial Administration Act* that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.

For each of these three corporations, we chose to bring the results to the attention of the appropriate minister.

6.16 In addition to reporting on significant deficiencies, our special examinations highlight systems and practices that contribute to success and they provide information and recommendations to boards of directors about other opportunities for improvement. For the 11 Crown corporations, our recommendations focused primarily on corporate governance, strategic planning, risk management, and performance measurement and reporting. Because of the small number of special examination reports that were issued in this period, it is difficult to identify overall trends.

6.17 It should be noted that these reports were transmitted to the respective board of directors at different dates throughout the year and that we examined the respective systems and practices during different periods of time. No follow-up audit work has been performed in respect of any of the matters raised in these reports.

6.18 The main points from each of the 11 special examination reports are reproduced in the next section and are not the full reports. Full reports can be found on the respective corporation's website.

Main Points of Special Examinations—2009

Business Development Bank of Canada—Main Points

[This examination was jointly completed with Raymond Chabot Grant Thornton LLP. We issued the full report to the Board of Directors on 9 April 2009. The examination work covered the period from January 2008 to September 2008. For the full report, please go to www.bdc.ca or contact the Corporation.]

What we examined

The Business Development Bank of Canada (BDC or the Corporation) supports Canadian entrepreneurship by providing financial and consulting services to small and medium-sized enterprises (SMEs). It provides financing directly to Canadian SMEs on a commercial basis, at rates commensurate with the degree of risk assumed by BDC.

BDC is a financially self-sustaining federal Crown corporation, wholly owned by the Government of Canada. It reports to Parliament through the Minister of Industry. The Corporation's activities are guided by a Board of Directors consisting of a Chairperson, the President and Chief Executive Officer (CEO), and up to 13 other members.

On 31 March 2008, BDC was in business relationships with more than 27,000 SME clients. It had more than 1,700 employees and was providing services through 94 branches across Canada. At 31 March 2008, the net loans outstanding totalled \$9.5 billion. BDC has venture capital investments in 154 Canadian companies.

We examined whether BDC's systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. Our examination covered the period from January 2008 to September 2008.

Why it's important

BDC has been the only financial institution solely dedicated to the development of Canadian SMEs. Through its activities, it supports SMEs at all stages of development—from start-up to expansion—and through economic cycles. BDC's consulting activities provide affordable consulting services that would typically be accessible only to larger companies.

Unlike private sector banks, BDC has not only commercial objectives but also public policy objectives: to support Canadian entrepreneurship through its activities, with particular consideration to SMEs. To the

extent that commercial banks restrict credit in the wake of the international financial crisis of 2008, BDC could face an increased demand from many Canadian entrepreneurs.

What we found

We found no significant deficiencies in BDC's systems and practices during the period covered by the examination. In several areas its systems and practices have contributed to its success:

- The Corporation has sound systems and practices in areas such as governance, strategic planning, human resources, and financing activities. For example, its strategies take the government's priorities into account and are based on analysis of the economy, developments in the Canadian SME sector, trends in SME financing and in private equity, as well as financial and operational constraints. Workforce planning and succession planning processes are effective—over the last three years the succession planning process has successfully identified candidates for promotion to positions where vacancies were expected. BDC has properly coordinated and communicated major initiatives and changes in its financing business processes.

We also found certain other areas where BDC would benefit from improving its practices:

- As noted in the 2004 special examination report, BDC needs more comprehensive indicators of performance in order to evaluate the effectiveness of its consulting strategy. The two key indicators it uses—client satisfaction and client retention—do not provide appropriate information on the contribution made by its consulting services to SMEs over the long term.
- BDC has improved its strategic planning for information technology (IT) since the last special examination. However, it has not yet identified performance indicators for most of the IT strategic objectives. Without such information, it is not clear how progress toward IT objectives can be measured and corrective action taken where indicated. In addition, BDC needs to have an overall IT security policy to protect its assets. It also needs to ensure that business cases for all approved IT projects contain cost/benefit analyses and that the new governance committee oversees the ongoing progress of IT projects.

The Corporation has responded. BDC agrees with all the recommendations.

Canada Development Investment Corporation—Main Points

[This examination was jointly completed with KPMG LLP. We issued the full report to the Board of Directors on 12 February 2009. The examination work covered the period from September 2008 to October 2008. For the full report, please go to www.cdiccei.ca or contact the Corporation.]

What we examined

The Canada Development Investment Corporation (CDIC), a Crown corporation reporting to Parliament through the Minister of Finance, was created in 1982 to manage the commercial holdings of the government. In 1995, it was directed to actively divest its assets and prepare for eventual windup. In 2007, however, the Minister issued new direction to continue operating on a commercial basis while remaining prepared to divest when so directed.

Our examination included the operations of CDIC and two subsidiary corporations, Canada Eldor Inc. (CEI) and Canada Hibernia Holding Corporation (CHHC).

CEI manages liabilities resulting from the sale of its assets to Cameco Corporation in 1988. That is, it is responsible for financial obligations set out in its agreement with Cameco that relate to Cameco's management and disposal of historic wastes, site restoration, and administration of retiree benefits. It is also responsible for managing legal claims as they arise in connection with past operations. CHHC's sole purpose is to manage the federal government's 8.5 percent interest in the Hibernia Development Project.

CDIC's corporate headquarters are in Toronto and it has seven employees, including those of its subsidiaries. Total revenues, consisting of crude oil sales and interest income, were \$309 million for the year ended 31 December 2007, and total operating expenses were \$66 million.

We examined whether CDIC and its subsidiaries have systems and practices in place to provide the Corporation with reasonable assurance that assets are safeguarded and controlled, resources are managed economically and efficiently, and operations are carried out effectively. Our detailed examination work in both the parent Corporation and the subsidiaries focused on corporate governance, strategic planning, risk management, and operations. Our examination was carried out from September 2008 to October 2008.

Why it's important CDIC, through its subsidiary CHHC, manages an investment that generates significant cash flow in dividends to the federal government. At 31 December 2007, CHHC's net book value was recorded at \$208 million.

CDIC, through its subsidiary, CEI, is responsible for reimbursing costs related to the cleanup of historic contaminated waste sites, a matter of concern to Canadians because of the potential health implications.

What we found We found no significant deficiencies in the systems and practices of CDIC and its subsidiaries. We found a number of sound practices and also some areas for improvement:

- The Corporation is governed by a Board of experienced professionals who are actively involved in their oversight responsibilities. The Board identifies what it needs to provide stewardship and oversee the Corporation's accountability. The Board has the appropriate independence and access to the resources needed to discharge its responsibilities effectively. It has enough information and knowledge to interpret the Corporation's mandate, provide management with strategic direction, and exercise its oversight responsibilities. It also participates appropriately in the strategic planning of the Corporation, including discussion and challenge with management.
- While the Board understands the key risks it faces and has strategies in place to mitigate them, the Corporation lacks a formal risk management approach that would provide for the systematic identification, monitoring, and reporting of risks to the Board. We also note that while CDIC's corporate plan summary and annual report are tabled in Parliament, they are made available to the public only upon request. Given its status as a Crown corporation, CDIC should ensure that information on the Corporation is easily accessible to the public.
- Management of CHHC actively participates in the oversight of the Hibernia Platform operator's committees. There are systems and practices in place to address both joint-venture operations and the sale and transportation of oil. CHHC has decided as a risk mitigation strategy to contract out the shipping and storage of oil. It sells direct to market to increase revenue and reduce risks related to the transportation of oil, since the transfer of ownership takes place when the oil is loaded into the tanker at the platform.

- CEI has systems and practices in place to ensure the proper management of its financial obligations related to contaminated waste disposal, site restoration, and retiree benefits. It has processes in place to oversee Cameco's related operations and claims, drawing on such experts as lawyers, actuaries, and auditors to ensure that Cameco complies with the conditions of its agreement with CEI.

CDIC has responded. CDIC agrees with all the recommendations.

Canada Mortgage and Housing Corporation—Main Points

[This examination was jointly completed with Ernst & Young LLP. We issued the full report to the Board of Directors on 21 January 2009. The examination work covered the period from October 2007 to June 2008. As the report contained information classified as “confidential” due to its commercial nature, such information has been redacted from the public report. For the redacted report, please go to www.cmhc.ca or contact the Corporation.]

What we examined

Canada Mortgage and Housing Corporation (CMHC or the Corporation) is “Canada’s national housing agency.” Its objectives, as stated in its Corporate Plan, are to help Canadians in need, facilitate access to more affordable better-quality housing for all Canadians, and ensure that the Canadian housing system remains one of the best in the world. CMHC provides mortgage loan insurance, mortgage-backed securities guarantees, and housing research. In addition, it develops housing policy proposals for consideration by the Minister and delivers federal housing programs and services. The Corporation reports to Parliament through the Minister of Human Resources and Skills Development.

In addition to its national office in Ottawa, the Corporation has five business centres located in the Atlantic, Quebec, Ontario, Prairie and Territories, and British Columbia regions to provide Canadians with access to CMHC programs, products, and services. In 2007, its workforce was equivalent to 1,888 staff years. Its total revenues in 2007 were \$7.7 billion and its net income was \$1.1 billion; total assets amounted to \$148.2 billion.

We examined whether CMHC’s key systems and practices provide the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. Our examination covered the period October 2007 to June 2008.

Why it’s important

As Canada’s national housing agency, CMHC works to enhance Canada’s housing finance options, assist Canadians who cannot afford housing in the private market, and provide policymakers with the information and analysis they need to sustain a housing market in Canada. It must ensure that it meets the federal objectives for the housing programs it delivers, as well as its commercial objectives, and that it does so with due regard to economy and efficiency.

What we found

We found no significant deficiencies in the Corporation's systems and practices. They were maintained, during the period covered by our examination, in a way that provided 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. Some examples include the following:

- CMHC has sound planning practices in place to provide clear direction for its activities. Its corporate plan is linked to its mandate and takes into account identified risks, the human and financial resources required to achieve the Corporation's goals, and the need to control and protect its assets.
- CMHC has a good corporate-wide approach to enterprise risk management (ERM) that is documented well, with clearly assigned roles and responsibilities. The ERM function is independent from high-risk functions—including Treasury, Investment, and Finance—to reduce the potential for conflicts of interest. It informs the Board directly of its risks assessments through the Audit Committee.
- The Corporation has good systems and processes for managing its mortgage insurance activities. Appropriate criteria for underwriting decisions are identified for each product and considered against the Corporation's risk tolerance, the expected rate of return, and its corporate objectives. A formal process is in place to ensure that the underwriting criteria are interpreted uniformly throughout the Corporation.
- CMHC manages treasury and investment activities effectively. Sound investment and borrowing policies are in place. CMHC manages its securitization activities through the identification, measurement, monitoring, and mitigation of the risks related to the securitization programs. The Corporation's process of performing its stress-testing procedures allows it to evaluate the impact of emerging market events.
- There is a strong system of accountability between the Corporation, the provinces, the territories, and other partners in the delivery of its housing programs. CMHC ensures that specific accountability requirements are included in agreements with those who deliver programs on its behalf, and it adequately monitors those programs to ensure that money is spent for the intended purposes.

We also noted some areas for improvement, including those described below:

- The Corporation needs to periodically provide further information in its Annual Report on the performance of housing programs, on the status of and trends in Canadian housing needs, and on the impact that CMHC activities are having on these needs over time.
- While the Corporation has carried out a vulnerability assessment of the IT system that supports its homeowner insurance activities, it has not done so for the other IT systems it identified as high-risk. Appropriate and periodic vulnerability assessments that consider the people, processes, and technologies involved in all of its high-risk systems would assist the Corporation in developing appropriate risk mitigation strategies.

The Corporation has responded. The Corporation agrees with our recommendations.

Canada Post Corporation—Main Points

[This examination was jointly completed with KPMG LLP. We issued the full report to the Board of Directors on 26 November 2009. The examination work covered the systems and practices that were in place between February 2008 and May 2009. The examination period was extended to August 2009 with respect to events related to the postal transformation initiative. For the full report, please go to www.canadapost.ca or contact the Corporation.]

What we examined

Canada Post Corporation is one of the largest federal Crown corporations and one of the largest employers in Canada, with about 60,000 full- and part-time employees (its subsidiaries employ about another 12,000 people), most of whom are unionized. In 2008, the Corporation earned \$6.1 billion in revenues, which is 79 percent of consolidated revenue from operations; its earnings before taxes were \$66 million. A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Transport, Infrastructure and Communities.

As Canada's national postal service, Canada Post Corporation is expected to provide a standard of service that will meet the needs of Canadians and that is similar with respect to communities of the same size. It is also expected to be financially self-sustaining.

We examined Canada Post Corporation's systems and practices to determine whether, in the period under examination, they provide the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

We examined, among other things, the postal transformation initiative, corporate governance, strategic planning, performance measurement and reporting, and human resources management. The postal transformation initiative is an estimated \$3.1 billion project to replace outdated postal facilities and transform operational processes that Canada Post developed in response to the critical issue of its aging infrastructure. The project is the centrepiece of the Corporation's strategy to reduce long-term costs, improve workplace safety, increase productivity, provide the base for new products and services, and achieve a sustainable environment. Canada Post has said that the initiative's successful implementation is essential to the Corporation's survival and future financial sustainability.

Our examination covered the systems and practices that were in place between February 2008 and May 2009. We extended our examination period to August 2009 to consider events related to the postal transformation initiative. We did not examine the systems and practices of the Corporation's subsidiaries (such as Purolator Courier Ltd.), which are not wholly owned and therefore are not included in the special examination requirements of the *Financial Administration Act*.

Why it's important

Canadians rely on the services provided by Canada Post and expect prompt, reliable mail delivery to their door or a conveniently located postal box at fair and reasonable prices. In addition to providing this universal postal service, the federal government requires Canada Post to provide various services aimed at achieving other public policy objectives—for example, maintaining rural mailbox delivery and respecting the moratorium on the closing of rural post offices, providing free mail for material for the blind and for parliamentarians, and discounting postal rates for library books. While the government provides some compensation for added costs or lost revenue as a result of such services, these requirements limit the Corporation's flexibility for cutting costs and meeting its commercial objectives.

Like other large postal services around the world, Canada Post Corporation must respond to the challenges of an aging infrastructure and workforce. In addition, it faces growing competition for its traditional markets from other delivery services and electronic mail. In these circumstances, it is crucial that it have in place well-designed and well-functioning systems and practices to enable it to face these challenges to its survival.

What we found

Our examination found a significant deficiency relating to a strategic risk due to lack of funding for the postal transformation initiative.

- The Corporation has not yet secured the funding it needs to complete the crucial planned \$3.1 billion postal transformation initiative. Due to funding pressures increased by the downturn in the Canadian economy, such as those from the decline in postal volumes and the possibility of significant payments to its pension fund, it has been unable to fund the initiative internally to 2010, as originally planned. As a result, the timeline and the period to realize benefits have been extended considerably. The changes in the planned rollout of the transformation impact virtually all aspects of the organization, putting at risk the future sustainability of the Corporation's operations and its ability to fulfill its mandate for universal mail service.

Subsequent to our examination, in June 2009, Canada Post informed us that the government reacted positively to its proposal to increase postal rates and the Corporation's borrowing limit. This may provide the funding that would allow the Corporation to complete its original plan. However, at the time of our examination, it was too early to determine what impact this would have on the Corporation's financial sustainability and its ability to fulfill its mandate in the long term.

We found several areas with good practices.

- The Corporation has good systems and practices to manage the postal transformation initiative. The Board of Directors has been involved in oversight and approval of decisions relating to planning and implementing this initiative. Management has established good project management practices to monitor the initiative as it is implemented.
- Generally we found good systems and practices for human resource management, an important function in this large corporation of close to 60,000 employees.
- The Board of Directors has access to the resources it needs to discharge its responsibilities for stewardship and oversight of the Corporation as well as the subsidiaries, and it exercises those responsibilities.

We also identified some areas requiring improvement.

- The Corporation places more emphasis on financial objectives and targets than on other aspects of performance, and in activities outside the postal transformation initiative, it focuses on annual targets rather than the long-term horizon and alignment with strategic direction. In addition, while Canada Post has established delivery standards for its universal service obligation, it has few performance indicators for its other public policy objectives.
- In planning its future needs, the Corporation does not validate the cost estimates prepared by facilities management contractors for repairs and maintenance of its buildings until it enters into contracts. Nor does it consistently manage its aging capital assets on a life cycle basis. However, changes are planned that will provide for collecting the necessary data to support life cycle management systems, which management needs for the estimated \$2.4 billion in major capital assets the Corporation plans to purchase under the postal transformation initiative.

- The terms and conditions of contracts with its related companies may not protect the interests of Canada Post.

The Corporation has responded. Canada Post Corporation agrees with the recommendations.

Canada Science and Technology Museum Corporation—Main Points

[Issued to the Board of Directors on 14 April 2009. The examination work covered the period from January 2008 to October 2008. For the full report, please go to www.technomuses.ca or contact the Corporation.]

What we examined

The Canada Science and Technology Museum Corporation manages three museums in Ottawa: the Canada Agriculture Museum, the Canada Aviation Museum, and the Canada Science and Technology Museum.

The Corporation is responsible for fostering scientific and technological literacy throughout Canada by establishing, maintaining, and developing a collection of scientific and technological objects, with special but not exclusive reference to Canada. The Corporation reports to Parliament through the Minister of Canadian Heritage and Official Languages.

The Corporation funds its activities primarily through parliamentary appropriations. It has about 250 employees. The three museums' collection ranges from World War I aircraft to telescopes and other scientific instruments and, in the case of the Canada Agriculture Museum, live animals.

We examined whether the Corporation's systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. Our examination covered the period from 1 January to 1 October 2008.

Why it's important

Museums such as the Canada Agriculture Museum, the Canada Aviation Museum, and the Canada Science and Technology Museum provide a unique experience. Through their collection, their knowledgeable staff, and their activities, exhibitions, public programs, and websites, these museums provide visitors with opportunities to explore. They can open minds to new interests and contribute to an understanding of Canada's heritage and contribution to the world in science and technology.

What we found

We found a significant deficiency in the Corporation's human resources management systems and practices that puts the Corporation at risk of not having the competencies it needs to carry out its mandate.

- There is no human resources strategic plan in place to support the Corporation's strategic objectives. We saw no evidence of planning

activities or operational plans that support the Corporation's strategic objectives. Neither the Board nor its committees have human resources defined as part of their responsibilities.

- While 60 percent of management was eligible to retire in 2008, there is still no succession plan in place, despite a recommendation we first made in 1999 and the Corporation's own identification of this issue as a priority.
- Performance management practices are weak—we found no performance evaluation for a third of employee files reviewed, no competency models to determine what skill sets are required, no training plans for individual employees, and no performance ratings to support bonuses paid to senior management.

We found no significant deficiencies in other systems and practices. As noted below, we identified adequate practices as well as some that should be improved.

- The Corporation develops, manages, and controls its collection adequately. In the area of strategic planning, the Corporation has updated its strategic framework every year since 2005, which demonstrates the use of performance information. However, the annual changes have altered which performance information is tracked and retained, making it difficult to track performance over time.
- The Board of Trustees has not defined the information it requires to carry out effective oversight of the Corporation. For example, it has not requested information on the renewal of a lease agreement between the Corporation and the operator of an airport owned by the Corporation, an agreement that expired in March 2003. Furthermore, the Audit and Finance Committee of the Board was told that a succession plan for senior management had been developed. In fact, no such plan existed. Although the lack of a succession plan was identified as a key risk to the Corporation, the Board has not requested the succession plan for approval. Without requesting that it receive complete and up-to-date information, it is difficult for the Board to ensure that risks are properly mitigated. In addition, although it has long been aware of the storage problems that put the Museum's collection at risk, the Board has not asked management to develop alternative options for resolving the problems.

The Corporation has responded. The Canada Science and Technology Museum Corporation agrees with the recommendations.

Canadian Commercial Corporation—Main Points

[Issued to the Board of Directors on 23 June 2009. The examination work covered the period from October 2008 to February 2009. For the full report, please go to www.ccc.ca or contact the Corporation.]

What we examined

The Canadian Commercial Corporation is a Crown corporation that reports to Parliament through the Minister of International Trade. The Corporation is Canada's international contracting and procurement agency. It is headquartered in Ottawa and employs approximately 120 people. These professionals largely belong to various disciplines such as engineering, finance, procurement, project management, and international trade.

The Corporation helps Canadian exporters by connecting foreign government buyers to Canadian businesses that can provide goods and services as required in defence markets and emerging and developing markets. As the government's international procurement agent, it helps other federal organizations who deliver programs in other countries by procuring goods and services for international use.

We examined whether, in the period under examination (October 2008 to February 2009), the Canadian Commercial Corporation's systems and practices provided it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

Why it's important

The Corporation's public policy mandate is to support the development of international trade between Canada and other nations, and to operate in markets—particularly government markets—where the private sector may meet obstacles operating on its own.

While defence markets account for 70 percent to 80 percent of its business, the Corporation has established a corporate priority of expanding into emerging and developing markets that are increasingly attractive to Canadian exporters. As a federal Crown corporation, it is in a position to mitigate some of the risks involved in doing business in these markets—risks that may include poor financial protection, the political environment, and complex regulations.

What we found

We found no significant deficiencies in the Corporation's systems and practices. We noted good practices, including some that have improved since our 2004 special examination. We also noted some opportunities for further improvement.

- The Corporation's risk management framework and its contracting practices have improved since our 2004 special examination, when

we reported a significant deficiency in both areas. For example, the Corporation has developed and implemented its risk management framework. The Board and management have improved the monitoring of risks and are working together to develop consistent reporting on the status of identified risks and on new risks that need mitigation. We note, however, that the Corporation's risk management philosophy—seek to eliminate all known risks—needs to be more balanced with its broader public policy mandate and more aligned with its current risk management practices. Improved contracting practices include a new contracting policy suite with guidance on identifying early signs of problem contracts and the required corrective action. We found little progress on our 2004 recommendation to establish a quality assurance process for contract management.

- The Corporation needs to improve its documentation in specific areas. In the contracting process, it needs to aggregate, clearly link, and present all significant risks to support decision making; it needs to better document decisions related to the identification and pursuit of contracting opportunities; and it needs to ensure that consideration of strategic and operational risks is included and documented in the contract management process along with currently documented project-specific risks.
- Corporate governance reflects good practices of Board stewardship, shareholder relations, and communication with the public. The Board is closely involved with management in the strategic planning process, and the Corporation consults with government throughout the process to ensure that government priorities are taken into account. The Corporation is currently developing a comprehensive performance measurement framework to improve the monitoring of performance; it has made this a corporate priority.
- The Corporation's marketing practices support its objectives and goals and respond to market needs. The Corporation has used its past experience to develop successful business models for new markets. We note that each business line has its own business development activities and system for compiling information on future projects. In our view, the Corporation would benefit from a comprehensive corporate marketing strategy as well as corporate-wide marketing information covering all business lines.

The Corporation has responded. The Canadian Commercial Corporation agrees with all the recommendations and is committed to addressing them in a timely manner.

Enterprise Cape Breton Corporation—Main Points

[Issued to the Board of Directors on 14 September 2009. The examination work covered the period from December 2008 to March 2009. For the full report, please go to www.ecbc-secb.gc.ca or contact the Corporation.]

What we examined

Enterprise Cape Breton Corporation (ECBC) is a Crown corporation that promotes and coordinates economic development throughout Cape Breton Island and a portion of mainland Nova Scotia in and around the Town of Mulgrave. The Corporation has broad powers to make loans, provide grants and contributions, and make investments. It has a growing portfolio of properties and buildings that are a means to support economic development—for example, through transfers to others as an incentive for investment or through sale for income to reinvest in programs. In addition to its own programs, Enterprise Cape Breton Corporation delivers programs on behalf of the Atlantic Canada Opportunities Agency (ACOA). The Corporation has working relationships and partnerships with governments at all levels as well as with community, business, and other organizations to support and implement various economic development initiatives.

We examined whether Enterprise Cape Breton Corporation's systems and practices provide the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. We focused on the areas of governance, strategic and operational planning, performance measurement and reporting, project management, and property management and development. Our examination covered the period from December 2008 to March 2009.

Why it's important

The area served by the Corporation is economically depressed, with an unemployment rate higher than the provincial and national averages and significant out-migration in recent years. The role of the Corporation is to respond to these economic conditions by promoting and assisting the financing and development of industry in order to provide employment outside the coal-producing industry and broaden the economic base of Cape Breton Island.

What we found

We found no significant deficiencies in the Corporation's systems and practices. We noted some good practices as well as opportunities for improvement.

- The Board of Directors has active committees with clear mandates; it added a Human Resources Committee in 2008. The Board regularly receives and reviews information from

management that it uses for oversight. The Corporation has not yet finalized the Board charter or considered whether Board committee responsibilities need to be updated to reflect the charter. It also has yet to complete the updating of the Board competency profile. The Board of Directors is examining further options to assess its performance on a regular basis.

- Senior management and the Board of Directors are engaged throughout the strategic planning process. The resulting corporate plan sets out targets and expectations that are consistent with the Corporation's mandate, mission, and objectives. The Corporation has established a risk management framework that identifies potential risks and the Corporation's response to those risks. However, it could improve its approach to risk management by assigning to specific managers the responsibility for implementing measures designed to mitigate risk and by reporting regularly to senior management and the Board on how well those measures are working.
- The Corporation has a performance management framework that indicates how program activities are intended to contribute to the Corporation's strategic outcome ("a competitive and sustainable Cape Breton economy") and its mandate and mission. The framework was recently revised to strengthen certain areas. However, performance measurement could be improved by ensuring that expected outcomes are clear and that performance indicators and targets demonstrate the results to be achieved. Reporting on performance could be improved by providing additional information in certain areas—for example, by explaining what it means by key terms such as "long-term" and "sustainable" results.
- The Corporation has systems and practices that ensure due diligence in approving and monitoring economic development projects for which it provides funding.
- Enterprise Cape Breton Corporation has systems and practices in place to manage its real property holdings. However, it needs to renew the expired memorandum of understanding with Cape Breton Development Corporation governing property transfers. It also needs to strengthen its property management framework by incorporating criteria to identify properties that could support its economic development mandate and to assess whether its properties continue to be useful for delivering its programs.

The Corporation has responded. Enterprise Cape Breton Corporation agrees with our recommendations.

Export Development Canada—Main Points

[Issued to the Board of Directors on 17 June 2009. The examination work covered the period from March 2008 to November 2008. For the full report, please go to www.edc.ca or contact the Corporation.]

What we examined

Export Development Canada (the Corporation) is Canada's export credit agency, supporting a broad range of exporters across Canada. It operates on a self-sustaining basis, generating enough income to protect its assets, manage its exposure to credit and market risk, and maintain enough capital to meet future demand. According to its annual report, in 2008, the Corporation served 8,312 customers; it also facilitated exports totalling \$85.8 billion and investments in 184 markets.

Export Development Canada reports to Parliament through the Minister for International Trade. In 2008, it had assets of about \$35.2 billion and the equivalent of about 1,063 full-time employees.

We examined whether the Corporation's systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

Why it's important

Export Development Canada has a mandate to support and develop Canada's export trade and Canadian capacity to engage in that trade as well as to respond to international business opportunities. A key goal is to ensure that Canadian companies of all sizes have access to the financing and risk management services they need to compete in the international marketplace.

What we found

We found no significant deficiencies in the Corporation's systems and practices. They were maintained, during the period covered by our examination, in a way that provided 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. Below, we note some good practices as well as some opportunities for improvement.

- The Corporation has in place the key elements of a good governance framework. It has a sound corporate planning process that provides clear direction for its activities and considers relevant information from a number of sources, including its Board of Directors.
- Export Development Canada has a financial risk and capital management framework that addresses credit and market risk and

capital sufficiency. It has also developed an Enterprise Risk Management (ERM) framework that identifies underlying principles, roles and responsibilities, and a methodology for managing risk. The Corporation needs to assign responsibility for monitoring and managing its key risks and to monitor and report on the top risks more formally and systematically.

- In its management of information technology (IT), EDC has no formally approved IT project management framework in place. Additionally, the IT Security governance framework is currently incomplete. We encourage management to implement their plans to address these areas.

The Corporation has responded. The Corporation agrees with all the recommendations.

Marine Atlantic Inc.—Main Points

[Issued to the Board of Directors on 14 September 2009. The examination work covered the period from October 2008 to March 2009. For the full report, please go to www.marine-atlantic.ca or contact the Corporation.]

What we examined

Marine Atlantic Inc. is a Crown corporation responsible for providing ferry services between Nova Scotia and the Island of Newfoundland. The Corporation operates two routes—a year-round service between Port aux Basques and North Sydney and a seasonal service between Argentia and North Sydney. To provide this service, Marine Atlantic operates four large passenger/vehicle ferries. In 2007–08, the Corporation’s operating expenses were about \$160 million, of which \$73 million was funded by revenue from customers and \$77 million was federal government funding. The Corporation has the equivalent of about 950 full-time equivalents but the actual number of employees increases to about 1,250 during the summer season.

We examined whether Marine Atlantic Inc.’s systems and practices provide the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. We focused on the areas of corporate governance, strategic and operational planning, safety and security, human resource management, operations, and capital asset management. Our examination covered the period from October 2008 to March 2009.

Why it’s important

Marine Atlantic is a vital transportation link to Newfoundland and Labrador. The only other practical option for passenger travel to the Island of Newfoundland is by air. The Corporation’s commercial customers transport about 50 percent of the goods entering Newfoundland and Labrador, including about 90 percent of the perishable goods. The Government of Canada is obligated to provide year-round ferry service between North Sydney and Port aux Basques under the Terms of Union governing Newfoundland’s confederation with Canada.

What we found

Our examination found two significant deficiencies in Marine Atlantic’s systems and practices: one relating to unresolved strategic challenges and the other relating to operational systems and practices in operational planning and capital asset management:

- **Strategic challenges.** Marine Atlantic is at risk of being unable to deliver the services it is responsible for providing, due to unresolved strategic challenges that will require support from the

government to overcome. These challenges are the aging of its ferries and shore-based assets, difficulties ensuring that capacity is sufficient to meet the traffic demand, failure to meet the cost recovery target set by the government, and the need to increase its management capacity. Marine Atlantic needs to agree with the government on a plan of action, including long-term funding, to overcome these challenges.

- **Operational planning and capital asset management.** Marine Atlantic does not have an operational planning framework and performance measures in place to ensure that strategic direction and corporate plans are implemented. The Corporation exceeded approved operating budgets in 2006 and fiscal years 2007–08 and 2008–09, and commitments in its corporate plans have not been met. In addition, many observations raised in our 2004 special examination have not been addressed. Marine Atlantic’s capital asset management practices do not ensure that its operations are reliable and that assets are managed at the lowest cost over their useful lives. As a result, ferries have suffered mechanical breakdowns that have affected the reliability of service, and the physical condition of shore-based assets is poor.

In our opinion, given the significance of these deficiencies, and based on the criteria established for the examination, Marine Atlantic does not have the reasonable assurance required by section 131 of the *Financial Administration Act* that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.

In other areas, we noted that while no significant deficiency existed, Marine Atlantic would benefit from improving its practices.

- **Corporate governance.** The Board of Directors has many strong governance practices including an appropriate committee structure, and is an active, independent Board with qualified members. However, the Board has recognized the need to improve its governance practices, including clarifying the roles of Board committees and ensuring that its members obtain the information they need. A review of Board governance was started in 2007 but was put on hold for most of 2008. We also noted that a review of Marine Atlantic’s internal audit function found that it did not meet relevant standards.
- **Safety, security, and environmental stewardship.** During the period of our examination, the Corporation’s ferries had up-to-date safety certifications. However, the Corporation is still

implementing measures to comply with relevant international and upcoming Canadian security requirements. In addition, the Corporation has not developed an environmental management system since we raised this issue in our 2004 special examination.

- **Human resource management.** Since our 2004 special examination, Marine Atlantic has made progress in developing a succession plan and providing leadership and management training. However, the Corporation has not yet developed an overall human resources plan.
- **Operations.** Marine Atlantic has improved its processes for setting its 2009 sailing schedule and forecasting traffic demands. However, the Corporation has found that the system for scheduling staff is inefficient, the Corporation has not acted upon identified opportunities to improve efficiency, and its internal committee to improve customer satisfaction stopped meeting. The Corporation has experienced poor on-time performance, particularly during the period of peak demand in July and August 2008.

The Corporation has responded. The Corporation agrees with our recommendations.

National Gallery of Canada—Main Points

[Issued to the Board of Trustees on 1 December 2009. The examination work covered the period from October 2008 to April 2009. For the full report, please go to www.gallery.ca or contact the Corporation.]

What we examined

The National Gallery of Canada (the Gallery) was founded in 1880, and became a federal Crown corporation in 1990, under the *Museums Act*. Its mandate is “to develop, maintain and make known, throughout Canada and internationally, a collection of works of art, both historic and contemporary, with special but not exclusive reference to Canada, and to further knowledge, understanding and enjoyment of art in general among all Canadians.”

The Gallery reports to Parliament through the Minister of Canadian Heritage and Official Languages. It is governed by a Board of Trustees and, at the time of our examination, employed about 275 people. In the 2008–09 fiscal year, it received \$53.3 million in appropriations from Parliament for capital and operating expenses as well as to purchase works for the collection. It also generated \$8.2 million in operating revenue and received \$1.7 million from the National Gallery of Canada Foundation, a registered not-for-profit charity.

We examined whether the National Gallery of Canada’s systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. Our examination work covered the systems and practices that were in place between October 2008 to April 2009.

Why it’s important

Museums such as the Gallery provide an opportunity to further knowledge of the visual arts. Through its collection, exhibitions, activities, public programs, and web sites, the Gallery makes its collection, its knowledge, and its scholarship available to audiences in Canada and abroad. It provides opportunities to expose audiences to well-known artists and those less established, to educate and inform, and to provide a venue to showcase Canadian achievements in visual arts.

What we found

We found no significant deficiencies in the systems and practices of the National Gallery of Canada. We found sound systems and practices in a number of areas, particularly in activities that are core to the Gallery’s business. Some examples include the following:

- The Gallery has put in place the systems and practices it needs to effectively develop, manage, conserve, and protect its collection. Its comprehensive Acquisitions Policy guides the acquisition and

disposition of works of art. Its electronic collections management system captures the required information on each work and tracks all their movements, both inside and outside the Gallery. It also has effective controls in place over the environmental conditions of its exhibition areas and storage facilities; various techniques are employed to reduce the risk of theft and vandalism of works of arts.

- The Gallery has systems and practices in place to effectively manage its outreach activities, including an Exhibition Policy that provides clear criteria to guide exhibition selection, the Director's Program Committee to select and approve exhibitions, and an exhibition schedule for temporary exhibitions.

We also noted that the Gallery needs to strengthen certain corporate management systems and practices that support its core business activities. The following areas deserve particular attention:

- The Gallery needs to put in place an accountability framework that will clearly define the responsibilities and authorities of its management and staff. It also needs to develop and implement a comprehensive succession plan for key positions.
- The long-term capital plan for the maintenance of the Gallery's facilities includes cost estimates dating back to 2004. Given cost overruns in projects completed to date, its funding strategy needs to be reassessed.
- The Gallery's information management system lacks rigour. A well-structured corporate approach to information management would foster efficiency and support the achievement of its strategic and operational objectives.
- The Gallery lacks a number of practices for managing risks to the security of information technology. Its security policy is outdated and controls to ensure business continuity need to be strengthened.

The Corporation has responded. The National Gallery of Canada agrees with the recommendations.

Standards Council of Canada—Main Points

[Issued to the Governing Council on 3 June 2009. The examination work covered the period from July 2008 to December 2008. For the full report, please go to www.scc.ca or contact the Corporation.]

What we examined

The Standards Council of Canada (SCC) is a Crown corporation with a mandate to promote efficient and effective voluntary standardization in order to, among other aims, advance Canada's economy, facilitate trade, assist and protect consumers, and benefit the health and safety of workers and the public. The Corporation reports to Parliament through the Minister of Industry.

Based on internationally recognized guides and standards, SCC accredits organizations that develop standards in Canada and also approves National Standards of Canada. It accredits bodies that assess whether a product, service or system conforms to a particular standard. In addition, it represents Canadian interests in regional and international standardization bodies. It also provides a range of information and research on standards and technical regulations.

The SCC has a staff of about 90, along with more than 4,000 volunteer members, and is governed by a Council of 15 members. Its operating budget for 2007–08 was about \$14.5 million, close to half of which is financed through its annual appropriation from Parliament.

We examined whether the Standards Council of Canada's key systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. The period under examination was July 2008 to December 2008.

Why it's important

Having standards in place helps to protect health, safety, and the environment; facilitates innovation; and supports efficiency and order in the marketplace. The use of common standards promotes the competitiveness of Canadian businesses at home and abroad by ensuring that Canada's products and services are internationally compatible. In addition, information on standards can help consumers and businesses to make informed choices.

What we found

We found no significant deficiencies in the systems and practices of the Standards Council of Canada during the period under examination. We noted some good systems and practices, as well as areas where the Corporation could improve.

- Overall, the Corporation has good governance practices. The governing Council has developed a profile of the skills needed on the Council, and members receive the information they need to carry out their role. However, the Council would benefit from more regular assessment of its own performance. In addition, the Chair has been acting as the Corporation's Executive Director, as this position has been vacant since April 2008. With the end of the Chair's term approaching later in 2009, the lack of a full-time Executive Director increases the risks not only to continuity of expertise and corporate memory but to clear accountability and leadership.
- The Corporation has improved its strategic planning since our 2004 special examination and has also integrated enterprise risk management into the strategic planning process.
- The process for accrediting standards development organizations has improved since our 2004 special examination. However, the Corporation needs to improve its process for accrediting conformity assessment organizations. While the results of assessments were generally satisfactory, the Corporation's accreditation program documents refer in some cases to international standards that have been withdrawn, and its agreements with partner organizations are outdated. In addition, the Corporation needs to improve the timeliness of the reassessments carried out by its partner organizations. It also needs to ensure that each accreditation program undergoes an internal audit, as required by international standards, and that timely action is taken to correct any problems found by internal audits.
- While its national and international activities are well-managed overall, the Corporation could do better at monitoring the performance of Canadian participants on international technical committees.
- The Corporation manages its human resources and information technology well overall, although it should complete and implement its succession plan.

The Corporation has responded. The Corporation agrees with all the recommendations.

About the Chapter

Objective

The objective of this chapter was to bring to the attention of Parliament results of the special examination reports that were transmitted to the boards of directors of Crown corporations between 1 January 2009 and 31 December 2009 and that have subsequently been made public by the Crown corporations.

Scope and approach

The chapter includes the main points of seven special examinations where the Auditor General was the examiner and four special examinations where the Auditor General was the joint examiner.

The approach to this chapter consisted of presenting information that was already public. The approach was to provide information about what a special examination is and to present the main points of the 11 special examinations.

Team

Assistant Auditor General: Clyde MacLellan

Principal: Marise Bédard

Director: Tom Pang

Project Leader: Omnia Nassef

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

Report of the Auditor General of Canada to the House of Commons—Spring 2010

Main Table of Contents

Message from the Auditor General of Canada Main Points—Chapters 1 to 5

Chapter 1	Aging Information Technology Systems
Chapter 2	Modernizing Human Resource Management
Chapter 3	Rehabilitating the Parliament Buildings
Chapter 4	Sustaining Development in the Northwest Territories
Chapter 5	Scientific Research—Agriculture and Agri-Food Canada
Chapter 6	Special Examinations of Crown Corporations—2009

