

Spring 2014



## Report of the Auditor General of Canada

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### CHAPTER 9

Special Examinations of Crown Corporations—2013



Office of the Auditor General of Canada

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## **CHAPTER 9**

### **Special Examinations of Crown Corporations—2013**



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## Special Examinations of Crown Corporations—2013

**9.1** This chapter presents the main points of special examination reports of Crown corporations that were issued to the corporations' boards of directors since our 2013 Spring Report and that have subsequently been made public. The Office of the Auditor General examined the corporations' systems and practices during differing time periods and transmitted the reports on different dates.

### Importance of Crown corporations

**9.2** A Crown corporation is a distinct legal entity having a name, mandate, powers, and objectives set out in the constituent legislation or in articles of incorporation under the *Canada Business Corporations Act*. There are two types of Crown corporation. A parent Crown corporation is wholly owned directly by the Government of Canada, while a subsidiary is generally wholly owned by one or more Crown corporations.

**9.3** Crown corporations have more autonomy than most other government entities, partly because they have commercial 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.

**9.4** As of 31 December 2013, there were 45 parent Crown corporations and one subsidiary that was directed to report as a parent Crown corporation. These entities employed over 86,000 people.

**9.5** Crown corporations manage more than \$400 billion in assets. That figure excludes total asset holdings of the Bank of Canada, the Canada Pension Plan Investment Board, and the Public Sector Pension Investment Board because of the unique nature of these entities' operations. Crown corporations fund their operations in a variety of ways. Some corporations receive no parliamentary **appropriations** because their enabling legislation requires them to be financially self-sustaining. Some are funded mainly through parliamentary appropriations. Others receive federal funding but also generate revenue. In the 2012–13 fiscal year, 25 corporations received just over \$6 billion in appropriations.

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

**Appropriation**—An authority provided by an Act of Parliament to pay money out of the Consolidated Revenue Fund, up to a maximum amount, for a specified activity during a fiscal year. Payment in excess of that amount will reduce the appropriation provided for the subsequent year.

## Role of the Office of the Auditor General

**9.7** Under Part X of the *Financial Administration Act*, the Auditor General is appointed to conduct annual audits of the financial statements of Crown corporations and to perform periodic special examinations of these corporations, either on his own or jointly with a private-sector audit firm, unless he waives the appointment.

**9.8** Under the *Financial Administration Act*, a Crown corporation must undergo a special examination at least once every 10 years. However, special examinations can be carried out more often if required by the Governor in Council, the appropriate minister, the board of directors of the corporation, or the Auditor General.

## Objective of a special examination

**9.9** A special examination is an important accountability mechanism for a Crown corporation. Its objective is to provide an independent opinion on whether there is reasonable assurance that the 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.

**9.10** 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 our reasonable assurance. We also establish criteria that we use to examine the corporation's systems and practices. These criteria are based on our experience with performance auditing and our knowledge of the subject matter. We select the criteria in consultation with the corporation. Any major weakness in the key corporate systems and practices that could prevent a corporation from achieving the objectives noted above is reported as a **significant deficiency**.

**9.11** The opinion we present in the special examination report conveys one of three messages:

- We may find that there is reasonable assurance that no significant deficiencies exist in the systems and practices the corporation maintains to achieve the objectives noted above.
- We may find one or more significant deficiencies.
- In rare situations, we may find that there is no reasonable assurance that the 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 economically and efficiently, or its operations were carried out effectively.



**9.12** As part of the accountability mechanism for a Crown corporation, the examiner reports on the special examination to the corporation's board of directors. Further, the examiner may bring information from the special examination to the attention of the appropriate minister after consulting with the board of directors. The examiner may also bring information to Parliament's attention, after consulting with the appropriate minister and the board of directors, by preparing a report for inclusion in the corporation's next annual report.

**9.13** The *Financial Administration Act* requires the corporation's board of directors to submit any special examination report to the appropriate minister and the president of the Treasury Board within 30 days of receiving it. The Act also requires the board of directors to make the report available to the public within 60 days of receiving it.

### Special examination results for 2013

**9.14** Since our 2013 Spring Report to Parliament, the Office of the Auditor General issued reports, which have been made public, on special examinations of the following Crown corporations:

- Canadian Museum of Civilization Corporation
- Laurentian Pilotage Authority

**9.15** We identified no significant deficiencies in these special examination reports.

**9.16** A special examination highlights systems and practices that contribute to success, and it provides information and recommendations to the corporation's board of directors about opportunities for improvement. For the two Crown corporations listed above, we provided recommendations on a range of issues, which included strategic planning, human resources, and management of operations.

**9.17** Since 2008, we have reported annually on the special examinations transmitted each year. Cumulatively, we have reported on 34 special examinations; of these, 8 identified significant deficiencies and 26 reported none. As noted earlier, we examined the corporations' systems and practices during differing time periods and transmitted the reports to the corporations' boards of directors on different dates. We have not performed follow-up audit work regarding any of the matters raised in these reports.

**9.18** The next section presents the Main Points from the two special examination reports.

## Main Points of Special Examinations—2013

### Canadian Museum of Civilization Corporation—Main Points

*[The examination work covered the period from September 2012 to April 2013. For the full report and our recommendations, please go to [www.civilization.ca](http://www.civilization.ca) or contact the Corporation.]*

#### What we examined

The Canadian Museum of Civilization, operating as the Canadian Museum of Civilization Corporation (the Corporation), is a Crown Corporation established in 1990 under the *Museums Act*. Its purpose, as stated by the Act, is

... to increase, throughout Canada and internationally, interest in, knowledge and critical understanding of, and appreciation and respect for human cultural achievements and human behaviour by establishing, maintaining, and developing for research and posterity a collection of objects of historical or cultural interest, with special but not exclusive reference to Canada, and by demonstrating those achievements and behaviour, the knowledge derived from them and the understanding they represent.

The Corporation comprises the Canadian Museum of Civilization in Gatineau, the Canadian War Museum in Ottawa, and the web-based Virtual Museum of New France. It manages a large collection and presents a variety of exhibitions each year. The Corporation's museums welcome over one million visitors every year. At the time of our examination, it employed the equivalent of 442 staff, including 97 part-time employees.

The Corporation is governed by a Board of Trustees and reports to Parliament through the Minister of Canadian Heritage and Official Languages. Over 80 percent of its funding comes from an annual appropriation from the Government of Canada, and the remainder from admissions, rentals, food services, boutique sales, parking, IMAX, and other revenues.

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. We focused on the areas of corporate governance, strategic planning and risk management, human resources management, programming management, collections and research management, property management, and environmental

management. Our examination work covered the systems and practices that were in place between September 2012 and April 2013.

### Why it's important

National museums such as the Canadian Museum of Civilization and the Canadian War Museum bring to life Canada's heritage and history and provide visitors with a strong sense of Canadian identity.

The Corporation is facing significant changes. It is planning a new permanent exhibition on Canadian history, along with a fundraising initiative to complement the announced funding of \$25 million from the Government of Canada. The Corporation may also face a change of name and mandate should the Government of Canada reintroduce legislation to establish the Canadian Museum of History. This would provide the Corporation with an opportunity to review the content of its collection and programming.

### What we found

We found no significant deficiencies in the Canadian Museum of Civilization Corporation's systems and practices. A significant deficiency is reported when there is a major weakness in the Corporation's key systems and practices that could prevent it from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed efficiently and economically, and its operations are carried out effectively.

We noted good practices in a number of areas. We also noted some areas where the Corporation would benefit from improving its practices.

- The Corporation has put in place a corporate governance framework that meets the expectations of best practices. However, the effectiveness of the corporate governance framework is limited by the Board not fulfilling some of its roles and responsibilities and by weaknesses relating to the Board's continuity; the orientation and training offered to trustees; values, ethics, and conflict-of-interest practices for Board members; and information the Board receives. These weaknesses lessen the Board's ability to exercise its oversight roles and responsibilities and to provide strategic directions to the Corporation.
- The Corporation has clearly defined strategic directions, goals and objectives, and it has considered government priorities and the need to control and protect assets and manage resources economically and efficiently. However, given the significant changes it faces, the Corporation would benefit from strengthening some aspects of its strategic planning. Such improvements include developing a comprehensive plan to fully reflect the changes and impacts, using risk assessment results to identify priorities and

allocate resources, and integrating human resource planning within overall strategic planning to ensure the Corporation continues to have in place the people it needs to achieve its goals and objectives.

- The Corporation has systems and practices in place to establish, develop, preserve, and protect its collection effectively. The Corporation's museums generally follow the processes in place for the acquisition and deaccession of collection objects. Practices to manage collection storage and security include threat and risk assessments when artefacts are used in exhibitions or loaned to other institutions. However, the Corporation needs to update its collection development plans and improve the management and use of its collection information system.
- The Corporation has systems and practices in place to effectively manage its programs, but there is no corporate policy in place to govern programming activities. Rather, each museum has its own guidance material to plan, develop, manage and evaluate exhibitions, education, and public programs. Similarly, the Corporation has developed an outreach strategy, but it has yet to develop a corporate outreach policy. Such a policy would assist in developing and managing outreach activities, as well as establish roles and responsibilities.
- The Corporation has systems and practices in place to manage its properties. Its capital and maintenance plans are based on risks and priorities. The Corporation measures and reports to the Board on the number of capital projects that are progressing as planned, but this measure does not provide information on the condition of the buildings. Since capital infrastructure has been identified as the most significant risk for the Corporation, we encourage the Corporation to improve its reporting to the Board on the condition of the buildings.
- The Corporation has not systematically identified and assessed its environmental risks. Though it has developed an environmental policy in which it states its commitment to be an environmental leader and describes how it will do so, it has yet to put in place an environmental management framework. Without doing so, environmental matters that should be managed may not be addressed.

**The Corporation and the Board of Trustees have responded.** The Corporation and the Board of Trustees agree with our recommendations.

## Laurentian Pilotage Authority—Main Points

*[The examination work covered the period from October 2012 to March 2013. For the full report and our recommendations, please go to [www.pilotagestlaurent.gc.ca](http://www.pilotagestlaurent.gc.ca) or contact the Corporation.]*

### What we examined

The Laurentian Pilotage Authority (the Authority) was incorporated on 1 February 1972 under the *Pilotage Act*. The Act provides the basis for the Authority's mission, which is to establish, operate, maintain, and administer in the interests of navigation safety an efficient marine pilotage service in the area between Les Escoumins and Montréal, including the Saguenay River.

The *Pilotage Act* empowers the Authority to make or amend general regulations, which then require the approval of the Governor in Council. Regulations may establish compulsory pilotage areas; prescribe ships or classes of ships subject to compulsory pilotage; prescribe the classes of licences and pilotage certificates that may be issued; and prescribe the tariffs of pilotage charges that are fair and reasonable and permit the Authority to fund its operations. Only the Authority is empowered to provide services in the designated compulsory pilotage areas. The compulsory pilotage requirements in the three designated areas are in effect 24 hours a day, seven days a week. Pilotage services are provided by contract pilots, who are members of the two pilot corporations with which the Authority negotiates exclusive service contracts.

We examined whether the Laurentian Pilotage Authority'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. Among other things, we focused on the areas of governance, strategic planning, risk management, and operations. Our examination work was completed on 29 March 2013.

### Why it's important

While compulsory pilotage is a service provided to the marine transportation industry, it also helps to enhance public safety and reduce the risk of accidents and damage to the environment by ensuring that ships travelling in designated areas are under the conduct of a licensed pilot or a ship's master or officer who holds a pilotage certificate. The Authority issues licences and pilotage certificates and ensures that the conditions governing them are met.

## What we found

We found no significant deficiencies in the Authority's systems and practices. A significant deficiency is reported when there is a major weakness in a Crown corporation's systems and practices that could prevent it from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed efficiently and economically, and its operations are carried out effectively. We noted good practices in a number of areas. However, we noted some areas where the Authority would benefit from improving its practices.

- The Authority has sound governance practices. It has operating policies, procedures, and regulations in place to ensure that members of the Board of Directors collectively have the independence, abilities, and skills required to fulfill their responsibilities. Through the strategic planning process it has selected, the Authority is able to establish its strategic directions and tie them to its operations.
- The Authority's management is aware of the key risks to which the organization is exposed. The key components of a risk management framework are in place. There is, however, room for improvement in the follow-up to the steps taken to manage the risks.
- Through its regulations, the Authority is responsible for setting conditions that ensure safe pilotage in areas under its responsibility. With the systems and practices in place, about 22,000 assignments are made annually, and efficient and safe pilot boarding services are provided.
- The Authority ensures that the regulatory requirements relating to the issuing and maintenance of licences for all the pilots from both corporations are monitored. However, apprentice pilot training programs must be formally approved by the Authority, as specified in the contracts signed with the pilot corporations.
- Finally, the Authority attaches great importance to providing high-quality services. It has implemented practices that enable it to provide high-quality pilotage services and to follow up on complaints received. It consults and communicates with marine community stakeholders on an ongoing basis to properly identify their needs. The Authority succeeded in keeping pilotage-related delays below two percent in 2012.

**The Laurentian Pilotage Authority has responded. The Authority agrees with our recommendations.**

## About the Chapter

### Objective

The objective of this chapter was to bring to the attention of Parliament the results of the Office of the Auditor General's special examination reports transmitted to the boards of directors of Crown corporations since our 2013 Spring Report. The Crown corporations have made these reports public.

### Scope and approach

The chapter includes the main points of two special examinations for which the Auditor General was the examiner.

The chapter also presents background information on Crown corporations, provides general information about special examinations, and gives an overview of the results of special examinations conducted by the Office of the Auditor General.

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