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Reports of the Auditor General of Canada

REPORT 8

Special Examinations of Crown Corporations—2014



Office of the Auditor General of Canada

OAG

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Table of Contents

Introduction	1
Special Examination Results for 2014	3
Canada Lands Company Limited—Special Examination Opinion and Overview	4
Special Examination Opinion	4
Overview of Canada Lands Company Limited	5
Royal Canadian Mint—Special Examination Opinion and Overview	7
Special Examination Opinion	7
Overview of the Royal Canadian Mint	9
About the Report	11

Introduction

Importance of Crown corporations

8.1 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 corporations. 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.

8.2 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.

8.3 As of 31 December 2014, there were 44 parent Crown corporations and one subsidiary that was directed to report as a parent Crown corporation. These entities employed over 84,000 people.

8.4 Crown corporations manage more than \$370 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 2013–14 fiscal year, 27 corporations received over \$6 billion in appropriations.

8.5 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.

Role of the Office of the Auditor General

8.6 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.

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 fiscal year.

Objective of a special examination

8.7 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.

8.8 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 there are no significant deficiencies in the systems and practices that we selected for examination, which are maintained by the corporation to ensure that

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

8.9 When planning a special examination, we conduct a risk analysis to identify the systems and practices that we consider essential in order for the corporation to meet the above-noted objectives. 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**.

8.10 The opinion we present in the special examination reports conveys one of three messages:

- We may find that there is reasonable assurance that no significant deficiencies exist in the systems and practices that we selected for examination and that 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.

8.11 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

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.

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.

8.12 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 2014

What this report presents

8.13 This report presents the opinions in the 2014 special examination reports of Crown corporations that were issued to the corporations' boards of directors in 2014 and that have subsequently been made public. The Office of the Auditor General examined the corporations' systems and practices during different time periods and transmitted the reports on different dates.

8.14 The Office of the Auditor General issued reports on special examinations of the following Crown corporations:

- Canada Lands Company Limited
- Royal Canadian Mint

8.15 More details about the objective, scope, and approach are in **About the Report** at the end of this report (see page 11).

Overall finding

8.16 We identified no significant deficiencies in the two special examination reports.

8.17 For the two Crown corporations listed above, we provided recommendations on a range of issues, which included travel and hospitality, procurement and contracting, costing methodologies, risk management, and human resource management. The Crown corporations agreed with our recommendations.

8.18 Since 2008, we have reported annually on the special examinations transmitted each year. Cumulatively, we have reported on 36 special examinations; of these, 8 had significant deficiencies and 28 had none. As noted earlier, we examined the corporations' systems and practices during different time periods and transmitted the reports to the corporations' boards of directors on different dates. We have not performed follow-up audit work for any of the matters raised in these summary reports.

Canada Lands Company Limited—Special Examination Opinion and Overview

For the full report and our recommendations, please go to www.clcl.ca or contact the Corporation. The report was dated 18 June 2014.

Special Examination Opinion

To the Board of Directors of Canada Lands Company Limited

Our opinion

1. In our opinion, based on the criteria established, there is reasonable assurance that during the period covered by the examination there were no significant deficiencies in the systems and practices that we selected for examination of Canada Lands Company Limited and its subsidiaries (the Corporation). The Corporation has maintained these systems and practices in a manner that provides 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.

Findings that support our opinion

2. **Corporate governance.** We found that the Corporation had in place the key elements of a governance framework that meets the expectations of sound practices in board stewardship, shareholder relations, and communications with the public. However, we noted that the Corporation's reports to the Board of Directors were limited in a few key areas.

3. **Strategic planning, risk management, and performance measurement and reporting.** We found that because of the changes related to the upcoming amalgamation and the turnover in senior management and on the Board of Directors, the Corporation did not yet have its new strategic direction in place. It also did not have new measurable goals and objectives to achieve its mandate and its statutory control objectives. Furthermore, the Corporation did not yet have corporate risk management processes fully in place for managing the achievement of its objectives for all subsidiaries.

4. **Property development and management.** We found that the Corporation had the systems and practices required to ensure good management and monitoring of its operations. It has maintained these systems and practices in a manner that safeguards and controls its assets and helps it achieve its mandate. We also found that the Corporation was managing environmental and sustainable development risks. However, there were some gaps in contracting systems and practices.

5. **Human resource management.** We found that the Corporation had systems and practices for managing human resources in a manner that provides it with the human resource capacity and the work environment

needed to achieve its goals and objectives. However, we noted areas for improvement, specifically in long-term human resource planning, including succession planning and the assessment of corporate training needs.

**Findings,
recommendations,
and responses**

6. The rest of this report provides an overview of the Corporation and more detailed information on our examination findings and recommendations. The Corporation agrees with all of the recommendations. Its detailed responses follow the recommendations throughout the report.

**What the Corporation
is required to do**

7. Under section 131 of the *Financial Administration Act* (FAA), the Corporation is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.

8. Section 138 of the FAA requires the Corporation to have a special examination of these systems and practices carried out at least once every 10 years.

**What the Office of
the Auditor General
is responsible for**

9. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination—from June 2013 to April 2014—there were no significant deficiencies in the Corporation's systems and practices that we selected for examination.

Overview of Canada Lands Company Limited

Role and mandate

10. Canada Lands Company Limited is a parent Crown corporation that reports to the Parliament of Canada through the Minister of Public Works and Government Services. It is a *Canada Business Corporation Act* corporation listed in Schedule III, Part I, of the *Financial Administration Act* and is an agent of Her Majesty. Canada Lands Company Limited is a holding corporation with its mandate carried out by its three wholly owned subsidiaries:

- Canada Lands Company CLC Limited (CLC),
- Old Port of Montréal Corporation Inc., and
- Parc Downsview Park Inc.

In this report, we use “the Corporation” to refer to Canada Lands Company Limited and its subsidiaries as a whole. We use “the Board” to refer to the Board of Directors of the parent Crown corporation and the boards of its subsidiaries, which are composed of the same members.

11. The Corporation's mandate focuses on obtaining the best financial value from the sale of federal government surplus properties that possess significant development potential. In addition to these financial considerations, the mandate also requires that strategic non-financial considerations be taken into account, including the views of affected communities, as well as heritage and environmental issues. The Corporation also carries out its mandate by managing properties such as the CN Tower, the Montréal Science Centre, and Downsview Park.

**Nature of business and
operating environment**

12. On 29 November 2012, the Government of Canada authorized the amalgamation of the Old Port of Montréal Corporation Inc. and Parc Downsview Park Inc. with CLC. Although the full legal amalgamation has not yet occurred, Canada Lands Company Limited is currently managing all of the subsidiaries. The subsidiaries' current operations include real estate, tourism, and education businesses.

13. In the 2012–13 fiscal year, the Corporation spent \$176 million and brought in \$224 million in revenue, including \$8 million in government funding. It earned a total of \$48 million in net income. From that amount, the Corporation paid the government a dividend of \$20 million.

14. As of December 2013, the Corporation had approximately 687 full-time equivalent positions. CLC had 426 of these positions, 364 of which were at the CN Tower; the Old Port of Montréal Corporation Inc. had 215; Parc Downsview Park Inc. had 45; and the holding corporation itself had 1.

Royal Canadian Mint—Special Examination Opinion and Overview

For the full report and our recommendations, please go to www.mint.ca or contact the Corporation. The report was dated 16 May 2014.

Special Examination Opinion

To the Board of Directors of the Royal Canadian Mint

Our opinion

1. In our opinion, based on the criteria established, there is reasonable assurance that, during the period covered by the examination, there were no significant deficiencies in the Royal Canadian Mint's systems and practices that we selected for examination. The Royal Canadian Mint (the Corporation) has maintained these systems and practices in a manner that provides 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.

Findings that support our opinion

2. **Corporate governance.** We found that the Corporation has many elements of a good governance framework that meets the expectations of best practices in board stewardship, shareholder relations, and communications with the public.
3. **Strategic direction.** We found that the Corporation specifies strategic direction and, overall, has specific and measurable goals and objectives to achieve its mandate. The Corporation has a sound enterprise risk management policy, but it cannot demonstrate that the policy has been implemented systematically, especially at its business line and divisional levels. At the corporate level, the Corporation monitors, measures, and reports on the achievement of its goals, objectives, and mandate. We noted that the development of a corporate social responsibility framework has been slow and that, consequently, specific corporate targets and performance measures have not yet been established.
4. **Human resource management.** Generally, we found that the Corporation has systems and practices in place to manage human resources in a manner that provides it with the human resource capacity and the work environment needed to achieve its goals and objectives. However, we noted that certain systems and practices need further development and that the Corporation should improve its workforce planning.
5. **Manufacturing operations and supporting practices.** We found that the Corporation has manufacturing systems and practices that are designed, implemented, and monitored in a manner that safeguards and controls assets, enables economical and efficient use of resources, and results in effective operations and the achievement of its mandate.

However, we also found a number of supporting practices that should be improved:

- We noted that certain corporate cost-allocation practices do not accurately reflect the costs of some activities for business lines and could, therefore, adversely affect pricing and decision making.
- In the management of the Foreign Coinage business line, we found that systems and practices related to business development should be strengthened. These include articulating the sales strategy, improving the costing system for bid quotations, and capturing and incorporating intelligence gained during sales trips. The Corporation should also improve its systems and practices related to the analysis of lessons learned on selected projects.

We also noted the following areas of particular concern:

- We found that some procurement and contracting activities for goods and services not related to metals lack sufficient guidance, and that weaknesses in existing controls expose the Corporation to various risks.
- We found that documentation related to travel and hospitality activities did not provide sufficient information to assess whether related expenses were reasonable. We also found that key controls for managing these activities were not operating effectively.

6. Research and development. We found that the Corporation identifies and selects research and development activities to support achieving its objectives within the scope of its mandate. Nevertheless, we noted that project selection and management of the Research and Development Division require more formalization, including establishing an operational plan to set measurable goals and objectives for Division-specific activities. We also noted that existing processes focus on the technical delivery of products and technologies and do not place significant emphasis on financial modelling, which would help optimize the use of corporate resources.

7. Health, safety, and the environment. Overall, we found that the Corporation is focusing on addressing environmental compliance requirements. The Corporation has recently identified and assessed its environmental risks as part of its effort to develop an environmental management system (EMS). As the EMS is still in development, the Corporation needs to evaluate comprehensively whether existing programs and operational controls appropriately mitigate all those risks. We found that systems and practices to mitigate occupational health and safety risks pertaining to the handling of hazardous substances and certain specialized equipment are in various stages of development and implementation. We found that the Corporation's practices related to hazardous chemicals are generally sound. However, those that apply to radiation safety are less advanced, as radiation safety guidance and

training have yet to be provided and administrative requirements are yet to be completed. We also found that the Corporation has identified and is now addressing several key gaps related to compliance with applicable health and safety laws and regulations. We note that the Corporation needs to ensure that its health, safety, and emergency response systems and practices identify and address all remaining risks, and that it needs to establish a systematic monitoring regime.

**Findings,
recommendations,
and responses**

8. The rest of this report provides an overview of the Corporation and more detailed information on our examination findings and recommendations. The Corporation agrees with all of the recommendations. Its detailed responses follow the recommendations throughout the report.

**What the Corporation
is required to do**

9. Under section 131 of the *Financial Administration Act* (FAA), the Royal Canadian Mint is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.

10. Section 138 of the FAA requires the Corporation to have a special examination of these systems and practices carried out at least once every 10 years.

**What the Office of
the Auditor General
is responsible for**

11. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination—from January 2013 to December 2013—there were no significant deficiencies in the Corporation's systems and practices that we selected for examination.

Overview of the Royal Canadian Mint

12. The Royal Canadian Mint (the Corporation, or the Mint) is a Crown corporation owned solely by the Government of Canada. It formally reports to Parliament through the Minister of Finance by submitting annual reports on its operations. The *Royal Canadian Mint Act* requires the Corporation to mint coins in anticipation of profit and carry out other related activities.

13. As part of its mandate, the Mint produces and distributes coins for circulation and for use in trade and commerce, ensures an adequate supply of coins in the correct denominations throughout Canada, and provides advice to the Government of Canada on all matters related to coinage. These functions are served by its Canadian Circulation business line.

14. The Mint's other business lines carry out a variety of activities:
 - Numismatics and Collectibles—produces and sells innovative, high-quality, limited-mintage collectable coins and medals to customers in Canada and around the world.
 - Foreign Coinage—produces circulation coins, blanks, medals, medallions, and tokens for customers around the world. Other services to the global minting community include licensing of a number of Mint technologies and technical services based on products and processes developed by the Mint.
 - Bullion, Refinery, and Exchange Traded Receipts (ETRs)—refines and produces investment-type precious-metal products, such as the Maple Leaf gold and silver bullion coins, gold kilo bars, trade bars, and gold wafers. This business line also manages the ETRs that allow investors to buy and sell gold and silver on the Toronto Stock Exchange. Other services in this business line include gold and silver refining, assaying (that is, investigating the content of materials), and providing secure storage.
15. The Royal Canadian Mint primarily operates out of facilities in Ottawa and Winnipeg.

About the Report

All of the audit work in this report was conducted in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Canada Handbook—Assurance. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

As part of our regular audit process, we obtained management's confirmation that the findings for the Canada Lands Company Limited and the Royal Canadian Mint reported in this report are factually based.

Objective

The objective of this report 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 in 2014. The Crown corporations have made these reports public.

Scope and approach

The report includes the overviews and the Special Examination Opinions of two special examinations for which the Auditor General was the examiner.

The report 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.

Audit team

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