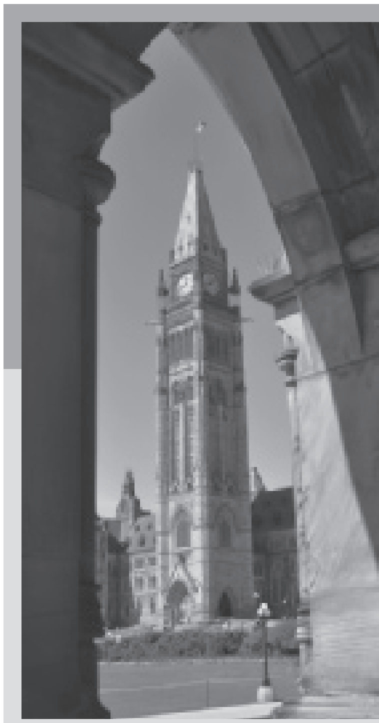

# Report of the Auditor General of Canada to the Board of Directors of the Freshwater Fish Marketing Corporation

## Independent Audit Report

## Special Examination—2017

This report reproduces the special examination report that the Office of the Auditor General of Canada issued to the Freshwater Fish Marketing Corporation on 15 March 2017. The Office has not performed follow-up audit work on the matters raised in this reproduced report.

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

**Special examination reports**

Special examinations are a form of performance audit that is conducted within Crown corporations. The Office of the Auditor General of Canada audits most, but not all, Crown corporations.

The scope of special examinations is set out in the *Financial Administration Act*. A special examination considers whether a Crown corporation's systems and practices provide reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

More details about the audit objective, scope, approach, and audit criteria and sources are in About the Audit in this report.

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

*Ce document est également publié en français.*



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Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

15 March 2017

To the Board of Directors of the Freshwater Fish Marketing Corporation:

We have completed the special examination of the Freshwater Fish Marketing Corporation in accordance with the plan presented to the Audit and Risk Committee of the Board of Directors on 24 February 2016. As required by section 139 of the *Financial Administration Act* (FAA), we are pleased to provide the attached final special examination report to the Board of Directors.

Pursuant to section 140 of the FAA, it is the Auditor General's view that this report contains information that should be brought to the attention of the Minister of Fisheries, Oceans and the Canadian Coast Guard. Accordingly, following consultation with the Board, we will be forwarding a copy of the report to the Minister. We will also present this report for tabling in Parliament shortly after it has been made public by the Freshwater Fish Marketing Corporation.

I would like to take this opportunity to express my appreciation to the Board members, management, and the Corporation's staff for the excellent cooperation and assistance offered to us during the examination.

Yours sincerely,

H McManaman

Heather McManaman, CPA, CA
Principal

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# Introduction

## Background

**Role and mandate**

1. The Freshwater Fish Marketing Corporation is a federal Crown corporation established in 1969 under the *Freshwater Fish Marketing Act*, for the purpose of marketing and trading in fish, fish products, and fish by-products in and outside Canada.

2. The Corporation's vision statement is to "maximize returns to the fishers of western Canada through effective marketing, efficient supply chain management, and the value-added processing of quality freshwater fish products." The maximization of returns takes into consideration the need to remain financially sustainable while reinvesting in capital assets and investing in initiatives to find new markets.

3. The Corporation is required to carry out its operations on a financially self-sustaining basis, without parliamentary **appropriations**. The Act sets the borrowing limit of the Corporation at $50 million. As of 1 May 2016, the Minister of Finance authorized a borrowing authority to the Corporation not to exceed $39.5 million. The Minister of Finance also asked the Corporation to limit its **capital expenditures**.

4. The Corporation is required to purchase fish legally caught and offered for sale in its mandate regions, which encompass Manitoba, Alberta, and the Northwest Territories. The two provinces and the territory participate under agreements with the Government of Canada. The Corporation also purchases fish from outside its mandate regions, under contracts with individual fishers or fisher cooperatives—specifically, from Saskatchewan, which was a signatory to an agreement with the Government of Canada until the province withdrew on 1 April 2012.

5. The Corporation has the exclusive right to the interprovincial and export trade of fish within its mandate regions, meaning that fishers and fisher cooperatives must sell to the Corporation, which must buy the product, unless the sales are local. In these regions, the Corporation also has the objectives of

- marketing fish in an orderly manner;
- promoting international markets for fish, and increasing interprovincial and export trade in fish; and
- increasing returns to commercial fishers.

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**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.

**Capital expenditure**—Money spent on equipment, buildings, or other such long-term assets.

6. The Corporation is governed by a Board of Directors composed of a Chairperson, a President, one director for each participating province or territory, and four other directors. The Chairperson and the President are appointed by the **Governor in Council**. The other directors are appointed, with the approval of the Governor in Council, by the Minister of Fisheries, Oceans, and the Canadian Coast Guard (referred to in this report by the former title, the Minister of Fisheries and Oceans). A director for a participating province or territory is appointed on the recommendation of the lieutenant governor in council of the participating province or territory. During the period of our audit, the Corporation's President agreed to go on administrative leave, and an interim President was appointed. In this report, "the President" refers to the first of these two individuals.

**Nature of business and operating environment**

7. The Corporation employs approximately 45 full-time administrative staff to deliver corporate functions, such as marketing, plant management, finance, and human resources. The Corporation's employees also fill more than 175 full-time equivalent production positions. The number of production employees varies with the seasonal fish supply. The Corporation has two collective agreements: one with its plant engineers and the other with its plant workers.

8. The Corporation purchases approximately 15 million kilograms of fish annually from approximately 1,600 fishers. Contracted **agents** and corporate agencies act on behalf of the Corporation, at more than 48 delivery points, where they purchase and grade the fish. The Corporation then transports the fish for processing into saleable products at its processing plant in Winnipeg, Manitoba. The plant is federally registered, and its operations must comply with Canadian Food Inspection Agency regulations.

9. The Corporation had no product recalls or plant shutdowns during the 2014–15 and 2015–16 fiscal years as a result of concerns over food safety.

10. The Corporation sells the fish fresh or frozen, and whole or processed, in the form of fillets, minced fish, or caviar. Frozen fish products are stored at the Corporation's plant or at third-party cold storage locations. The Corporation markets the fish through its own sales force and through brokers.

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

**Agents**—Employees or contractors responsible for receiving the fish from fishers and for grading and packing the fish before transporting it to the processing plant in Winnipeg.

11. The Corporation uses a two-stage structure for payments to fishers. Initial prices are based on operational forecasts prepared by management. Then, final payments are determined in accordance with the Corporation's Retained Earnings Policy, which is based on the Corporation's calculated **free cash flow** at the end of the fiscal year. The final payments are determined by allocating profitability by species of fish. The Board approves both the initial prices and final payments.

12. For the year that ended on 30 April 2016, the Corporation had sales revenue of $73.2 million and a net income of $1.5 million after the final payment to fishers; in 2015, the sales revenue was $71 million and net income was $2.2 million. Exports accounted for over 80 percent of sales revenue. The Corporation transacted these sales primarily in US dollars, with most purchasers in the United States, Finland, France, Germany, Eastern Europe, and Israel. Financial figures in this report are expressed in Canadian dollars.

13. The Corporation's 45-year-old processing plant represents a significant investment. The **net book value** of the plant, as of 30 April 2016, was $17.7 million. Over the previous five fiscal years, the Corporation invested nearly $13 million in its plant and equipment, as part of a long-term renovation initiative.

### Previous audits

14. We conducted audits of the Corporation in 2005 and 2010.

15. Although no significant deficiencies were reported in our 2005 audit, we made recommendations related to corporate governance and the need to improve yield monitoring, production planning, shop-floor tracking, and maintenance systems, to achieve cost savings.

16. Our 2010 audit found significant deficiencies in the Corporation's systems and practices related to governance and to strategic planning and risk management. We also found significant deficiencies in operational areas, including processes to establish prices paid to fishers, capital asset management and procurement, production efficiency, and human resources.

## Focus of the audit

17. Our objective for this audit was to determine whether the systems and practices we selected for examination at the Freshwater Fish Marketing Corporation were providing it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively, as required by section 138 of the *Financial Administration Act*.

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**Free cash flow**—Profit plus depreciation and amortization expenses, minus the average capital expenditure over the current and previous two reporting periods.

**Net book value**—The cost of assets minus accumulated depreciation expenses.

18. On the basis of our assessment of risks, we selected systems and practices in the following areas:

- corporate management practices, and
- management of operations.

19. Our principal findings are discussed in the **Areas of Concern** section of this report, while a broader selection of systems and practices, and the criteria used to assess them, are listed in the Appendix.

20. More details about the audit objective, scope, approach, and audit criteria and sources are in **About the Audit** (see pages 14–19).

# Areas of Concern

**Overall message** ➔

21. Overall, we found many weaknesses and significant deficiencies in the oversight and management of the Corporation, and in the way its operations were carried out. In several ways, the Board and management failed to meet their responsibilities for oversight and management of the Corporation, leaving it exposed to considerable risks in a complex and changing business environment.

22. The Board experienced high turnover and multiple vacant positions, both of which complicated oversight activities and decision making. The Board had not taken steps to ensure that the Corporation's strategic plan was updated and to provide clearly defined strategic direction to management. Also, the Corporation had not updated its risks and risk-mitigation measures since 2014. Consequently, management did not have strategies in place to mitigate significant events affecting the Corporation.

23. On the management side, we found that management disregarded key controls. For example, the President created positions without job descriptions and filled positions without conducting competitive or merit-based processes—ignoring the Corporation's recruitment and staffing practices that allow for equal employment opportunities.

24. The President also disregarded the Corporation's Procurement and Purchasing Policy when the Corporation purchased $794,000 of equipment without carrying out proper business case analyses. Some of this equipment was not used in the plant because it did not meet the Corporation's needs.

25. We also found that some plant workers had not taken compulsory health and safety training and that a hazard prevention program was not yet finalized. If these health and safety issues are not addressed, they could lead to more employee safety incidents and expose the Corporation to significant losses. Furthermore, we found that, despite the recommendations from

our 2005 and 2010 audits, the Corporation's targets and standards for **yield**, capacity, and labour efficiency had not been reviewed for years. Yield is a key measurement of efficiency and production performance.

26. The Corporation faced many external challenges in recent years. These challenges left it exposed to considerable risks, such as an unpredictable fish supply and the province of Manitoba's notice of withdrawal from its agreement to participate in the *Freshwater Fish Marketing Act*. These challenges were compounded by the fact that the Corporation had no long-term strategic direction, which placed it in a reactive management mode. This greatly limited its ability to meet objectives, make long-term commitments, and make timely decisions about its future.

27. Our principal findings have been organized under the following two areas of concern:

- The Board's oversight of the Corporation was inadequate.
- Important business practices and controls were lacking, or were disregarded by management.

**Recommendations**

28. Our recommendations related to these areas of concern appear at paragraphs 55, 56, 57, and 58.

## The Board's oversight of the Corporation was inadequate

29. We found that the Board's efforts to meet some of its key responsibilities for oversight of the Corporation were inadequate. We found significant deficiencies in key aspects of the governance of the Corporation in the areas of

- strategic direction,
- risk management,
- accountability of the President,
- Board turnover,
- conflict of interest, and
- information for decision making.

30. Furthermore, we found that the Board's oversight of the Corporation had deteriorated in several ways. In our 2005 and 2010 audits, we found that the Corporation did not have good practices related to its governance framework. In 2016, the Corporation continued to have shortcomings in its governance practices and in its strategic planning and risk management.

**Yield**—A measurement of the ratio of initial raw fish weight and final processed weight.

31. These deficiencies matter because strong Board oversight is important to the Corporation's responsiveness in the face of a changing external environment, including risks, and to avoiding ad hoc decisions that could compromise the achievement of its long-term objectives. Furthermore, the absence of long-term strategic direction placed the Corporation in a reactive management mode. This greatly limited the Corporation's ability to meet its objectives, make long-term commitments, and make timely decisions about its future.

32. **Strategic direction.** The Board had not taken steps to ensure that the Corporation's 10-year strategic plan was updated. The strategic plan was last updated in 2011, and the strategic direction was not clearly defined. Moreover, the Corporation had been unable to obtain timely Governor in Council approval of its corporate plans since 2009. When approval was provided, it covered only a portion of the 5-year planning period and was granted at or near the end of the first year of the plan. We found that the Board did not receive communication from the Minister as to why its plans were not being fully and promptly approved.

33. **Risk management.** We found that the Corporation lacked several elements of effective risk management. The Audit and Risk Committee did not adhere to the Board's Integrated Risk Management Policy, which stipulated the inclusion of the Corporation's risk register as a standing item on its quarterly agenda. Furthermore, identified risks and risk-mitigation measures had not been updated since 2014. Consequently, management did not have strategies in place to mitigate significant events affecting the Corporation.

34. For example, on 18 August 2016, Manitoba gave notice to the Government of Canada of its intent to withdraw from its agreement to participate in the *Freshwater Fish Marketing Act*. Given that Manitoba fishers supply about 80 percent of the Corporation's raw materials, the province's withdrawal presented a considerable risk to the Corporation. This risk was apparent in advance, especially as it had been discussed publicly during the Manitoba election earlier that year. We found that the Corporation had nevertheless not identified the possibility of Manitoba's withdrawal as a significant risk, or developed a mitigation strategy in advance of Manitoba's announcement of its intent to withdraw from the agreement.

35. Another risk related to human resources. During the period under audit, the Corporation had vacancies in key management positions, including those of the Vice President of Operations, Comptroller, Plant Manager, and Maintenance Planner; the Vice President of Sales and Marketing position had been vacant since May 2015. We also found that the President failed to follow direction from the Board to fill the Vice President of Sales and Marketing position. These vacancies limited the Corporation's ability to focus on operations strategically. After the period of our audit, the now-former President told us that he had informed

the Board that he planned to fill the Vice President of Sales and Marketing position in 2016.

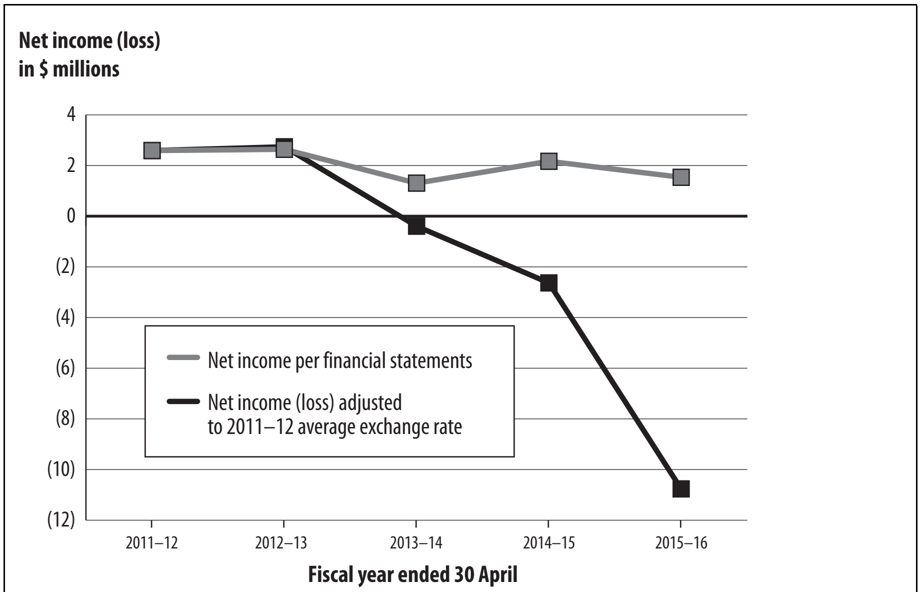
36. Market dynamics presented another risk. By 2015, the markets for whitefish had been affected by Canadian economic sanctions related to Russia and an increase in whitefish catches within the Corporation's mandate regions. As a result, inventory levels for whitefish peaked at about 2.3 million kilograms in March 2016. Management did not react quickly enough to address the situation, either by reducing prices paid to fishers or selling prices to customers, or by developing new markets. Such measures could have reduced supply or increased demand. In turn, this could have allowed the Corporation to avoid the additional costs of storing its inventory of whitefish, and to sell it earlier, when a higher-quality product commands a higher price. Ultimately, the Corporation had to sell the inventory at a markedly lower price—and, for the year that ended on 30 April 2016, it recorded a loss of $2.4 million related to a decline in the value of the whitefish inventory. This significantly affected the Corporation's financial results for that year.

37. Broader economic factors masked some of the risks facing the Corporation. Because the Corporation transacts about two thirds of its sales in US dollars, it was vulnerable to the fluctuation of exchange rates, particularly between US and Canadian currencies. The Corporation was profitable over the past few years, but we found that this was largely attributable to the decrease in value of the Canadian dollar relative to the US dollar. Total returns to fishers, profitability, and retained earnings could have been higher in the 2014–15 and 2015–16 fiscal years, had cost components such as cost of sales (plant salaries, wages, and benefits, as well as agency operating costs and storage costs) been managed better. Additional losses, such as the decline in the inventory value in the 2015–16 fiscal year, affected the financial performance of the Corporation. The effect of foreign exchange on the Corporation's financial performance in the 2014–15 and 2015–16 fiscal years significantly improved its profitability in these two years (Exhibit 1).

38. **Accountability of the President.** Although the Corporation's President reports to the Board, he is appointed by the Governor in Council and is also a member of the Board, in accordance with the *Freshwater Fish Marketing Act*. Also, a provision of the Act states that the President also presides at meetings of the Board if the Chairperson is absent. All of these aspects of this governance structure could limit the ability of the Board to ensure the accountability of the President.

39. The President had been appointed in December 2014. The Board had not established clear objectives for him, and his performance was not assessed afterward by the Board. In March 2016, the President agreed to go on administrative leave, 14 months after his appointment (see **Subsequent Event** at paragraph 60).

**Exhibit 1 If the Canadian dollar had stayed at the average 2011–12 exchange rate, the Corporation could have experienced net losses or lower returns to fishers**




Source: Based on data from the Freshwater Fish Marketing Corporation

40. **Board turnover.** During the period under audit, three directors, including the Chairperson, resigned from the Board; three other Board positions remained vacant. In February 2016, the Governor in Council approved the appointment of two directors and the Chairperson for six-month terms, and in June 2016, approved their reappointments for an additional year, or until successors could be appointed, whichever occurred first. The approved reappointments included that of the director later appointed as interim President. From November 2015 to February 2016, the Board was significantly below full membership, with only four of eight positions appointed. Furthermore, the membership did not represent all the competencies, such as legal knowledge, required to fulfill its oversight role. Although appointments have been made since, these do not constitute a long-term solution to ensuring that the Board has the collective knowledge and competencies it needs to operate strategically.

41. **Conflict of interest.** Some members of the Board were representatives of the fishing industry. Particularly in the case of these directors, there was a risk of real, potential, or perceived conflict of interest, because they oversaw decisions on the payments to fishers. However, the Corporation's conflict of interest code stated that Board members having interests in the delivery of fish to the Corporation did not constitute a conflict of interest.

42. **Information for decision making.** We found that the information that the Board was working with was limited and that, if this information had been adequately provided by management, it could have improved decision making and oversight. The following are examples:

- The Corporation did not have operational plans, including an updated long-term capital asset management plan or a human resource plan.
- The Board inconsistently received reports from management on the Corporation's compliance with Canadian Food Inspection Agency requirements; therefore, it was not in a position to assess the Corporation's compliance and take appropriate action if required.
- The Board did not receive performance information on plant operations (such as yield and labour-efficiency measures), which meant that the Board was unable to monitor the Corporation's efficiency or effectiveness.

## Important business practices and controls were lacking, or were disregarded by management

43. We found significant deficiencies in the Corporation's fundamental management practices. We also found that management disregarded controls such as key policies, procedures, and processes for carrying out its business. We also found significant deficiencies in how human resources and plant operations were managed.

44. While we had made recommendations in these areas in 2005, we found pervasive significant deficiencies in our 2010 audit. By 2016, many of these issues and deficiencies persisted, while we also found new significant deficiencies in management controls.

45. **Management practices.** We found that the Corporation's management practices lacked focus on efficiency, effectiveness, maintenance of assets, and safety of human resources.

46. For example, the Corporation has an obligation to maintain a healthy, safe, and respectful workplace. However, from 2014 to 2015, workers' compensation claims had increased from $197,000 to $270,000, while the number of days lost to accidents had increased from 754 to 1,200. We found that some plant workers had not taken compulsory health and safety training; that a hazard prevention program, required by regulation, was not yet finalized; and that the Corporation's respectful workplace policy and violence prevention plan were outdated. If these health and safety issues are not addressed, they could lead to more employee safety incidents and expose the Corporation to significant losses.

47. Other deficiencies in management practices were related to production efficiency:

- We found that the Corporation's targets and standards for yield, capacity, and labour efficiency had not been reviewed for years. We also found that several departments within the Corporation measured various informal targets differently, producing different yield rates. These inconsistent approaches affected management's monitoring activities. Yield is a key measurement of efficiency and production performance; an improvement in yield leads directly to additional revenue.
- Furthermore, our previous two audits had reported that the Corporation's yield-measurement practices were ineffective.
- We also found that the Corporation did not measure **throughput** against the capacity of its equipment and labour. Throughput is a key factor in the efficiency of plant operations and may be affected by issues such as mechanical breakdowns, staffing shortages, injuries, or poor production-line planning.

48. We found that the Corporation lacked a comprehensive and accurate production reporting system, which would allow management to properly manage production activity. Moreover, we found no evidence that management used the results of its quality management program for continuous improvement of its operations. The results of the quality management program could improve efficiency, yield, and potentially product quality, and therefore the product's sales value.

49. **Management controls.** We found that management disregarded controls, such as key policies, procedures, and processes that could provide employees with approved practices for carrying out business.

50. For example, during the 2015–16 fiscal year, the President created positions without job descriptions, revised salaries without providing proper justification, and filled positions without conducting competitive or merit-based processes, contravening the Corporation's established recruitment and staffing practices. After the period of our audit, the now-former President told us that the positions had been appropriately vetted. He also said that the Corporation had no clear recruitment policy; this observation agrees with our findings (see "Recruitment and staffing" in Exhibit 4).

51. Likewise, the Corporation's standard operating procedures required annual maintenance shutdowns of the plant, but we found that these had not occurred during the 2014–15 and 2015–16 fiscal years.

52. The President also did not follow the Corporation's Procurement and Purchasing Policy. We found that $794,000 of equipment was purchased during the 2015–16 fiscal year with the approval of the President, but

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**Throughput**—The measurement of how much raw fish passes through the production process.

without conducting proper business case analyses. We found no evidence that Board approval was obtained for one of the two assets purchased that required Board approval, in accordance with the policy. Three pieces of equipment were not used in the plant, as the Corporation found that they did not meet its needs. As a case in point, the Corporation purchased a mincer to process fish, but discovered that the end-product was unsatisfactory to its customers. A proper business case analysis would have allowed the Corporation to consider customer satisfaction with the minced product before purchasing the mincer. After the period of our audit, the now-former President told us that all of the procurement of equipment presented to him was accompanied by business plans and the necessary approvals. He also said that the Corporation had done testing on a similar mincer in advance, and that a customer had told him that the minced product was satisfactory.

53. We also found that, when developing its 2015–16 marketing plan, the Corporation did not research competitors' pricing or fish availability. Nor did the Corporation conduct formal customer satisfaction surveys, and its tracking of informal customer feedback on product issues was limited.

54. Sound management of plant operations and marketing is necessary for the Corporation to ensure the safety of its employees and to fulfill its mandate, which includes maximizing returns to fishers. Without accurate measurements of yield and throughput, management could not assess the efficiency of the plant. Although the Canadian Food Inspection Agency raised no concerns about the food safety of the Corporation's products, the results of the quality management program could have improved efficiency, yield, and product quality, and therefore the product's sales value.

**Recommendations**

55. **Recommendation.** In consultation with the Minister of Fisheries and Oceans, the Corporation should address its deficiencies in governance practices, including those in the areas of Board profiles and competencies, oversight, and potential or perceived conflicts of interest.

***The Corporation's response.*** *Agreed. Within the parameters of the* Freshwater Fish Marketing Act*, and in consultation with federal government stakeholders, the Corporation will undertake a review of its corporate governance practices focusing on roles, accountabilities, and oversight responsibilities of Board members. It will develop procedures to address the identified weaknesses and incorporate these procedures into Board practices. The review will be completed by 30 June 2017.*

*On 16 December 2016, the Chairperson submitted a request to the Minister that two Board vacancies be filled and that a director with financial expertise be appointed to fill a vacant position, at which time that individual will assume the role of Chairperson of the Board's Audit and Risk Committee.*

*The Corporation notes that the federal government is responsible for the appointment of Board members with representative knowledge of the freshwater commercial fishing industry, as well as the legal, accounting, marketing, management, or other expertise necessary to govern the Corporation. The Board and management, along with federal government stakeholders, will review and revise the Board's conflict of interest code by 30 April 2017 to remedy issues identified in this report.*

56. **Recommendation.** The Corporation should update its risk register and its strategic direction and objectives, in consultation with government officials, to allow it to define, obtain approval of, and promptly implement a long-term strategic direction. In doing so, the Corporation should ensure that it has appropriate information for decision making.

***The Corporation's response.*** *Agreed. The Corporation has not formally reviewed its risk register since late 2014. In September 2016, the Corporation engaged a third-party consultant to analyze the financial and operational implications of Manitoba's withdrawal from its agreement to participate in the* Freshwater Fish Marketing Act*. In January 2017, as part of the Corporation's 2017–18 corporate planning process, a strategic planning session was held to assess risks facing the Corporation and to seek approaches to mitigate these risks. The Board and management will update the Corporation's integrated risk management strategy, and this update will be incorporated into the Corporation's 2017–18 to 2021–22 corporate plan, to be submitted to the Minister on 3 March 2017.*

57. **Recommendation.** The Corporation should create clear operational and capital plans that detail how to achieve its strategic objectives for upcoming years, and effectively communicate them throughout the Corporation.

***The Corporation's response.*** *Agreed. Operational plans with corresponding key performance indicators have been developed for the 2016–17 fiscal year and are included in the Corporation's 2016–17 to 2020–21 corporate plan. Beginning in September 2016, the Corporation re-established operational reviews on a weekly schedule with senior management focusing on operational metrics. The operational metrics that are reviewed weekly are fish deliveries, material yield, labour productivity, accident frequency, absenteeism, sales margins, overtime, and inventory levels. The Corporation will continue to strengthen the weekly review and will consistently provide relevant operational performance reporting to the Board of Directors on a quarterly basis. This will be completed by 30 April 2017.*

*Additionally, the Corporation re-established key performance indicators and communicated them to all employees as part of the 2016–17 annual performance management system and pay-at-risk process. All employees understand that their performance and remuneration will again be evaluated on these measures. The Corporation will develop long-term* *operational metrics to achieve its strategic objectives as part of the 2017–18 to 2021–22 corporate plan and work with government stakeholders to see a way forward.*

*The Board and management will work with government stakeholders to understand the future viability of the Corporation and review the Corporation's long-term capital plan that was developed in 2010. Based on that review, a clear, long-term capital plan will be developed by 30 June 2017.*

58. **Recommendation.** The Corporation should review its policies and procedures to identify where updates are required or where gaps exist. It should ensure that its employees are trained on its policies and procedures, in accordance with their responsibilities. It should assess and monitor compliance with its policies and procedures.

***The Corporation's response.*** *Agreed. The Corporation will review existing policies and procedures, and update them where necessary. It will review communication, training, and monitoring of compliance, and improve them where necessary. It will update relevant policies and procedures by 30 June 2017 and communicate them to all employees and stakeholders by 31 August 2017.*

# Conclusion

59. In our opinion, based on the criteria established, there were significant deficiencies in the Freshwater Fish Marketing Corporation's systems and practices that we examined for corporate management and the management of operations. As a result of the pervasiveness of the significant deficiencies, we concluded that the Corporation had not maintained these systems and practices during the period covered by the audit in a manner that provided the reasonable assurance required under section 138 of the *Financial Administration Act*.

# Subsequent Event

60. On 21 December 2016, in accordance with Order-in-Council PC 2016-1181, the Governor in Council, on the recommendation of the Minister of Fisheries and Oceans, terminated for cause the appointment of the President of the Freshwater Fish Marketing Corporation, following an independent investigation that was conducted into allegations and concerns raised in complaints about his conduct as President. He had agreed to go on administrative leave in March 2016.

# About the Audit

This independent assurance report was prepared by the Office of the Auditor General of Canada on the Freshwater Fish Marketing Corporation. Our responsibility was to express

- an opinion on whether there is reasonable assurance that during the period covered by the audit, there were no significant deficiencies in the Corporation's systems and practices that we selected for examination; and
- a conclusion about whether the Corporation complied in all significant respects with the applicable criteria.

Under section 131 of the *Financial Administration Act* (FAA), the Freshwater Fish Marketing 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.

In addition, 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.

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard for Assurance Engagements (CSAE) 3001—Direct Engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook—Assurance.

The Office applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with the independence and other ethical requirements of the Rules of Professional Conduct of the Chartered Professional Accountants of Nova Scotia and the Code of Values, Ethics and Professional Conduct of the Office of the Auditor General of Canada. Both the Rules of Professional Conduct and the Code are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from management:

- confirmation of management's responsibility for the subject under audit;
- acknowledgement of the suitability of the criteria used in the audit;
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided; and
- confirmation that the findings in this report are factually based.

## Audit objective

The objective of this audit was to determine whether the systems and practices we selected for examination at the Freshwater Fish Marketing Corporation were providing it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively, as required by section 138 of the *Financial Administration Act*.

## Scope and approach

Our audit work examined the Freshwater Fish Marketing Corporation. The scope of the special examination was based on our assessment of the risks the Corporation faces that could affect its ability to meet the requirements set out by the *Financial Administration Act*.

In performing our work, we tested the systems and practices selected for examination by reviewing key documents and observing operations in the Corporation's processing plant. We also interviewed members of the Board of Directors, senior management, and other employees of the Corporation. Our testing, including interviews of management, took place between October 2015 and June 2016 and covered the full period of the audit.

A broad selection of the systems and practices that we examined for each area of the audit, and the criteria used to assess them, are listed in the Appendix.

In carrying out the special examination, we did not rely on any internal audits.

## Audit criteria and sources

The following is a complete list of criteria used to assess the systems and practices selected for examination. Criteria that led to key findings are also listed in the Appendix.

### Corporate governance

#### Criteria

The Board and its committees had clearly defined and implemented their roles, responsibilities, authorities, and accountabilities.

The Board functioned independently from management; individual Board members were independent from the Corporation, and followed a defined code of conduct and conflict of interest guidelines for Board members.

The Board had a sufficient number of members with the abilities, skills, knowledge, and experience, as well as access to external expertise and training, to discharge its responsibilities.

The Board assessed its performance, as well as the performance of its committees and its members.

The Board had the necessary information to interpret the Corporation's legislative and public policy mandate, to allow it to provide management with strategic direction.

The Corporation's strategic direction was clearly defined and communicated, and was congruent with government priorities and the Corporation's mandate.

The Board received timely information necessary to oversee and monitor the Corporation's activities, results, and management of risk, and for decision making to achieve strategic objectives.

The Board monitored the Corporation's compliance with laws, regulations, and key corporate policies, as well as with its code of conduct and ethical requirements.

The Board maintained effective communication with external stakeholders, the responsible Minister, and the public in the delivery of its mandate.

**Sources**

*OECD Guidelines on Corporate Governance of State-Owned Enterprises*, Organisation for Economic Co-operation and Development, 2015

*Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations*, Treasury Board Secretariat, 2005

*Practice Guide: Assessing Organizational Governance in the Public Sector*, The Institute of Internal Auditors, 2012

*20 Questions Directors Should Ask about Crown Corporation Governance*, Canadian Institute of Chartered Accountants, 2007

*20 Questions Directors Should Ask about Risk*, Canadian Institute of Chartered Accountants, 2006

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

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Treasury Board Secretariat, 1996

Guidelines for the Preparation of Corporate Plans, Treasury Board Secretariat, 1996

**Strategic planning**

**Criteria**

The Corporation's strategic planning process took into consideration the internal and external environment, organizational strengths and weaknesses, and identified risks.

Operational plans were aligned with the strategic direction, contained sufficient and appropriate information to guide management action, and were well communicated throughout the Corporation.

**Sources**

*Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations*, Treasury Board Secretariat, 2005

*20 Questions Directors Should Ask about Strategy*, third edition, Canadian Institute of Chartered Accountants, 2012

*20 Questions Directors Should Ask about Risk*, Canadian Institute of Chartered Accountants, 2006

Guidelines for the Preparation of Corporate Plans, Treasury Board Secretariat, 1996

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

## Risk management

### Criteria

The Corporation identified and assessed the potential risks that it needed to manage to achieve its strategic and operational objectives.

The Corporation defined and implemented responses to the risks it faced.

There was appropriate information on risks provided to senior management and to the Board for decision making and to allow them to manage or monitor risks and to update risk mitigation strategies.

### Sources

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

*20 Questions Directors Should Ask about Risk*, Canadian Institute of Chartered Accountants, 2006

Framework for the Management of Risk, Treasury Board Secretariat, 2010

*Enterprise Risk Management—Integrated Framework*, Committee of Sponsoring Organizations of the Treadway Commission, 2004

## Performance measurement and reporting

### Criteria

The Corporation established measurable annual performance expectations (set performance targets) that supported its strategic objectives.

The Corporation designed measurable performance indicators to generate information that was important to users (management, the Board, and the public) and supported achievement of its strategic objectives.

The Corporation collected performance indicator data that measured its success in achieving its operational targets as set out in annual corporate plans.

### Sources

*20 Questions Directors Should Ask about Crown Corporation Governance*, Canadian Institute of Chartered Accountants, 2007

Guidelines for the Preparation of Corporate Plans, Treasury Board Secretariat, 1996

Recommended Practice Guideline 3, *Reporting Service Performance Information*, International Public Sector Accounting Standards Board, 2015

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

**Human resource management**

**Criteria**

The Corporation carried out a human resource strategic planning process to assess workforce needs in support of its strategic objectives.

Succession planning for key positions in the Corporation was performed to ensure the achievement of strategic objectives.

Recruitment of staff was performed in a way that ensured a competent and non-partisan workforce.

Employee performance was assessed against objectives that were aligned with strategic objectives, such that good performance was recognized and corrective action was taken to address poor performance.

The Corporation ensured a healthy, safe, and respectful workplace.

**Sources**

*Ultimate HR Manual*, Human Resource Professionals Association and CCH

Public Service Commission Appointment Policy, 2016

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

Policy Framework for People Management, Treasury Board Secretariat, 2010

Directive on Performance Management, Treasury Board, 2014

Performance Management Program for Chief Executive Officers of Crown Corporations—Guidelines, Privy Council Office, 2014

Policy on Occupational Safety and Health, Treasury Board

**Plant operations**

**Criteria**

The Corporation had systems and practices in place to plan and manage the plant operations in an efficient and economical manner to meet the demands of customers.

The Corporation had systems and practices in place to measure, monitor, and report on plant operations and to take action as needed.

Plant operations were in compliance with regulations while producing products that met quality and safety standards.

The Corporation had systems and practices in place to plan for the maintenance of its capital assets and to purchase and modify the plant and equipment in order to safeguard its assets and to enable continuous and efficient operations.

**Sources**

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

Quality Management Program, Canadian Food Inspection Agency

*Quality Management Principles*, International Organization for Standardization

*Production/Operations Management*, 4th edition, Richard D. Irwin, 1993

*Financial Administration Act*

*ISO 55000:2014: Asset Management—Overview, Principles and Terminology*, International Organization for Standardization

**Marketing and supply management**

**Criteria**

The Corporation had systems and practices in place to plan marketing that was aligned with its corporate plan and mandate, and was responsive to market needs.

The Corporation conducted effective marketing of its products and supported cooperative relationships.

The Corporation periodically monitored and reported its results and took action as needed.

The Corporation had systems and practices in place to promote the delivery of an adequate supply of fish and monitor its inventory levels in order to sell in a timely manner and at a price that enabled the Corporation to conduct its operations on a self-sustaining financial basis.

**Sources**

*Freshwater Fish Marketing Act*

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

*Productions/Operations Management*, 4th edition, Richard D. Irwin, 1993

## Period covered by the audit

The special examination covered the period between 1 October 2015 and 30 June 2016. This is the period to which the audit conclusion applies. However, to gain a more complete understanding of the significant systems and practices, we also examined certain matters that preceded the starting date of the special examination. We also noted a subsequent event that occurred on 21 December 2016.

## Date of the report

We obtained sufficient and appropriate audit evidence on which to base our conclusion on 21 February 2017, in Halifax, Nova Scotia.

## Audit team

Principal: Heather McManaman

Riowen Abgrall
Nancy Bennett
Benoît Gosselin
Maggie Hart
Paul Kelly
John McGrath
Robyn Roy

# List of Recommendations

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

| Recommendation | Response |
| --- | --- |
| **55.** In consultation with the Minister of Fisheries and Oceans, the Corporation should address its deficiencies in governance practices, including those in the areas of Board profiles and competencies, oversight, and potential or perceived conflicts of interest. | **The Corporation's response.** Agreed. Within the parameters of the *Freshwater Fish Marketing Act*, and in consultation with federal government stakeholders, the Corporation will undertake a review of its corporate governance practices focusing on roles, accountabilities, and oversight responsibilities of Board members. It will develop procedures to address the identified weaknesses and incorporate these procedures into Board practices. The review will be completed by 30 June 2017.<br><br>On 16 December 2016, the Chairperson submitted a request to the Minister that two Board vacancies be filled and that a director with financial expertise be appointed to fill a vacant position, at which time that individual will assume the role of Chairperson of the Board's Audit and Risk Committee.<br><br>The Corporation notes that the federal government is responsible for the appointment of Board members with representative knowledge of the freshwater commercial fishing industry, as well as the legal, accounting, marketing, management, or other expertise necessary to govern the Corporation. The Board and management, along with federal government stakeholders, will review and revise the Board's conflict of interest code by 30 April 2017 to remedy issues identified in this report. |
| **56.** The Corporation should update its risk register and its strategic direction and objectives, in consultation with government officials, to allow it to define, obtain approval of, and promptly implement a long-term strategic direction. In doing so, the Corporation should ensure that it has appropriate information for decision making. | **The Corporation's response.** Agreed. The Corporation has not formally reviewed its risk register since late 2014. In September 2016, the Corporation engaged a third-party consultant to analyze the financial and operational implications of Manitoba's withdrawal from its agreement to participate in the *Freshwater Fish Marketing Act*. In January 2017, as part of the Corporation's 2017–18 corporate planning process, a strategic planning session was held to assess risks facing the Corporation and to seek approaches to mitigate these risks. The Board and management will update the Corporation's integrated risk management strategy, and this update will be incorporated into the Corporation's 2017–18 to 2021–22 corporate plan, to be submitted to the Minister on 3 March 2017. |

| Recommendation | Response |
|---|---|
| **57.** The Corporation should create clear operational and capital plans that detail how to achieve its strategic objectives for upcoming years, and effectively communicate them throughout the Corporation. | **The Corporation's response.** Agreed. Operational plans with corresponding key performance indicators have been developed for the 2016–17 fiscal year and are included in the Corporation's 2016–17 to 2020–21 corporate plan. Beginning in September 2016, the Corporation re-established operational reviews on a weekly schedule with senior management focusing on operational metrics. The operational metrics that are reviewed weekly are fish deliveries, material yield, labour productivity, accident frequency, absenteeism, sales margins, overtime, and inventory levels. The Corporation will continue to strengthen the weekly review and will consistently provide relevant operational performance reporting to the Board of Directors on a quarterly basis. This will be completed by 30 April 2017.<br><br>Additionally, the Corporation re-established key performance indicators and communicated them to all employees as part of the 2016–17 annual performance management system and pay-at-risk process. All employees understand that their performance and remuneration will again be evaluated on these measures. The Corporation will develop long-term operational metrics to achieve its strategic objectives as part of the 2017–18 to 2021–22 corporate plan and work with government stakeholders to see a way forward.<br><br>The Board and management will work with government stakeholders to understand the future viability of the Corporation and review the Corporation's long-term capital plan that was developed in 2010. Based on that review, a clear, long-term capital plan will be developed by 30 June 2017. |
| **58.** The Corporation should review its policies and procedures to identify where updates are required or where gaps exist. It should ensure that its employees are trained on its policies and procedures, in accordance with their responsibilities. It should assess and monitor compliance with its policies and procedures. | **The Corporation's response.** Agreed. The Corporation will review existing policies and procedures, and update them where necessary. It will review communication, training, and monitoring of compliance, and improve them where necessary. It will update relevant policies and procedures by 30 June 2017 and communicate them to all employees and stakeholders by 31 August 2017. |

# Appendix—Detailed Findings

## Corporate management practices

We examined corporate governance, strategic planning and risk management, and human resource management.

In the area of corporate governance, we found significant deficiencies in Board competencies, strategic direction, and Board oversight and decision making. Improvements were also needed in Board independence and communications (Exhibit 2).

**Exhibit 2 Corporate governance—key findings and assessments**

| Systems and practices | Criteria used | Key findings | Assessment against the criteria |
|---|---|---|---|
| Board independence | The Board functioned independently from management; individual Board members were independent from the Corporation and followed a defined code of conduct and defined conflict of interest guidelines for Board members. | The Corporation had a conflict of interest code that applied to Board members. Board members were informed of their obligations under the *Conflict of Interest Act*.<br>**Weakness**<br>The Corporation's conflict of interest code specified that Board members having interests in the delivery of fish to the Corporation did not constitute a conflict of interest. | Met the criteria, with improvement needed |

**Legend—Assessment against the criteria**

- Met the criteria
- Met the criteria, with improvement needed
- Did not meet the criteria

**Exhibit 2 Corporate governance—key findings and assessments (continued)**

| Systems and practices | Criteria used | Key findings | Assessment against the criteria |
|---|---|---|---|
| Board competencies | The Board had a sufficient number of members with the abilities, skills, knowledge, and experience, as well as access to external expertise and training, to discharge its responsibilities.<br><br>The Board assessed its performance, as well as the performance of its committees and its members. | The Audit and Risk Committee Policy allows the Committee to have the resources and authority to discharge its responsibilities, including the authority to retain counsel or experts as deemed appropriate, without the approval of management.<br><br>**Significant deficiencies**<br><br>The Corporation did not have a current Board profile.<br><br>From November 2015 to February 2016, the Board had neither a sufficient number of members nor all the required competencies.<br><br>The terms of Board members did not expire at staggered points in time.<br><br>The Board did not assess its own performance or that of its members. | |
| Strategic direction | The Board had the necessary information to interpret the Corporation's legislative and public policy mandate, to allow it to provide management with strategic direction.<br><br>The Corporation's strategic direction was clearly defined and communicated, and was congruent with government priorities and the Corporation's mandate. | **Significant deficiencies**<br><br>The Corporation's 10-year strategic plan was last updated in 2011; the strategic direction was not clearly defined.<br><br>The information that the Board was working with was limited.<br><br>Despite submitting proposed 5-year corporate plans to the Minister, the Corporation operated without corporate plans approved by the Governor in Council during the period under audit. The Corporation had been unable to obtain timely Governor in Council approval of its corporate plans since 2009. When approval was provided, it covered only a portion of the 5-year planning period and was granted at or near the end of the first year of the plan. | |

**Legend—Assessment against the criteria**

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

**Exhibit 2 Corporate governance—key findings and assessments (continued)**

| Systems and practices | Criteria used | Key findings | Assessment against the criteria |
|---|---|---|---|
| Board oversight and decision making | The Board received timely information necessary to oversee and monitor the Corporation's activities, results, and management of risk, and for decision making to achieve strategic objectives.<br><br>The Board monitored the Corporation's compliance with laws, regulations, and key corporate policies, as well as with its code of conduct and ethical requirements. | The Board received human resource and financial information presented in a manner consistent with corporate budgets. The quarterly reporting package provided comparisons to budgets and prior years and provided explanations of variances.<br><br>**Significant deficiencies**<br><br>During the period under audit, the Board did not receive performance information related to plant operations during two quarters.<br><br>The Board did not receive sufficient information from management to ensure that the Corporation was complying with relevant laws and regulations, corporate policies, and code of conduct or ethical requirements.<br><br>The President's performance was not assessed and objectives for his performance had not been established. | Did not meet the criteria |
| Communications | The Board maintained effective communication with external stakeholders, the responsible Minister, and the public in the delivery of its mandate. | Relevant information was shared with key stakeholders and fishers in a timely manner.<br><br>The roles of the Chairperson, the President, and Board members in communicating with key stakeholders was defined in various corporate documents.<br><br>**Weakness**<br><br>The Board did not receive communication from the Minister as to why its corporate plans were not being fully and promptly approved. | Met the criteria, with improvement needed |

**Legend—Assessment against the criteria**

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

In the areas of strategic planning and risk management, we found significant deficiencies in the Corporation's environmental scanning and risk analysis for strategic planning; implementation of strategic planning through operational planning; and risk identification, assessment, and mitigation (Exhibit 3).

**Exhibit 3 Strategic planning and risk management—key findings and assessments**

| Systems and practices | Criteria used | Key findings | Assessment against the criteria |
|---|---|---|---|
| Environmental scanning and risk analysis for strategic planning | The Corporation's strategic planning process took into consideration the internal and external environment, organizational strengths and weaknesses, and identified risks. | The Corporation's draft 2016–17 to 2020–21 corporate plan included a situational update, which provided oversight into high-level, short-term, internal, and external considerations the Corporation might face or was facing.<br>**Significant deficiencies**<br>The Corporation had not updated its 10-year strategic plan since 2011.<br>The Corporation had not incorporated a risk analysis into its corporate planning process. | Did not meet the criteria |
| Implementation of strategic planning through operational planning | Operational plans were aligned with the strategic direction, contained sufficient and appropriate information to guide management action, and were well communicated throughout the Corporation. | **Significant deficiency**<br>During the 2015–16 fiscal year, strategic objectives were not communicated appropriately, assigned to managers, or included in performance management objectives. | Did not meet the criteria |
| Risk identification and assessment | The Corporation identified and assessed the potential risks that it needed to manage to achieve its strategic and operational objectives. | The Corporation had an Integrated Risk Management Policy and a risk register. The risk register ranked the identified risks and identified mitigation measures.<br>Oversight of risk management was delegated to the Corporation's Audit and Risk Committee.<br>**Significant deficiencies**<br>The Corporation's risk register had not been updated since 2014 and was not included as a quarterly agenda item at the Audit and Risk Committee.<br>There was no alignment between the Corporation's risk register and its strategic objectives. | Did not meet the criteria |

**Legend—Assessment against the criteria**

- Met the criteria
- Met the criteria, with improvement needed
- Did not meet the criteria

**Exhibit 3 Strategic planning and risk management—key findings and assessments (continued)**

| Systems and practices | Criteria used | Key findings | Assessment against the criteria |
|---|---|---|---|
| Risk mitigation (including information for decision making and monitoring risks) | The Corporation defined and implemented responses to the risks it faced.<br><br>There was appropriate information on risks provided to senior management and to the Board for decision making and to allow them to manage or monitor risks and to update risk mitigation strategies. | **Significant deficiencies**<br><br>Risk mitigation measures had not been updated since 2014, and the Corporation did not proactively mitigate risks.<br><br>Processes were not in place to monitor or approve implementation of the risk mitigation measures or report information on these measures to the Board. | Did not meet the criteria |

**Legend—Assessment against the criteria**

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

In the area of human resource management, we found significant deficiencies in the Corporation's recruitment and staffing. Improvements were also needed in its human resource strategy; succession planning; performance management; and ensuring a healthy, safe, and respectful workplace (Exhibit 4).

**Exhibit 4 Human resource management—key findings and assessments**

| Systems and practices | Criteria used | Key findings | Assessment against the criteria |
|---|---|---|---|
| Human resource strategy | The Corporation carried out a human resource strategic planning process to assess workforce needs in support of its strategic objectives. | The Corporation identified and regularly discussed human resource needs and strategies at its management meetings.<br><br>**Weakness**<br><br>The Corporation had not established a specific link between its workforce strategies and corporate planning; its monitoring of needs was limited and short-term. | Met the criteria, with improvement needed |

**Legend—Assessment against the criteria**

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

**Exhibit 4 Human resource management—key findings and assessments (continued)**

| Systems and practices | Criteria used | Key findings | Assessment against the criteria |
|---|---|---|---|
| Succession planning (management and critical positions) | Succession planning for key positions in the Corporation was performed to ensure the achievement of strategic objectives. | The Corporation informally identified its key and critical positions and potential successors where available.<br>**Weakness**<br>There were key and critical positions for which no successors had been identified. | |
| Recruitment and staffing | Recruitment of staff was performed in a way that ensured a competent and non-partisan workforce. | **Significant deficiencies**<br>The Corporation did not have a recruitment and staffing policy.<br>The Corporation's recruitment and staffing procedures were informal and not always followed. During the 2015–16 fiscal year, the President created positions without job descriptions, revised salaries without providing proper justification, and filled positions without conducting competitive or merit-based processes. | |
| Performance management (management positions) | Employee performance was assessed against objectives that were aligned with strategic objectives, such that good performance was recognized and corrective action was taken to address poor performance. | The Corporation's performance management process assessed employee performance against individual objectives, which aligned with corporate objectives.<br>Action was taken to address poor performance.<br>**Weakness**<br>The Corporation's performance management process for management and non-unionized employees was not carried out as intended during the period under audit. For example, performance objectives for individual employees were not established for the 2015–16 fiscal year. | |

**Legend—Assessment against the criteria**

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

**Exhibit 4 Human resource management—key findings and assessments (continued)**

| Systems and practices | Criteria used | Key findings | Assessment against the criteria |
|---|---|---|---|
| Healthy, safe, and respectful workplace | The Corporation ensured a healthy, safe, and respectful workplace. | The Corporation had a Facilities Safety Manual and most of the components of a health and safety program. Incident investigations were also carried out as required.<br><br>The Corporation provided annual training to employees on its Respectful Workplace Policy.<br><br>The Corporation had a formal harassment complaint process in place. Most complaints were resolved through informal discussions, and disciplinary action was taken where necessary.<br><br>**Weaknesses**<br><br>Some employees, including plant workers, had not taken all the compulsory training related to health and safety.<br><br>A hazard prevention program, required by the *Canada Labour Code*, and some safe workplace procedures were still under development.<br><br>The Corporation's Respectful Workplace Policy had not been updated since 2005. The Corporation developed a draft workplace violence prevention plan, but it was not implemented. | Met the criteria, with improvement needed |

**Legend—Assessment against the criteria**

- Met the criteria
- Met the criteria, with improvement needed
- Did not meet the criteria

## Management of operations

We examined plant operations and marketing and supply management.

In the area of plant operations, we found significant deficiencies in the Corporation's plant management and monitoring, and capital asset management. An improvement was also needed to its food-quality management program (Exhibit 5).

**Exhibit 5 Plant operations—key findings and assessments**

| Systems and practices | Criteria used | Key findings | Assessment against the criteria |
|---|---|---|---|
| Plant management and monitoring | The Corporation had systems and practices in place to plan and manage the plant operations in an efficient and economical manner to meet the demands of customers.<br><br>The Corporation had systems and practices in place to measure, monitor, and report on plant operations and to take action as needed. | Plant supervisors and managers took part in daily production meetings. At these meetings, production for the day was planned on the basis of customer orders, fish deliveries, and inventory levels.<br><br>**Significant deficiencies**<br><br>Most plant operations were modern and well automated. However, the plant's production flow was not optimal for production efficiency or for the quality of the fish.<br><br>The Corporation lacked a comprehensive and accurate production reporting system to inform management decisions on production.<br><br>The Corporation's measurement of yield and throughput were ineffective.<br><br>The Corporation's targets and standards for yield, throughput, and labour had not been reviewed for many years. Various informal targets were measured inconsistently by several departments within the Corporation.<br><br>Annual maintenance shutdowns of the plant had not occurred during the 2014–15 and 2015–16 fiscal years, as required by the Corporation's standard operating procedures. | |

**Legend—Assessment against the criteria**

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

**Exhibit 5 Plant operations—key findings and assessments (continued)**

| Systems and practices | Criteria used | Key findings | Assessment against the criteria |
|---|---|---|---|
| Quality management program to ensure food safety and food quality | Plant operations were in compliance with regulations while producing products that met quality and safety standards. | The Corporation did not have any product recalls or forced shutdowns during the 2014–15 or 2015–16 fiscal years as a result of concerns over food safety.<br><br>The Corporation's quality management program (for food safety) was approved annually by the Canadian Food Inspection Agency. The program clearly outlined the purpose, procedures, and responsible individual for each of its standard operating procedures.<br><br>The Corporation performed audits of agents to ensure that they complied with the agents' agreements.<br><br>**Weakness**<br><br>There was no evidence that management used results of the quality management program for continuous improvement of its operations. | |
| Capital asset management | The Corporation had systems and practices in place to plan for the maintenance of its capital assets and to purchase and modify the plant and equipment in order to safeguard its assets and to enable continuous and efficient operations. | **Significant deficiencies**<br><br>The President did not follow the Corporation's Procurement and Purchasing Policy (see paragraph 52).<br><br>The Corporation did not have an updated long-term capital asset management plan.<br><br>The Corporation had not assessed its future capital asset requirements since the 2010 capital asset plan. | |

**Legend—Assessment against the criteria**

- Met the criteria
- Met the criteria, with improvement needed
- Did not meet the criteria

In the area of marketing and supply management, we found that improvements were needed in the Corporation's marketing planning, and supply and inventory management (Exhibit 6).

**Exhibit 6 Marketing and supply management—key findings and assessments**

| Systems and practices | Criteria used | Key findings | Assessment against the criteria |
|---|---|---|---|
| Marketing planning | The Corporation had systems and practices in place to plan marketing that was aligned with its corporate plan and mandate, and was responsive to market needs. | The Corporation had a marketing plan that aligned with its draft 2016–17 to 2020–21 corporate plan and addressed the current market, issues facing the product lines, objectives, strategy, and how objectives would be met.<br><br>Management used reports to monitor sales. These reports provided information by species, volume sold, gross sales, unit selling price per pound, and contribution margin per unit.<br><br>**Weaknesses**<br><br>The marketing plan did not align with the performance indicators and targets identified in the corporate plan.<br><br>The Corporation did not undertake a comparison of competitors' prices or fish availability and did not formally assess customer satisfaction.<br><br>Between the spring of 2015 and May 2016, there was no formal process for product and business development, including market scans and monitoring of competitors' pricing or fish availability. | |
| Supply and inventory management (including price setting process) | The Corporation had systems and practices in place to promote the delivery of an adequate supply of fish and monitor its inventory levels in order to sell in a timely manner and at a price that enabled the Corporation to conduct its operations on a self-sustaining financial basis. | The Corporation had established a process to forecast fish deliveries and used this in its budgeting process.<br><br>The Corporation had an informal pricing strategy and used price setting to create incentives for fishers to supply fish to meet the Corporation's needs.<br><br>There were systems and practices in place to manage fish inventory by various attributes, such as species, size, age, and quality or condition of the fish.<br><br>**Weakness**<br><br>The Corporation did not appropriately manage its inventory of whitefish (see paragraph 36). | |

**Legend—Assessment against the criteria**

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria