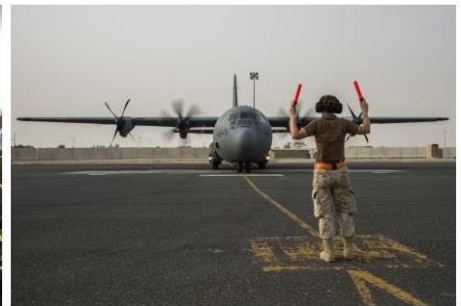




ASSISTANT DEPUTY MINISTER (REVIEW SERVICES)

Reviewed by ADM(RS) in accordance with the *Access to Information Act*. Information UNCLASSIFIED.

Assessment of the Non-Public Property Board



October 2020

1259-5-015 (ADM(RS))

Caveat

Non-Public Property (NPP) is created under the *National Defence Act* (NDA). The purpose of NPP is to provide benefit to serving and former members of the Canadian Armed Forces (CAF) and their families or for any other purpose approved by the Chief of the Defence Staff (CDS). Each unit's NPP is vested in the commanding officer of that unit.

NPP is a unique type of crown property, the governance of which is assigned to the CDS. Pursuant to subsection 41(1) of the NDA, the CDS shall exercise his authority subject to any directions that may be given to him by the Minister.

Subsection 41(3) of the NDA provides that the *Financial Administration Act* does not apply to NPP. Revenues from NPP operations constitute NPP pursuant to section 2 of the NDA.

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Acronyms and Abbreviations

ADM(RS)	Assistant Deputy Minister (Review Services)
CAF	Canadian Armed Forces
CANEX	Canadian Forces Exchange System
CDS	Chief of the Defence Staff
CEO	Chief Executive Officer
CFMWS	Canadian Forces Morale and Welfare Services
CFP	Canadian Forces Policy
DAOD	Defence Administrative Orders and Directives
DND	Department of National Defence
MAP	Management Action Plan
MD, NPP	Managing Director, Non-Public Property
MND	Minister of National Defence
NATEX	NATO Exchange
NPP	Non-Public Property
OPI	Office of Primary Interest
SISIP FS	Service Income Security Insurance Plan Financial Services
VCDS	Vice Chief of the Defence Staff

Results in Brief

The Assistant Deputy Minister (Review Services) (ADM(RS)) conducted an assessment of the Non-Public Property (NPP) Board. The objective of this assessment was two-fold:

1. To carry out an assessment of the NPP Board governance; and
2. To increase stakeholders' (Chief of the Defence Staff (CDS), senior management, NPP Board members) awareness and understanding of the NPP Board structure, Board members' roles and responsibilities and organizational performance management.

Commanding Officers are responsible for the morale and welfare of the troops within their command. As such, morale and welfare is “commander’s business” and NPP is key to supporting commanders in providing CAF members with morale and welfare services needed to remain battle ready. As outlined in the *National Defence Act*, NPP is a special class of Crown property administered through NPP organizations together with monies derived from that property.¹ The Staff of the Non-Public Funds, Canadian Forces is a separate agency under Schedule V of the *Financial Administration Act*. This agency which employs the more than 4,000 staff is managed by a Chief Executive Officer (CEO) who is accountable to the CDS.

Under the *National Defence Act*, the CDS is generally responsible for the management and disposition of NPP. Commanding Officers are responsible for NPP of their particular unit or element. The Minister of National Defence (MND) may issue directions to the CDS concerning the administration and audit of NPP.

The NPP Board is designed to support the CDS in fulfilling his governance responsibilities with respect to all NPP activities, by providing input and advice to the CDS in terms of NPP’s strategic plans, policies, guidance, investments, and externally audited annual financial statements. As outlined in policy, the NPP Board is an advisory committee versus a Board in the context of a private sector or Crown corporation. As such, this assessment draws on best practices in governance to assess the current NPP Board governance and provide practical recommendations to address noted areas for improvement.

Having a vigilant, involved advisory board with the necessary skills and expertise is crucial to ensuring the CDS has fulsome and effective information, insight and advice to support the sound governance of the individual and collective organizations that make up NPP, herein referred to as the ‘NPP Enterprise’. This is particularly crucial given that NPP is comprised of multiple, discrete complex businesses with total assets of close to \$1.3 billion.

Overall Assessment

The NPP Board is an advisory committee accountable to the CDS. It provides some oversight and advice but opportunities exist to strengthen the committee so as to provide the CDS with more relevant, meaningful, robust input and advice in support of the governance of the NPP Enterprise.

¹ *National Defence Act*, Section 2; 38-41.

Findings and Recommendations

NPP Board Structure and Composition. The current NPP Board is comprised of 10 members and 12 permanent attendees with minimal differentiation between the two. This effectively makes for a 22 person board. While there is no single optimal board size, research indicates that smaller boards are more effective. This is also highlighted in a recent study by the Ivey School of Business that found the optimal size of a Crown board is between 8-12 members. The key factors in determining the optimal size of a board are the mandate of the board (i.e., the work it needs to do) and the skills and expertise required to deliver on the mandate.

Current NPP Board membership and attendees are primarily drawn from the senior ranks of the CAF. While this provides for clear alignment with the mandate and beneficiaries of NPP, Board members' full-time job running Canada's armed forces, combined with frequent CAF turnover, does not provide for stable, devoted NPP Board membership. At present, the NPP Board meets approximately three times per year for a total of 2-3 hours per meeting. Even at a mere 6-9 hours of Board meetings per year, Board members often send delegates to the meetings. A \$1.3 billion organization as diverse and complex as the NPP Enterprise necessitates more frequent meetings of a longer duration to facilitate substantive, meaningful input and advice to the CDS. Those appointed to the NPP Board need to be able to devote the required time and effort to prepare for, and attend, NPP Board meetings so as to provide the CDS with robust, sound, and relevant input and advice.

Also absent from the current Board membership is representation from core areas of NPP's business, namely financial services, insurance, retail, fitness and recreation. Families represent an additional core constituency of the NPP enterprise yet they are not represented on the Board. Opportunities also exist to better align NPP's other strategic committees (e.g., NPP Audit Committee, Investment Committee and the Pension Board) with the NPP Board.

Given that the NPP Board is advisory to the CDS, having him as Chair inherently reduces the Board's independence and objectivity, thereby precluding the CDS from receiving more robust, relevant input and advice. Recognizing that an independent Board Chair would represent a significant shift in current practice, ensuring an effective linkage between the CDS and the NPP Board is paramount. This could be achieved in various ways, including having the CDS attend the latter part of Board meetings, providing the opportunity for the Board to convey their input and advice on the matters tabled throughout the meeting. The CDS would also be invited to all Board meetings, attending all or part thereof at his discretion. Having a strong Chair who maintains effective linkages with and to both the CDS and the Managing Director (MD), NPP is critical to the success of this change in Board leadership.

To address the noted issues with respect to structure and composition, it is recommended that the combined membership and required attendees of the NPP Board be reduced and the membership be revised to ensure more balanced, stable membership across the CAF and core NPP business lines.

Board Policy and Practice. The NPP Board's mandate, roles and responsibilities are documented in Defence Administrative Orders and Directives (DAOD) 9003-1 which is a policy order jointly approved by the CDS and the Deputy Minister, National Defence. *A-PS-110-001/AG-002 Morale and Welfare Programs in the Canadian Forces – Public Support to Morale and Welfare Programs and Non-Public Property, Volume 1* (Canadian Forces Policy (CFP) 110) is the related policy manual that was issued by the Vice Chief of the Defence Staff (VCDS) on the joint instruction of the CDS and the Deputy Minister, National Defence. At present, there is no mechanism in place to periodically review and revise/affirm these NPP policies, as required. The current Board practice of reviewing discrete elements of the NPP Enterprise business provides for some oversight but the lack of an enterprise-wide view hampers NPP Board members' ability to provide the CDS with meaningful strategic direction and oversight of all NPP activities, as required by policy. It also does not appear that the NPP Board plays a role in reviewing and recommending the approval to the CDS of the National Defence financial resource submission, prior to it being submitted to DND. This despite the Board's responsibility for providing the CDS with input and advice on all NPP activities, including public and shared activities, of which this is a key element.

The importance of the NPP Board's involvement in this process is underscored by the fact that financial resources provided by National Defence are not an entitlement; they must be approved by DND through the Estimates process. It has also been noted that there is often limited discussion on items tabled at NPP Board meetings. Given the size and complexity of the NPP Enterprise, the Board should be engaging in fulsome dialogue, debate and discussion. We understand that management intends to develop an integrated business plan for Fiscal Year 2021/22. If this integrated plan is provided to the NPP Board for discussion and recommended for approval in advance of the annual funding allocation submission to DND, it would ensure the CDS has received critical advice with respect to the strategic direction of NPP.

Review and refinement of the policy articulating the role and responsibilities of the NPP Board, combined with modifications to Board practices to provide for more robust strategic direction and oversight will strengthen the quality of input and advice provided to the CDS.

Reporting and Accountability. At present, the NPP Board reviews limited financial and performance information throughout the year. This inherently limits the nature and value of oversight, in support of their advisory role, that NPP Board members can provide. For example, some financial information is integrated into the annual business plan but limited substantive performance information is provided to clearly understand the volume, nature and complexity of services provided to the CAF commensurate with the associated revenues and expenditures. A consolidated budget for the whole of NPP Enterprise clearly aligned with the business plan would enable the members to do the necessary review and due diligence of the whole enterprise, thereby strengthening the strategic advice provided to the CDS. This would be further enhanced by the provision of an enterprise-wide performance framework. Effective due diligence on the upcoming year's budget includes a review of the previous year's financial performance, amongst other information. At present, the NPP Enterprise produces seven sets of audited financial statements for the Board without any accompanying consolidated financial

statement to tie it all together. The absence of a consolidated set of financial statements for the NPP Enterprise limits Board members' ability to understand the financial performance at an enterprise level, thereby limiting the substantive oversight in support of their advisory role that members can provide.

Board Orientation. At present, when CAF members join the NPP Board, they are briefed by their predecessor as part of the overall handover of the broader suite of duties. In addition, MD, NPP plays an active role in briefing new Board members, providing valuable information and material. A formalized orientation for new Board members will strengthen their understanding of the NPP business and enhance their governance skills so as to better equip them in discharging their NPP Board responsibilities.

Support to the Board. The Canadian Forces Morale and Welfare Services (CFMWS) plays a lead and highly valued role in Board operations including setting NPP Board agendas and priorities, providing quality board materials, arranging meetings and pre-briefs, and recording Board deliberations and records of decision. Given the volume of Board materials and the need for enhanced discussion and dialogue at meetings, CFMWS should look at developing a one-page synopsis of agenda item documents, clearly indicating the role expected of the Board in relation to each item, and include it with meeting materials.

Management Response

The CDS agrees with the recommendations, in principle, pending their detailed assessment through the work that is currently underway by the VCDS to develop a Management Action Plan (MAP) that addresses the findings and recommendations. The NPP Audit Committee and CFMWS management are being engaged in the process to develop the MAP and they will play a key role in its implementation. Development of the MAP is expected to be completed by September 30, 2021. Implementation of the MAP is expected to be completed by March 31, 2022.

1.0 Introduction

1.1 Background

NON-PUBLIC PROPERTY

The *National Defence Act* establishes NPP, under sections 2 and 38 to 41, as a special class of Crown property to be used for the benefit of serving and former members of the CAF and their families. Under the Act, the CDS is generally responsible for the management and disposition of NPP. Commanding Officers are responsible for NPP of their particular unit or element. The MND may issue directions to the CDS concerning the administration and audit of NPP.

CFMWS delivers publicly funded programs together with elements of non-public funded programs and services. CFMWS is legally described as “Her Majesty the Queen in right of Canada, as represented by the Chief of the Defence Staff in his non-public property capacity, through the Canadian Forces Morale and Welfare Services (“CFMWS”)”.

Pursuant to their authority under the *National Defence Act*, the CDS and Commanding Officers have established a number of organizations to administer NPP. These organizations administer and deliver NPP programs to the Crown, acting on behalf of the responsible individual. At the national level, these organizations include Personnel Support Programs, Military Family Services, Canadian Forces Exchange System (CANEX), and Service Income Security Insurance Plan Financial Services (SISIP FS). At the Base, Wing and Unit level, these organizations are numerous, and include messes, museums, cable television operations, and sports and recreational clubs and facilities. Collectively, these NPP organizations operate under the umbrella of the NPP accountability framework including NPP accounting services.

Another organization created to support the administration of NPP is the Staff of the Non-Public Funds, Canadian Forces. This is an agency under Schedule V of the *Financial Administration Act*. While the MND is ultimately accountable for this Agency, the Act allows for the MND’s responsibilities to be delegated. Through a 2004 Ministerial Order under the Act, the CDS and his designates are delegated authority for personnel management of the Staff of the Non-Public Funds, Canadian Forces. The CEO, Staff of the Non-Public Funds, Canadian Forces has been delegated this authority by the CDS. Staff of the Non-Public Funds, Canadian Forces provide many of the activities and services of the NPP Enterprise.

As the CDS is responsible for the governance of all elements and activities of NPP, it is important to understand the full suite of organizations and activities that make up this enterprise. This is currently a challenge given the dynamic, complex and disparate nature of the organizations that collectively administer NPP. The term ‘NPP Enterprise’ is used throughout this report to reflect the collective of organizations that administer NPP and are accountable to the CDS. A graphical illustration of the NPP Enterprise is included in [Annex B](#).

NPP BOARD

As outlined in DAOD 9003-1, Non-Public Property, the role of the NPP Board is to provide input and advice to the CDS in terms of strategic plans, policies, guidance, NPP investments, and acceptance of the externally audited annual NPP financial statements. The CDS chairs the NPP Board.

This directive also stipulates that the NPP Board assist the CDS in the following spheres:

- Establishment and maintenance of the vision and mission of NPP;
- Provision of strategic direction and exercise of oversight² for all NPP activities, including shared NPP and public activities;
- Approval of major policies related to NPP;
- Provision of strategic direction and exercise of oversight in the management of NPP investment assets of the Canadian Forces Central Fund and the SISIP Segregated Fund;
- Approval of corporate risk management and performance management frameworks for NPP; and
- Establishment and maintenance of a forward planning agenda to ensure that key responsibilities are addressed annually.

The NPP Board members are selected based on a position they hold in DND and the CAF. A listing of the NPP Board members and required/permanent attendees is reflected in [Annex E](#).³

1.2 Rationale

The assessment of the NPP Board was included in the NPP Risk-Based Internal Audit Plan for Fiscal Year 2020/2021 to assess the efficacy of the NPP Board, as requested by the CDS.

1.3 Objective

The objective of this assessment is two-fold:

1. To carry out an assessment of the NPP Board governance; and
2. To increase stakeholders' (CDS, senior management, NPP Board members) awareness and understanding of the NPP Board structure, Board members' roles and responsibilities, and organizational performance management.

² Oversight exercised by the NPP Board does not usurp the CDS's and CEO, Staff of the Non-Public Funds, Canadian Forces' responsibilities and/or authorities for NPP and the Staff of the Non-Public Funds, Canadian Forces respectively. The NPP Board is, and remains, advisory to the CDS.

³ In addition to the NPP Board, the NPP Enterprise has an Audit Committee, Investment Committee and Pension Committee.

1.4 Scope

The scope of this assessment included the following:

- Board structure and composition/membership;
- Board roles, responsibilities and accountability, including accountability to DND for federal funding received in support of CFMWS;
- Linkage to other NPP committees including the Audit Committee; and
- Board operation/functioning, including discharge of oversight responsibilities and monitoring of organizational performance.

The assessment was conducted between February and April 2020.

1.5 Methodology

The planned methodology for this assessment included a review of current Board structures, processes and practices aligned with the scope and assessment criteria. This entailed:

- Interviews with NPP Board members and required participants;
- Interviews with CFMWS management;
- Observation of Board operations/functioning via attendance at the March 2, 2020 Board meeting to review the nature and extent of discussion and challenge members provide at Board meetings;
- Review of Board meeting materials to understand and assess the nature and topics discussed at Board meetings; and
- Review of additional NPP reports, documents and materials as required.

A summary of positions interviewed as part of this assessment is included in [Annex C](#).

1.6 Assessment Criteria

The assessment criteria can be found in [Annex D](#).

1.7 Statement of Conformance

The findings and conclusions contained in this report are based on sufficient and appropriate evidence gathered in accordance with procedures that meet the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The assessment thus conforms to the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* as supported by the results of the quality assurance and improvement program. The opinions expressed in this report are based on conditions as they existed at the time of the assessment and apply only to the entity examined.

2.0 Findings and Recommendations

2.1 NPP Board Structure and Composition

The NPP Board is comprised of a total of 22 members and permanent attendees, most of which are drawn from the most senior ranks of the CAF. Opportunities exist to restructure the Board to a more manageable size and to include membership from business sectors that align with those of the CFMWS.

2.1.1 Board Structure and Size

As previously noted, morale and welfare of the CAF is commanders' business, and NPP is key to supporting commanders in providing CAF members with morale and welfare services needed to remain battle ready. As outlined in policy,⁴ "the NPP Board is an advisory committee that assists the CDS as the governing authority for NPP." Given its role as an advisory committee, the NPP Board members do not have a fiduciary duty of care to the NPP Enterprise but rather a duty to provide the CDS with effective, relevant and timely input and advice to support the governance of NPP.

The NPP Board is comprised of 10 members, drawn from the most senior ranks of the CAF as well as senior representation from within the CAF and DND. In addition, 12 permanent attendees attend each NPP Board meeting. There is little differentiation between the two groups; in essence making for a 22 person board. A summary of the NPP Board members and permanent attendees is reflected in [Annex E](#).

While there no single optimal board size, the 2019 *Best Practice Principles of Corporate Governance for Crown Corporations* by the Ivey Business School⁵ states the majority of federal Crown board have on average between 8-12 members. The key factors in determining the optimal size of a Board are the mandate of the board (i.e., the work it needs to do) and the skills and expertise required to deliver on the mandate. Given the size and complexity of the NPP Enterprise, its current 10 member structure appears reasonable in that it is similar in size to that of a federal Crown corporation.

While the NPP Board currently has 12 permanent attendees, each of whom currently assumes a seat at the Board table, Boards of Crown corporations and private companies tend to have much fewer required attendees. Required Board attendees typically are limited to the Chief Financial Officer, Corporate Secretary and Chief Operating Officer. A 10 person NPP Board, together with a smaller number of permanent attendees, would support more fulsome Board dialogue and discussion.

⁴ DAOD 9003-1, section 4

⁵ https://www.ivey.uwo.ca/cmsmedia/3785438/new-design_report_crowncorporationgovernance.pdf.

In addition to the NPP Board, the NPP Enterprise has an Investment Committee which reports to the Board as well as an Audit Committee and Pension Board, both of which are accountable directly to the CDS. These committees are discussed further in section 2.1.3.

2.1.2 Board Membership

At present, the NPP Board membership primarily replicates the CAF command structure, including the representation by commanders from each of the Branches of the CAF. The Board is chaired by the CDS and is accountable to the CDS. While the command structure is optimal for CAF operations, it is not ideal to support fulsome dialogue, challenge and discussion at the NPP Board table. Fulsome dialogue is a further challenge given that the business of the NPP Enterprise differs vastly from that of the NPP Board members' regular duties and areas of experience and expertise.

Given that the NPP Board is advisory to the CDS, having him as Chair inherently reduces the Board's independence and objectivity, thereby precluding the CDS from receiving more robust, relevant input and advice. Recognizing that an independent Board Chair would represent a significant shift in current practice, ensuring an effective linkage between the CDS and the NPP Board is paramount. This could be achieved in various ways, including having the CDS attend the latter part of Board meetings, providing the opportunity for the Board to convey their input and advice on the matters tabled throughout the meeting. The CDS would also be invited to all Board meetings, attending all or part thereof at his discretion. Having a strong Chair who maintains effective linkages with and to both the CDS and the MD, NPP is critical to the success of this change in Board leadership.

The membership being primarily drawn from the CAF supports clear alignment with the mandate and mission of CFMWS. This is critical given that the *raison d'être* of the organization is to support the operational readiness of Canada's armed forces. While CAF representation on the NPP Board is critical, the current composition represents the most senior ranks of the CAF. These members are extremely busy, often away from Ottawa, and thus, are limited in the time they can devote to the NPP Board. In some instances, members send delegates in their place. This is not an accepted Board practice and is less than ideal as the quality of input and advice the NPP Board provides to the CDS heavily depends on the attendance and participation of the members themselves. In addition, current CAF NPP Board members often have a very short tenure on the NPP Board given the length of time they spend in their CAF position aligned with Board membership. This further limits their ability to become more fully immersed in the NPP Enterprise world needed to provide robust and effective strategic direction, oversight and advice to the CDS.

Having representation from across the CFMWS' core businesses would help strengthen the NPP Board in that it would provide for enhanced expertise and consistency. This is of particular importance given the extensive growth in the breadth and depth of services and activities provided by the NPP Enterprise, culminating in a current asset base in excess of \$1.3 billion. Having membership from the across the following sectors that provide these vast arrays of

services and activities would better equip the Board with the necessary experience and expertise to provide more fulsome advice and input to the CDS:

- Retail (CANEX/NATEX) including e-commerce
- Insurance (SISIP)
- Finance (investment management, financial planning)
- Fitness, recreation (Personnel Support Programs)

CAF family representation on the NPP Board would also be advantageous given that families are a key beneficiary of CFMWS services.

2.1.3 Linkage to other Strategic Committees

The Board of a Crown, private sector or not-for-profit would establish committees of the Board to support it in carrying out its work. As such, the membership of these Board committees would be drawn from the Board membership and would formally report through the Board. At present, the CFMWS' Investment Committee, the Pension Board and the NPP Audit Committee are not formal committees of the NPP Board. At present, there are some linkages between these committees and the NPP Board (i.e., the Chair of the NPP Audit Committee was recently added as a permanent attendee at NPP Board meetings).

As previously mentioned, the NPP Board is not a Crown or private sector Board with the associated fiduciary duties such that there is nothing mandating that these committees be clearly aligned to the NPP Board. However, seizing the opportunity to formally align the Investment Committee and the NPP Audit Committee with the NPP Board would provide for more streamlined, integrated governance and oversight by the NPP Board.⁶ In turn, it would better equip the Board to carry out its full range of responsibilities, ensuring effective linkages, accountability and reduced risk of redundancy in the provision of input and advice to the CDS. Strengthening the alignment could range from restructuring the membership of these committees to align with the NPP Board, to ensuring strong coordination/collaboration amongst the Chairs of the NPP Board and the committees to ensuring the annual plans and minutes of meetings are shared with the NPP Board on a timely basis.

ADM(RS) Recommendations

1. Rename the NPP Board to clearly demarcate that it is an advisory committee (i.e., NPP Advisory Board).
2. Restructure the NPP Board to include fewer members and permanent attendees that collectively provide for more balanced, stable representation across the NPP Enterprise's business lines and the CAF. Under a restructured Board, assign the duty of Chair to an independent Board member.

⁶ Further work would be required to assess the feasibility, risks and opportunities of aligning the NPP Pension Board to the NPP Board.

3. Consider integrating the Investment Committee, Audit Committee and Pension Board as committees of the NPP Board.

OPI: CDS

2.2 Role and Responsibilities of the NPP Board

The role and responsibilities of the NPP Board are documented and approved by the CDS. They should be reviewed and updated as required, to ensure continued robust oversight of the enterprise and advice to the CDS.

The Board's role and responsibilities are outlined in DAOD 9003-1, an authoritative policy signed by the CDS. The role of the Board is advisory. This differs from a traditional Board of Directors in that in the public and private sectors, Board members have a fiduciary duty of care to the corporation. In the case of the NPP Board, the members are advisors and are accountable to the CDS.

With respect to the NPP Board's responsibilities, the oversight of all NPP activities is particularly broad and all-encompassing with little clarity of what is expected. For example, the NPP Board receives a human resources report annually but does not appear to exercise any substantive oversight over the Staff of the Non-Public Funds, Canadian Forces, despite this 4,000-plus organization being integral to the delivery of NPP activities and programs.

In addition, financial resources requested from DND are reflected in a separate *Morale and Welfare Services Business Plan* that is submitted to National Defence each year. The NPP Board does not review nor advise the CDS on the *Morale and Welfare Services Business Plan* prior to it being submitted to DND for approval. This despite the 2020-2021 *Morale and Welfare Services Business Plan* representing upwards of \$135 million with no guarantee of approval,⁷ nor any accompanying Service Level Agreement.

While the incremental public support of \$22 million requested (i.e., over and above that provided in the preceding year) was included in the NPP 2020-21 Business Plan, the total public support envelope and associated level of services commensurate with the total public support being requested was not provided to the NPP Board. This precluded the NPP Board members from having a comprehensive view of the NPP Enterprise and providing comprehensive, robust, relevant oversight and advice to the CDS. However, the NPP Board is advised of the amount of morale and welfare financial resources once the approval is received from National Defence.

⁷ CFP 110, issued in 2007 and signed by the CDS and Deputy Minister, outlines the formula for determining the maximum amount of financial resources to be provided by National Defence; however, CFP 110 also is clear that this resource level is not an entitlement.

CFP 110 represents the policy manual for the public support for morale and welfare programs and NPP. Developed in 2007, it was approved by the VCDS under the instruction of the CDS and the Deputy Minister, DND. This policy manual outlines the maximum levels of National Defence financial resources to be flowed to NPP for various services provided by the NPP Enterprise. However, there does not appear to be a clear, formal mechanism for the Board to review, discuss and recommend the total amount of annual financial resources requested from National Defence each year and the level of services and activities to be provided by the NPP Enterprise commensurate with these resources. Elaborating on the NPP Board's responsibilities to encompass the following will enhance the foundation and efficacy of the Board's work:

- Clarity that the NPP Board is responsible for oversight and strategic direction for the NPP Enterprise;
- Review and recommended approval to the CDS of an enterprise-wide strategic or business plan for the NPP Enterprise;
- Review and recommended approval of an enterprise-wide annual budget tabled at the NPP Board and approved by the CDS as well as the budget submission to DND for public resources in support of NPP operations;
- In-year monitoring by the NPP Board of performance of against the approved business plans; and
- In-year monitoring of financial and operational performance.

ADM(RS) Recommendation

4. Refine the NPP Board role and responsibilities to:
 - a. Clearly reflect that the Board is responsible for the provision of advice to the CDS across the NPP Enterprise; and
 - b. Enhance the Board's strategic direction and oversight responsibility to reflect the key elements this should encompass.

OPI: CDS

2.3 Board Reporting and Accountability

Some financial reporting is provided to the Board and DND but opportunities exist to strengthen planning and reporting in support of enhanced oversight of performance and accountability of the NPP Enterprise.

At present, it appears that the Board discharges its responsibilities with respect to the provision of strategic direction and exercise of oversight for all NPP activities, including shared NPP and

public activities, in a more piecemeal manner versus the whole of the enterprise. This is evidenced by the following:

- The NPP Board does not receive a consolidated budget for the whole of NPP Enterprise clearly aligned with the Business Plan. As NPP Board members are responsible for provision of strategic direction and oversight of **all** NPP activities, having comprehensive information to enable them to do their necessary review and due diligence of the whole enterprise is critical to facilitating meaningful advice to the CDS;
- The Board does not proactively review progress against the approved Business Plan throughout the year, thereby identifying areas of concern and providing input and advice to course correct as may be required;
- There is a lack of consolidated financial and performance reporting across the NPP Enterprise. The absence of a strategic performance framework compounds this challenge; and
- There is an absence of consolidated financial statements. The provision of seven sets of audited financial statements for various elements of the NPP Enterprise operation, versus an accompanying, consolidated set of financial statements hampers NPP Board members' ability to provide meaningful strategic oversight and advice on the financial performance.

Some financial information is integrated into the 2020-2021 NPP Business Plan but limited substantive performance information is provided to clearly understand the volume, nature and complexity of services provided to the CAF commensurate with the revenues and expenditures. It is appreciated that the business plan is evolving and maturing, and this work is encouraged to continue to support NPP Board members in providing more strategic, robust input and advice on the strategic direction of the enterprise.

At present, CFMWS provides quarterly financial reporting, in the form of a written synopsis, to DND. While the MD NPP provides an update at each NPP Board meeting, neither this quarterly financial report nor in-year formalized financial forecast reporting is provided to the Board to aid them in effectively monitoring the financial performance throughout the year. The NPP Audit Committee currently provides highly valuable oversight and advice to the CDS on the NPP Enterprise. This oversight and advice from the Audit Committee, while valued, does not cover the full suite of responsibilities or areas as required of the NPP Board.

ADM(RS) Recommendation

5. Provide the NPP Board with a strategic plan for the NPP Enterprise as a whole for their review and recommended approval to the CDS each year. This plan should clearly reflect

the elements resourced through financial resources requested from National Defence versus non-public funding.

6. Provide the NPP Board with standardized reporting throughout the year that supports their monitoring against the plan and the financial and operational performance of the NPP Enterprise.
7. Consider opportunities to streamline and consolidate year-end reporting by reducing the number of audited financial statements produced each year.

OPI: MD, NPP

2.4 Board Orientation and Support

The NPP Board receives valued support from management. This support can be enhanced through a formalized orientation program for new NPP Board members and more frequent and longer meetings commensurate with more robust and fulsome oversight of the NPP Enterprise.

2.4.1 Orientation and Professional Development

As previously noted, the majority of NPP Board members are drawn from the most senior ranks of the CAF. Upon assuming these positions, the CAF member is briefed on NPP as part of the handoff of their full suite of CAF responsibilities. In many instances, most CAF members have had limited exposure to NPP prior to joining the NPP Board. In addition to hand-off briefings, the MD, NPP personally meets with each new CAF NPP Board member, providing them with a briefing on NPP and answering any questions they may have.

While the current briefing activities provide useful insight and information for new NPP Board members, there is little focus and attention on what is expected of NPP Board members in delivering on their advisory role. Given the NPP Enterprise is comprised of business lines that do not in any way resemble that of military, CAF Board members in particular often do not have the experience or expertise that aligns with that of the NPP Enterprise.

A formalized, structured orientation and professional development program, specifically designed for the NPP Board, would provide new members with consistent, relevant information on NPP Enterprise as well as on governance. With the recommendation to restructure the NPP Board composition as outlined in section 2.1.2, the orientation program should also be designed to enhance non-CAF members' understanding of the armed forces and the history of NPP. If required, professional development mechanisms should be developed and implemented to ensure NPP Board members can obtain any additional training necessary to support them in carrying out their responsibilities.

2.4.2 Administrative Support

CFMWS plays a lead and valued role in Board operations including setting NPP Board agendas

and priorities, arranging meetings and pre-briefs, and recording Board deliberations and records of decision. NPP Board members overwhelmingly expressed appreciation to the CFMWS team in providing fulsome Board materials on a timely basis and providing a pre-briefing in advance of the Board meetings. This universal praise by current NPP Board members is particularly noteworthy given that the NPP Enterprise does not have a dedicated secretariat to support the NPP Board but rather staff members carry out NPP Board support activities as part of their broader suite of responsibilities.

While materials provided are of high quality, at present, it is not always clear what management expects from the Board in relation to items tabled at the NPP Board meeting. For example, currently there is not clarity as to what items are being tabled for recommended advice or input to the CDS versus what is for information. Providing a one-page summary document/one-page briefing for each agenda item, outlining the salient issues and points for discussion and the role expected of Board members with respect to each item tabled, would support members in carrying out their due diligence in advance of the meeting while supporting more robust discussion and recommendations at NPP Board meetings.

As previously noted, the NPP Board currently meets three times per year with each meeting approximately 2-3 hours in duration. This makes for a total of 6-9 hours of meetings over the year. Given the size and complexity of the NPP Enterprise, this does not provide sufficient time for meaningful and effective dialogue and discussion across the NPP Enterprise. Best practice for a Board of the size and complexity of the NPP Enterprise would be full day meetings, 5-6 times per year.

ADM(RS) Recommendations

8. Develop and implement a formalized orientation program that provides new NPP Board members with enhanced insight and information on the NPP Enterprise and governance.
9. Implement a brief summary cover sheet with material for each Board agenda item.
10. Enhance the duration and frequency of NPP Board meetings.

OPI: MD, NPP

3.0 General Conclusion

The NPP Board currently provides the CDS with some input and advice, and opportunities exist to significantly enhance the value they provide. These opportunities can be realized within the existing legal, regulatory and policy framework.

Annex A—Management Response

ADM(RS) uses recommendation significance criteria as follows:

Very High—Controls are not in place. Important issues have been identified and will have a significant negative impact on operations.

High—Controls are inadequate. Important issues are identified that could negatively impact the achievement of program/operational objectives.

Moderate—Controls are in place but are not being sufficiently complied with. Issues are identified that could negatively impact the efficiency and effectiveness of operations.

Low—Controls are in place but the level of compliance varies.

Very Low—Controls are in place with no level of variance.

NPP Board Structure and Composition

ADM(RS) Recommendation (Low Significance)

1. Rename the NPP Board to clearly demarcate that it is an advisory committee (i.e., NPP Advisory Board).

ADM(RS) Recommendation (High Significance)

2. Restructure the NPP Board to include fewer members and permanent attendees that collectively provide for more balanced, stable representation across the NPP Enterprise's business lines and the CAF. Under a restructured Board, assign the duty of Chair to an independent Board member.

ADM(RS) Recommendation (Low Significance)

3. Consider integrating the Investment Committee, Audit Committee and Pension Board as committees of the NPP Board.

Role and responsibilities of the NPP Board

ADM(RS) Recommendation (High Significance)

4. Refine the NPP Board role and responsibilities to:
 - a. Clearly reflect that the Board is responsible for the provision of advice to the CDS across the NPP Enterprise; and
 - b. Enhance the Board's strategic direction and oversight responsibility to reflect the key elements this should encompass.

Board Reporting and Accountability

ADM(RS) Recommendation (Moderate Significance)

5. Provide the NPP Board with a strategic plan for the NPP Enterprise as a whole for their review and recommended approval to the CDS each year. This Plan should clearly reflect the elements resourced through financial resources requested from National Defence versus non-public funding.

ADM(RS) Recommendation (Moderate Significance)

6. Provide the NPP Board with standardized reporting throughout the year that supports their monitoring against the Plan and the financial and operational performance of the NPP Enterprise.

ADM(RS) Recommendation (Moderate Significance)

7. Consider opportunities to streamline and consolidate year-end reporting by reducing the number of audited financial statements produced each year.

Board Orientation and Support

ADM(RS) Recommendation (Moderate Significance)

8. Develop and implement a formalized orientation program that provides new NPP Board members with enhanced insight and information on the NPP Enterprise and governance.

ADM(RS) Recommendation (Low Significance)

9. Implement a brief summary cover sheet with material for each Board agenda item.

ADM(RS) Recommendation (Moderate Significance)

10. Enhance the duration and frequency of NPP Board meetings.

Management Response

The CDS agrees with the recommendations, in principle, pending their detailed assessment through the work that is currently underway by the VCDS to develop a Management Action Plan (MAP) that addresses the findings and recommendations. The NPP Audit Committee and CFMWS management are being engaged in the process to develop the MAP and they will play a key role in its implementation. Development of the MAP is expected to be completed by September 30, 2021. Implementation of the MAP is expected to be completed by March 31, 2022.

OPI: CDS

Target Date: March 31, 2022

Annex B—Graphical Illustration of the NPP Enterprise – NOT Ownership

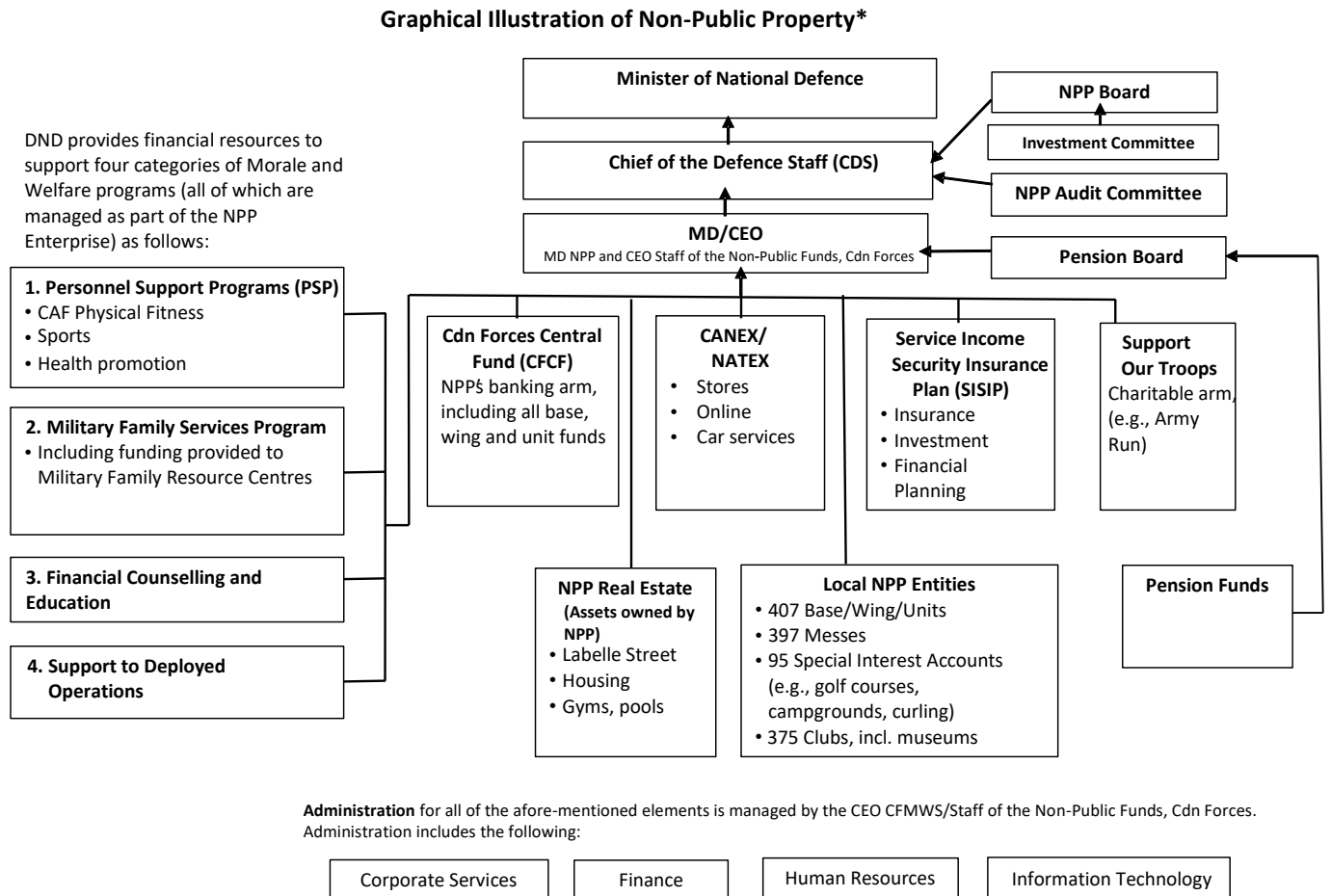


Figure B-1. Graphical Illustration of NPP. This figure displays an illustration of the NPP Enterprise.

Annex C—NPP Board Assessment Interviews

The interviews carried out as part of the NPP Board assessment consisted of the following positions:

- CAF Chief Warrant Officer
- Vice Chief of the Defence Staff
- Commander, Canadian Army
- Commander, Royal Canadian Air Force
- Chief Military Personnel
- Chief Financial Management/Director General Budget
- Director, Budget (former Military Personnel Command Comptroller)
- Legal Counsel, Canadian Forces Legal Advisor
- Chief of Reserves and Employer Support
- Former CAF representative
- Current NPP Audit Committee Chair
- Incoming NPP Audit Committee Chair
- MD, NPP
- Chief Operating Officer
- Chief Financial Officer
- Vice President, Corporate Services
- Vice President, Human Resources
- Senior Vice President, Personnel Support Programs
- Senior Vice President, Commercial Services
- Vice President, CANEX/NATEX

Annex D—Assessment Criteria

The following is a summary of the criteria for the NPP Board Assessment:

#	Area of Management Control in Scope	Assessment Criteria
1	Board structure and composition	<p>1.a. Appropriateness of the size of the NPP Board, range of members’ qualifications, knowledge, skills, experience and level of commitment available to fulfill Board responsibilities</p> <p>1.b. Effective linkages to other NPP oversight committees, including the NPP Audit Committee⁸</p> <p>1.c. Adequacy of policies or practices to regularly review and adjust the NPP Board structure and composition as necessary</p> <p>1.d. Adequacy of practices to determine and secure membership of the NPP Board</p>
2	Board roles, responsibilities and accountabilities	<p>2.a. NPP Board roles, responsibilities and accountabilities are documented and consistent with policy</p> <p>2.b. Adequacy of policies or practices to periodically review and adjust Board roles, responsibilities and accountabilities as necessary</p> <p>2.c. NPP Board responsibilities include recommended approval and oversight of:</p> <ul style="list-style-type: none"> • Board strategy, including recommended approval of the NPP Strategic Plan to the CDS • Delivery against the Strategic Plan and strategic/major initiatives • Performance of NPP • NPP Risk Profile • Accountability for appropriated funding (public money) expended on CFMWS

⁸ While this is reflected as a standalone element in terms of the scope, it will be reviewed as part of the assessment of the structure of the Board.

#	Area of Management Control in Scope	Assessment Criteria
3	Board operation, including discharge of oversight responsibilities including monitoring of organizational performance.	<p>3.a. Adequacy of Board’s challenge, advice and guidance on:</p> <ul style="list-style-type: none"> • Recommending approval of the strategic direction for NPP to the CDS • The development, review and recommended approval of the NPP Strategic Plan • NPP performance and the effectiveness of risk management practices to mitigate key strategic, operational and business risks <p>3.b. Adequacy of practices to orient new NPP Board members, and periodically update existing members, on their responsibilities</p> <p>3.c. Adequacy of practices to set NPP Board agendas and priorities, arrange and conduct meetings, and record its deliberations and decisions and the extent to which these practices promote transparency in NPP Board accountabilities</p> <p>3.d. Adequacy of policies or practices ensuring that NPP Board members receive timely, relevant, accurate and complete information to support robust and relevant discussions at the Board meetings and to make informed decisions</p> <p>3.d. Board meetings provide sufficient time and opportunity for effective discussion of issues requiring a decision</p>

Table D-1. Board Assessment Interviews. This table provides a list of all interviews carried out as part of the NPP Board assessment.

Annex E—NPP Board Members and Permanent Attendees

As outlined in DAOD 9003-1, the following 10 positions sit on the NPP Board as **members**:

1. Chief of the Defence Staff (CDS) – Chair;
2. Vice Chief of the Defence Staff (VCDS), who acts as the Chair in the absence of the CDS;
3. Commander, Royal Canadian Navy (RCN);
4. Commander, Canadian Army (CA);
5. Commander, Royal Canadian Air Force (RCAF);
6. Commander, Military Personnel Command (MILPERSCOM);
7. Assistant Deputy Minister (Finance)/Chief Financial Officer (ADM(Fin))/Chief Financial Officer) as represented by a general or flag officer;
8. Chief Reserves and Cadets (C Res and Cdts);
9. CAF Chief Warrant Officer; and
10. A former CAF member representative.

DAOD 9003-1 stipulates the following 10 positions are **permanent attendees** at NPP Board meetings:

- Judge Advocate General;
- Assistant Deputy Minister (Infrastructure and Environment) (ADM(IE));
- Assistant Deputy Minister (Review Services) (ADM(RS));
- DGMWS as the Managing Director NPP; and
- Command chief warrant officers/chief petty officers 1st class of the RCN, CA, RCAF, VCDS, MILPERSCOM and C Res and Cdts (6 people)

Over time, the following 2 additional positions have been added as **permanent attendees**:

- Chair, NPP Audit Committee
- Canadian Forces Legal Advisor