



Canadian Commercial Corporation

Special Examination Report—2009



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

Ce document est également publié en français.



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

23 June 2009

To the Board of Directors of
Canadian Commercial Corporation

We have completed the special examination of Canadian Commercial Corporation in accordance with the plan presented to the Audit Committee of the Board of Directors on 20 January 2009. As required by section 139 of the *Financial Administration Act* (FAA), we are pleased to provide the attached final special examination report.

The attached special examination opinion is dated 27 February 2009. We note that a change to section 138 of the FAA, effective 12 March 2009, has changed the requirement for a special examination to be carried out at least every ten years rather than every five years.

We will be pleased to respond to any questions that you may have concerning our report at your meeting on 23 June 2009.

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

Yours sincerely,

A handwritten signature in black ink that reads 'Douglas Timmins'.

Douglas G. Timmins, CA
Assistant Auditor General

Attach.

Table of Contents

Main Points	1
Special Examination Opinion	5
Overview of the Canadian Commercial Corporation	7
Background	7
The Corporation's mandate, mission, and priorities	8
Financial results	9
Focus of the special examination	9
Observations and Recommendations	9
Risk management and contracting	10
Progress has been made in risk management	11
Risk philosophy needs to be more balanced with the Corporation's mandate	11
Contracting practices have improved	12
Contract management practices do not reflect strategic and operational risks	13
Monitoring of risk is adequate	14
Contract management still lacks a quality assurance process	16
Corporate governance, strategic planning, and performance measurement and reporting	17
Core components of the governance framework have improved	17
Strategic planning process has been strengthened	18
Performance measurement and reporting practices are not fully implemented	19
Marketing and business development	20
Several marketing processes and practices are working well	21
Human resources management	22
Current human resources management practices meet the Corporation's needs	22
Information technology	23
Project management was strong during system implementation	23
Corporate social responsibility	24
Implementation of a corporate social responsibility strategy is in the early stages	24
Updating of the Environmental Review Framework for capital projects is not complete	26
Conclusion	26
About the Special Examination	27
Appendix	
List of recommendations	29



Canadian Commercial Corporation Special Examination Report—2009

Main Points

What we examined

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

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

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

Why it's important

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

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

What we found

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

- The Corporation's risk management framework and its contracting practices have improved since our 2004 special examination, when we reported a significant deficiency in both areas. For example, the Corporation has developed and implemented its risk management framework. The Board and management have improved the monitoring of risks and are working together to develop consistent reporting on the status of identified risks and on new risks that need mitigation. We note, however, that the Corporation's risk management philosophy—seek to eliminate all known risks—needs to be more balanced with its broader public policy mandate and more aligned with its current risk management practices. Improved contracting practices include a new contracting policy suite with guidance on identifying early signs of problem contracts and the required corrective action. We found little progress on our 2004 recommendation to establish a quality assurance process for contract management.
- The Corporation needs to improve its documentation in specific areas. In the contracting process, it needs to aggregate, clearly link, and present all significant risks to support decision making; it needs to better document decisions related to the identification and pursuit of contracting opportunities; and it needs to ensure that consideration of strategic and operational risks is included and documented in the contract management process along with currently documented project-specific risks.
- Corporate governance reflects good practices of Board stewardship, shareholder relations, and communication with the public. The Board is closely involved with management in the strategic planning process, and the Corporation consults with government throughout the process to ensure that government priorities are taken into account. The Corporation is currently developing a comprehensive performance measurement framework to improve the monitoring of performance; it has made this a corporate priority.
- The Corporation's marketing practices support its objectives and goals and respond to market needs. The Corporation has used its past experience to develop successful business models for new

markets. We note that each business line has its own business development activities and system for compiling information on future projects. In our view, the Corporation would benefit from a comprehensive corporate marketing strategy as well as corporate-wide marketing information covering all business lines.

The Corporation has responded. *The Canadian Commercial Corporation agrees with all the recommendations and is committed to addressing them in a timely manner. Detailed comments with respect to each recommendation are found in the Observations and Recommendations section of this report.*

Special Examination Opinion

To the Board of Directors of Canadian Commercial Corporation

1. Under Section 131 of the *Financial Administration Act* (FAA), the Canadian Commercial 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.
2. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination—from October 2008 to February 2009—there were no significant deficiencies in the systems and practices.
3. We based our examination plan on a survey of the Corporation's systems and practices and a risk analysis. On 20 January 2009, we submitted the plan to the Audit Committee of the Board of Directors. The plan identified the systems and practices that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. Those are the systems and practices that we selected for examination.
4. The examination plan also included the criteria that we used to examine the Corporation's systems and practices. These criteria were selected for this examination in consultation with the Corporation. The criteria were based on our experience with performance auditing and our knowledge of the subject matter. The criteria and the systems and practices we examined are listed in **About the Special Examination** at the end of this report.
5. We conducted our examination in accordance with our plan and with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. Accordingly, it included the tests and other procedures we considered necessary in the circumstances. In carrying out the special examination, we relied on internal audit for the assessment of the design and effectiveness of internal controls of the new financial system, and for review of the completeness of the contract policies and instructions in relation to the Corporation's risk management framework.
6. In our opinion, based on the criteria established for the examination, there is reasonable assurance that during the period

covered by the examination there were no significant deficiencies in the Corporation's systems and practices.

7. The rest of this report provides an overview of the Corporation and more detailed information on our examination observations and recommendations.



Douglas G. Timmins, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
27 February 2009

Overview of the Canadian Commercial Corporation

Background

8. The Canadian Commercial Corporation (the Corporation) is a Crown corporation under Schedule III, Part I of the *Financial Administration Act*. It reports to Parliament through the Minister of International Trade. The Corporation is Canada's international contracting and procurement agency. It is headquartered in Ottawa and employs approximately 120 people. These professionals work mainly in disciplines such as engineering, finance, procurement, project management, and international trade.
9. The Corporation was established in 1946 to support Canadian reconstruction efforts after World War II. Today it helps Canadian businesses export their products and services in areas where there is a need for federal government involvement, particularly markets in defence and in emerging and developing countries. The Corporation works closely with Canadian exporters, federal government departments, and foreign government buyers. It has two business lines:
- Defence, which includes services offered under the Defence Production Sharing Agreement (DPSA) with the United States Department of Defense and accounts for about 70 percent to 80 percent of the Corporation's business; and
 - Emerging and Developing Markets.
10. The Corporation offers two principal services:
- **Prime contractor service.** The Corporation signs a contract with a foreign government and in turn enters into a contract with a Canadian supplier. The Corporation guarantees that the contract will be performed according to the terms and conditions; any non-compliance with the contract may result in additional costs to the Corporation. The Corporation also conducts various contract management and financial administration activities, including supplier performance monitoring, to ensure that the terms and conditions are met throughout the contract period.
 - **Procurement service.** The Corporation procures goods and services on behalf of others. This service is provided to foreign governments directly or through federal government departments that deliver international programs—Foreign Affairs and International Trade Canada, the Canadian International Development Agency, National Defence, and others. The Corporation is involved in all phases of the procurement cycle but it does not guarantee the performance of the chosen supplier.

The Corporation's mandate, mission, and priorities

11. The Corporation is governed by the 1946 *Canadian Commercial Corporation Act*. Section 9(1) of the legislation presents the mandate of the Corporation:

- (a) to assist in the development of trade between Canada and other nations;
- (b) to assist persons in Canada
 - (i) to obtain goods and commodities from outside Canada, and
 - (ii) to dispose of goods and commodities that are available for export from Canada;
- (c) to exercise or perform, on behalf and under the direction of the Minister, any powers or functions vested in the Minister by any other Act that authorizes the Minister to employ the Corporation to exercise or perform them; and
- (d) to exercise or perform any other powers or functions conferred on it by any other Act or for the exercise or performance of which it may be employed under any other Act.

12. The Corporation's mandate to assist with imports reflects its original role in the procurement of military equipment for Canada. The Corporation has long since evolved into an export agency only but its import mandate has occasionally been used at the request of the government. The mandate was last used to import petroleum products during the oil crisis of the 1970s. As reflected in its corporate plan, the Corporation currently focuses on developing export trade and may use the import mandate to facilitate this primary objective.

13. According to its mission statement adopted in 2002, the Corporation seeks "to serve as an effective Canadian trade instrument, bringing buyers and sellers together and closing successful export contracts on the best terms and conditions."

14. To fulfill its mandate and corporate mission, the Corporation has established three priorities for the planning period covering the 2008–09 to 2011–12 fiscal years:

- supporting Canadian exporters in international defence markets by continuing to manage the current relationships and pursuing non-U.S. buyers,
- supporting Canadian exporters in emerging and developing markets by developing strategies with other federal organizations to expand its procurement activities, and

- supporting Canadian exporters through organizational excellence by implementing its corporate priorities.

Financial results

15. In the 2007–08 fiscal year, the Corporation earned \$1.4 billion in revenues from its commercial trading activities; that amount covered the costs of commercial trading transactions. Prime contractor services accounted for 89 percent of the total, or \$1.275 billion; procurement services accounted for 11 percent, or \$158 million. The Corporation also received \$15 million in parliamentary appropriations to support its administrative costs in managing the DPSA program.

16. Over the past three years, the Corporation maintained an operating surplus even though its additional contract costs were higher than budgeted and its parliamentary appropriation was reduced by 6 percent.

Focus of the special examination

17. We examined the Canadian Commercial Corporation's systems and practices in six areas: risk management and contracting; corporate governance, strategic planning, and performance measurement and reporting; marketing and business development; human resources management; information technology; and corporate social responsibility.

18. Our objective was to determine whether those systems and practices provide the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

19. Further details on the audit objective, scope, criteria, and approach are provided in **About the Special Examination** at the end of the report.

Observations and Recommendations

20. In 2004, the Office of the Auditor General conducted a special examination of the Canadian Commercial Corporation. The examination found significant deficiencies in the Corporation's risk management framework and contracting practices. Specifically, the Corporation did not have a risk management framework in place. In addition, the Corporation lacked elements of good contracting

practices, a quality management and quality control process to ensure compliance with contracting standards, and formal training and knowledge transfer practices related to contract management.

21. In the present special examination, we found that the Corporation has improved its practices in a number of areas in response to the significant deficiencies identified in the 2004 special examination. In particular, the Corporation has developed and implemented its risk management framework, and is planning to update it during the 2009–10 fiscal year to reflect current practices. The Corporation has adopted new contracting practices that include ongoing monitoring of each contract phase. It has provided training opportunities in the procurement and risk areas, and developed informal practices relating to knowledge management.

22. The Corporation has recently implemented some systems and practices, and it will be important to continue monitoring and reporting on them to ensure that they function properly. Oversight by the Board of Directors will be critical to maintaining the effectiveness of the improvements.

Risk management and contracting

23. Enterprise Risk Management (ERM) is a continuous, proactive, and systematic process of understanding, managing, and communicating risk from an organization-wide perspective. It involves making strategic decisions that contribute to the achievement of an organization's overall corporate objectives. ERM seeks to assess, treat, and communicate risk at an appropriate level, according to an organization's risk profile and objectives. It addresses any uncertainty about potential events and outcomes. It thus enhances decision making, improves efficiencies, and strengthens governance so that the entity is better able to achieve its objectives.

24. We expected that a focus on risk awareness would be embedded in the corporate culture at all levels, supporting the fulfillment of the Corporation's mandate, business goals, and objectives. We also expected that key risks would be identified, measured, mitigated, monitored, and reported so that they could be managed at a level appropriate to the nature of the business.

25. In reviewing risk management and contracting, we looked at key elements that included

- the Enterprise Risk Management framework and related policies and instructions, including corporate social responsibility principles;

- the processes and practices in transactional (project-specific) risk identification and assessment, as well as how the Corporation compiles results and acts on them;
- the contracting policy suite;
- due diligence and monitoring of work performed on the Corporation's behalf by Public Works and Government Services Canada (PWGSC); and
- the quality assurance process to ensure compliance with the Corporation's policies.

Progress has been made in risk management

26. We found that the Corporation has made substantial progress in the area of risk management since our 2004 examination. It implemented an ERM framework in 2006, setting out the Corporation's commitment and approach to managing risk within the current governance structure. It uses a systematic, documented process for identifying risks to strategic objectives, classifies them by likelihood and potential impact, and relates them to risk management strategies. The Corporation identifies risks that need to be addressed at the corporate level. The risks identified are reviewed twice a year by staff and discussed annually with the Board through the strategic planning process.

27. The Corporation has communicated its risk management concepts through annual awareness training and discussions at town hall and stakeholder meetings.

Risk philosophy needs to be more balanced with the Corporation's mandate

28. According to the ERM framework, the Corporation's risk appetite seeks to eliminate all "knowable, foreseeable, and predictable risks." However, this philosophy is not reflected in how the Corporation balances the risks and its mitigation strategies according to its current practices. In addition, the Corporation's public policy role is to assist Canadian exporters in areas where federal government involvement is needed; these areas include emerging and developing markets, where the Corporation has set an objective to grow. In 2008, the Minister of International Trade directed the Canadian Commercial Corporation to "fully deploy its mandate to support Canadian companies in the challenging global economic context." Success on these fronts implies accepting a degree of risk.

29. The Corporation needs to adopt a philosophy of eliminating transactional (project-specific) risks that is reflected in its current risk management practices. The question is whether striving to eliminate all knowable, foreseeable, and predictable risks is achievable and appropriate given the corporate and public policy objectives.

Contracting practices have improved

30. To improve the consistency and quality of its contracting practices, management recently reviewed and implemented a new contracting policy suite. A frequent comment in staff interviews was that the policy suite is easy to follow and apply. A good practice adopted by management was a review of the internal governance structure. This led to the establishment of various discussion tables, with the objective of ensuring continuous improvement of the Corporation's practices. The discussion tables began functioning only recently and it is too early to determine their effectiveness.

31. Management has implemented policies that deal with a significant portion of its business. Still to be addressed are business development policies and instructions, and procurement service agreement instructions.

32. A critical component of the Corporation's risk management system is the due diligence process. This involves assessing a supplier's technical, managerial, and financial ability to accomplish its contractual responsibilities.

33. In our review of contract files, we found that they contained documentation supporting the due diligence undertaken by the Corporation. We also found documentation of project milestones, evidence of analyses to support the risks identified, and evidence of the appropriate authorizations.

34. **Need for better documentation in certain areas.** We noted inconsistencies in the documentation of key decisions made in the initial phase of business development, the "lead and pursuit" phase. We also observed that files lacked documentation of whether the Corporation had considered strategic and operational risks, or identified and complied with principles of corporate social responsibility (CSR). Better documentation in these areas would demonstrate the consideration and application of the Corporation's ERM framework.

35. We also observed that documentation did not clearly show the link between the significant risks identified, consideration of the Corporation's experience with suppliers on other contracts, the conditions required, and the monitoring of contract clauses. Without clear documentation to support authorizations and other decisions, senior management might not be made aware of significant risks to the Corporation in a timely manner.

36. **Recommendation.** In the contracting process, management of the Canadian Commercial Corporation should aggregate, clearly link, and present all significant risks to support decision making. It should also document decisions related to the "lead and pursuit" phase.

The Corporation has responded. The Corporation agrees with the recommendation. It will continue to review and improve its due diligence in the contracting process, including better documentation of the "lead and pursuit" phase, progressively through to June 2010.

Contract management practices do not reflect strategic and operational risks

37. The Corporation's contract management practices currently consider transactional risks related to supplier performance and financial administration. Our review of the detailed instructions for contract management showed that they do not address key elements of the strategic and operational risks, such as consideration of the Corporation's mandate, exposure to reputational risk, and internal capacity to manage the risk.

38. A fully integrated approach would recognize that all decisions involve management of risk, whether in routine operations or for significant initiatives. The Corporation needs to be able to gather information to deal with risk issues at the corporate level. Some risks can expose the Corporation to activities beyond its mandate or unforeseen liabilities, and can interfere with corporate objectives. It is therefore critical to consider significant strategic and operational risks in the contract management process.

39. Our examination found a case that illustrates the need to consider such risks. It involves a transaction related to a May 1996 memorandum of understanding (MOU) between the Corporation and Environment Canada. The MOU concerns the use of the Corporation's procurement services to assist in the delivery of an Environment Canada program. The MOU stipulates that procurements are to be carried out in accordance with the Corporation's practices, policies, and procedures. Environment

Canada is to submit written instructions to the Corporation each year, with information such as the amount of funding, descriptions of the goods or services, and terms of payment.

40. We observed that management had followed instructions from Environment Canada to transfer funds under an Environment Canada contribution agreement with a foreign country. Over the past six years, the Corporation was instructed to transfer funds ranging from US\$77,000 to US\$266,000 a year. The Corporation's mandate permits it to act as a procurement agent only, and consequently it was not authorized to transfer the funds as requested by Environment Canada. We found no evidence that management challenged the nature of the transaction, assessed the potential strategic and operational risks of processing this type of transaction, or ensured that it was in compliance with the Corporation's mandate. After becoming aware of the situation, management ceased processing the transfer of funds under the MOU.

41. **Recommendation.** The Canadian Commercial Corporation should ensure that key elements of its strategic and operational risks are clearly considered in the contract management process.

The Corporation has responded. The Corporation agrees with the recommendation. It is committed to continuously enhancing its contract management process. This will include updating its instructions and training its staff to ensure that key elements of its strategic and operational risks are clearly considered and documented in the contract management process. We expect that these actions will be completed by June 2010.

Monitoring of risk is adequate

42. The Board's Audit Committee and its Commercial Initiatives Committee approve risk management policies. They also monitor risks through quarterly reviews of reports that are complete and summarize the number and value of projects in various risk categories, the risk capital available, country risk exposure, and problem files. The committees have been working closely with management to develop consistent reporting on the status of files, risks that have been identified, and new risks that need to be mitigated.

43. After an environmental scan, in spring 2008 management presented to the Board a risk profile noting that the predicted global economic downturn would increase transactional risks. At that time, management concluded that there would be no impact on the Corporation. During its fall 2008 meeting, the Audit Committee asked

management for an updated assessment of the downturn's potential impact on the Corporation's operations. Management did not provide an assessment as requested. At the following Audit Committee meeting, management presented an action plan that included procedures and indicators to allow for improved monitoring of suppliers' financial position. We would have expected management to use the ERM monitoring process more proactively, as it had done in the spring.

44. Contracting policies and instructions provide comprehensive guidance on early warning signals that will assist in identifying problem contracts, as well as the corrective measures and analysis required. Management has also provided training to familiarize staff with the new requirements and expectations. The training involves an internal mentoring process that assigns staff to a senior officer or manager. The Corporation provides various types of ad hoc training when required. Business units regularly meet to discuss the status of their files and the risks they are managing.

45. Management has a number of ways to monitor supplier performance in contracts:

- It holds progress review meetings.
- It tracks production and delivery against pre-established milestones and targets.
- It keeps in contact with the customer to identify issues and/or potential problems.
- As part of the payment process, it reviews progress claims and invoices for accuracy and reasonableness.

46. Need to monitor compliance with corporate social responsibility clauses. We found that management does not consistently monitor and document whether suppliers adhere to standard corporate social responsibility clauses in contracts, where applicable. Management has indicated that it relies on other government organizations to check that suppliers comply with these clauses. In our view, it is important for management to monitor supplier activity directly during the life of a contract. This would enable management to ensure that the supplier complies with CSR clauses, and to determine whether there are any significant transactional or reputational risks to the Corporation.

47. Recommendation. The Canadian Commercial Corporation should implement procedures to monitor and document the effectiveness of corporate social responsibility clauses in its contracts.

The Corporation has responded. The Corporation agrees with the recommendation. As part of its contract management improvement initiative, it will add further monitoring requirements for predefined, higher-risk CSR clauses to the contract management process. The Corporation will complete this change by December 2009.

Contract management still lacks a quality assurance process

48. Our 2004 special examination report recommended that the Corporation develop a quality management process that ensures appropriate documentation to support decisions and actions, and provides for annual reviews to assess compliance with contracting standards. This would enable the Corporation to take corrective action as required. We found little to no progress on developing this process. A quality assurance function will increase in importance as the Corporation does more business in emerging and developing markets, and as the new contracting policy suite matures, along with its ERM framework and CSR strategy.

49. The 2004 report also recommended that the Corporation establish mechanisms for quality assurance of the due diligence and monitoring work performed on its behalf by Public Works and Government Services Canada. In our discussions with the Corporation's employees, PWGSC staff, and external stakeholders, all agreed that the Corporation has implemented specific measures. For example, it uses a database that captures performance indicators and communications with PWGSC. It also meets regularly with PWGSC to share information about risks, processes, and training needs, and to discuss PWGSC internal audit reports on due diligence and contract management processes, and related action plans carried out by PWGSC on behalf of the Corporation. However, the Corporation does not document key aspects of its various reviews and meetings. Documentation is a means of keeping management informed on decisions made, specific actions taken or to be taken, and identification of new risks to be mitigated.

50. Recommendation. The Canadian Commercial Corporation should develop a quality assurance process that ensures there is appropriate documentation to support decisions and actions, and provides for annual reviews to assess compliance with contracting standards.

The Corporation has responded. The Corporation agrees with the recommendation. Six months ago it added a Director of Quality Management position to build a set of processes and practices for quality management, including quality assurance processes for contract management. We expect to complete these actions by June 2010.

Corporate governance, strategic planning, and performance measurement and reporting

Core components of the governance framework have improved

51. Corporate governance is a framework of processes, practices, systems, and structures for overseeing the strategic direction and management of an organization. The framework ensures that the organization can carry out its mandate effectively and achieve its objectives.
52. A Crown corporation's board of directors should have a governance framework that meets expectations of best practices in board stewardship, shareholder relations, and communications with the public. In reviewing the Corporation's corporate governance practices, we looked at a number of governance elements. These included the Board of Directors' roles and responsibilities, Board membership, how the Board fulfilled its stewardship duty, orientation and training for directors, self-evaluation of Board members, and the Board's evaluation of the President of the Corporation. Overall, we found that the corporate governance framework meets expectations and the Board effectively discharges its responsibilities.
53. Since our 2004 examination, the Board of Directors has strengthened its governance structure, systems, and practices. It has implemented a self-assessment process, developed terms of reference for the Board and its committees, and defined skills and competencies necessary for its directors.
54. To facilitate its oversight role, the Board and its committees have terms of reference that define roles and responsibilities aligned with good practices. Committees are required to question and challenge key management decisions, and report to the Board on significant matters and decisions. It was evident that they performed this function in monitoring management's progress throughout the recent corporate planning process, the purchase of a new information system, and the development of new contracting policies and practices. We observed that management provided accurate and timely information, enabling the Board to monitor follow-up on the previous special examination.

55. We found that the Board uses good practices, such as assessing its performance regularly. It also makes a training curriculum available to Board members; this includes orientation sessions to familiarize new directors with the Corporation's public policy role as well as its commercial role. We observed that Board members take the necessary training. Making visits to suppliers and project sites is another good practice adopted by the Board, increasing its business knowledge.

56. The Board has identified the collective skills, knowledge, and experience it requires, as well as the profile of its current membership. It has not noted any significant gaps. The Board was actively involved in providing input for the Minister's consideration concerning the reappointment of certain Board members and potential candidates for the position of President. In addition, the Board is involved in the President's annual objectives-setting and performance evaluation exercises.

Strategic planning process has been strengthened

57. The strategic planning process allows an organization to establish the activities that it will undertake and the underlying reasons for these activities, while focusing on the future. Strategic planning includes assessing the organization's direction and changing it if necessary to adapt to changing circumstances. The corporate plan ultimately guides the setting of corporate objectives and the allocation of resources; the annual report accounts for the results achieved.

58. We expected that the strategic planning process would take into account government priorities, identified risks, and the need to control and protect the Corporation's assets and manage resources economically and efficiently. We examined the strategic planning processes to determine whether the Board of Directors' input was integrated into the Corporation's strategic direction.

59. We found that the Corporation has strengthened its strategic planning and environmental scanning processes since our previous examination. The Board now works closely with senior management to define the Corporation's strategic direction. It provides input into and approves the Corporation's strategic direction, as well as management's identification of the Corporation's strategic, operational, and transactional risks. The corporate plan is based on an analysis of the Corporation's strengths and weaknesses, its key business risks, its competitors, and the Canadian export sector. The Corporation also consults with the government throughout the planning process to ensure that the corporate plan takes government priorities into

account. Since the 2004 examination, the Corporation has strengthened its communications with stakeholders. The Board has increased the number of meetings with government officials, and the Corporation recently held its second annual public meeting.

60. The Corporation's business units have operational plans that set out detailed deliverables to guide management action. The operational plans have been communicated to employees and management through the intranet, town hall meetings, and other channels.

Performance measurement and reporting practices are not fully implemented

61. To achieve sound management, any organization must measure and report on its performance related to its objectives. A federal government organization also must undertake performance measurement and reporting so that it can meet expectations for accountability and transparency. Performance measurement and performance indicators demonstrate the results achieved. They allow an organization to report on performance internally for decision making and externally for accountability.

62. We expected that the Corporation would identify performance indicators to measure the achievement of its mandate and statutory objectives, and that reports would provide complete, accurate, timely, and balanced information for decision making and accountability reporting. We examined the Corporation's current performance measurement activities, including the reporting of information.

63. In 2004, we noted that the Corporation was not reporting results against performance measures it considered to be secondary—what are now known as “organizational strategy measures.” Since our previous examination, we found that the Corporation had begun reporting on specific activities that it carried out. However, it had not improved its measures of efficiency and effectiveness in delivering these activities.

64. In 2006, the Minister of International Trade directed the Corporation to “pay close attention to outlining and measuring how support to Canadian exporters would be provided.” Since then the Corporation has made several attempts to address the Minister's expectations in its annual report—for example, by presenting “facts and stories” on how the Corporation helps Canadian exporters, and using quantitative measures to give details on its business volume. However, the Corporation could still improve its measures of efficiency and effectiveness. This would demonstrate accountability and transparency to the Minister and the public.

65. We noted that management is providing internal financial reports to the Board more frequently. The Board is satisfied with the information it receives from management. It considers that management has acted promptly to provide complete and supplementary information. We also noted that twice a year, during the strategic planning process, the Corporation reports on performance against strategic objectives.

66. Management is currently developing a performance measurement framework that will provide qualitative indicators aligned with its business. It has identified the need for a more comprehensive performance measurement framework to improve performance monitoring, and has made this a corporate priority. Management informed us that its Performance Management discussion table developed key performance indicators used in the strategic planning process for the fiscal years from 2009–10 to 2012–13. These indicators have not yet been applied to internal and external reporting. It is therefore too early to assess their effectiveness.

67. We encourage the Corporation to finalize and implement its performance measurement framework, and to monitor performance against it.

Marketing and business development

68. In areas where government intervention can help increase Canadian exports, the marketing and business development activity provides the link between the identification of market opportunities and the delivery of contracts. The Corporation has set an objective of growing in emerging and developing markets. Its success in meeting this objective depends on its ability to identify new customers, new Canadian exporters, and new markets for its services. At the same time, it has the ongoing task of meeting the needs and expectations of its existing customers.

69. Given the Corporation's growth objective, we expected that its marketing practices would be consistent with its mandate; would support the corporate mission, objectives, and goals; would respond to market needs; and would be effectively operationalized. We examined the processes for developing, executing, and monitoring the Corporation's marketing strategies, and for managing its partnerships and customer relationships. We also reviewed the processes for establishing and monitoring the fee structure that supports the growth objective. Overall, we found that the Corporation's marketing practices support its objectives and goals and respond to market needs.

Several marketing processes and practices are working well

70. In 2007, Export Development Canada, Foreign Affairs and International Trade Canada, and the Corporation signed a memorandum of understanding, agreeing on a strategy to use their knowledge, identify potential markets, and develop a better grasp of the international business environment. This joint strategy benefits Canadian exporters in emerging and developing markets, and helps the Corporation fulfill its public policy role. The three organizations are expected to issue a report in spring 2009 on the results of identifying opportunities in potential markets. In addition, the Corporation has developed successful business models from past practices and has integrated lessons learned from these experiences into its development of new markets. Further, the Corporation has a communications strategy that targets key messages to the appropriate audiences.

71. Need for corporate-wide information. We found that there is no comprehensive corporate marketing strategy providing an integrated, coordinated approach to the Corporation's business lines. Each business unit conducts its own business development activities and maintains its own system of compiling information on future projects. The Corporation has no corporate-wide information about leads (pursued and not pursued), customer/exporter profiles, or market research. Corporate-wide information would enhance management's understanding of customers and suppliers. The business units have recently undertaken a process to share information on common leads.

72. For all contracts except those with the United States Department of Defense, the Corporation charges a fee based on the contract value. Since the previous special examination, the Corporation has annually collected an average of \$8.9 million in contract fees. The Corporation established its fee structure in 2005 and has not updated its fee policy since then.

73. Management performs a monthly profit analysis by business line that reports costs incurred in relation to fees earned. Our review of contract files found no cost estimates to support the fees charged, except in projects undertaken with other federal government entities. With actual labour cost details on a project-by-project basis, the Corporation would be able to determine and assess the relevance and appropriateness of its fee structure.

74. Recommendation. The Canadian Commercial Corporation should

- establish a comprehensive, corporate-wide marketing strategy;

- maintain information that covers all business lines and includes market research on Canadian exporters, client surveys, and data on competitors; and
- update its fee policy, regularly review the relevance and appropriateness of its fee structure, and track costs by project to establish benchmarks that could support fee estimates for similar projects.

The Corporation has responded. The Corporation agrees with the recommendation. It is in the process of building a comprehensive, corporate-wide marketing strategy. The Corporation concurs that information covering all business lines is desirable, and it is working toward implementing this practice. The Corporation is in the process of updating its fee policy to include benchmarks supporting fee estimates, which will be reviewed periodically in accordance with the policy suite review. We expect that these actions will be completed by June 2011.

Human resources management

75. The Canadian Commercial Corporation is a knowledge-based institution and its success depends on the strength of its people and practices.

76. We expected that the Corporation would manage human resources in a manner that provides it with the human resources capacity and work environment needed to achieve corporate goals and objectives. We examined the systems and practices used by the Corporation to recruit and retain qualified employees, establish skill competencies needed in its workforce, offer adequate training, and develop a process for transferring knowledge.

Current human resources management practices meet the Corporation's needs

77. The Corporation has practices for hiring and retaining employees. It conducts an employee survey annually or as needed, to identify and assess the needs of its staff. To address the concerns identified in the survey, it develops and monitors an action plan. Management has a succession plan for key positions and has identified the needed competencies. Management has also adopted many good practices related to knowledge management; these include documentation of business processes, rotation into key positions, frequent team meetings, and availability of information through the Corporation's intranet.

78. The Corporation offers training opportunities to familiarize employees with its significant systems and practices. It has offered

training in the areas of procurement, risk management, information systems, contracting services, and the new contracting policy suite.

79. We found variations in the use of the existing competency model, the process for sharing and transferring knowledge, employee retention activities, the annual appraisal system, and the tracking of employees' participation in training. The Corporation has recognized that it needs to integrate and document practices across the organization. It has established a discussion table that will assess the different human resources practices, with the aim of developing a formal, corporate-wide approach. We encourage the Corporation to ensure consistency in its human resources management practices. This would allow the Corporation to make better use of its resources.

Information technology

80. For its internal day-to-day contract management and financial operations, the Corporation depends on its information technology systems. A failure in these systems would severely limit its ability to meet its objectives.

81. We expected that the planning, development, implementation, and management of information technology and information management systems would support strategic and operational objectives, ensure business continuity, and satisfy information needs on a timely basis. We reviewed the project management practices used by the Corporation to implement its new information system. In addition, we examined whether the Corporation has in place a business continuity plan that responds to identified risks of system failure.

Project management was strong during system implementation

82. We found that the Corporation developed and implemented its Enterprise Resources Planning system on time and within budget, achieving the initial objectives. Our examination determined that the project was managed well. The Board's Audit Committee, senior management, and internal users of the system provided effective oversight. There was also an ongoing independent quality review of the project's status. The actual conversion to the new system caused minimal operational disruption to daily processing.

83. The Corporation recently adopted a business continuity plan and named a coordinator responsible for the plan's ongoing maintenance and testing. The plan identifies the Corporation's most critical services, the recovery time needed to restart critical activities at a remote location, and the personnel responsible for carrying out recovery activities. The Corporation still needs to implement and test the

business continuity plan, and identify the information or systems that would have to be restored to support its activities.

Corporate social responsibility

84. The Corporation has set out a vision for corporate social responsibility (CSR): “to commit to operating in an environmentally, socially, and ethically responsible manner, and to respect Canada’s international commitments, while upholding the Corporation’s public policy mandate and acting within its resources.” In accordance with its corporate plan, the Corporation is examining and addressing areas of corporate social responsibility, including accountability, transparency, and environmental sustainability. All of these are important elements of the Corporation’s approach to CSR.

85. Although there is no federal requirement for Crown corporations to practice CSR, it is becoming standard business practice—particularly for organizations engaged in international activities and focusing on emerging and developing markets. Failure to practise CSR could pose a risk to the reputation of the Corporation as viewed by other government entities, competitors, and customers.

86. We expected that the Corporation would have identified, mitigated, monitored, and reported risks related to CSR, and that it would have taken corrective actions to address identified weaknesses. We reviewed how CSR principles are reflected in the Corporation’s ERM framework and its related processes and policies. In addition, we examined the process used to develop and implement a CSR strategy.

Implementation of a corporate social responsibility strategy is in the early stages

87. Since the previous special examination, the Corporation has developed a corporate social responsibility strategy, which management has endorsed. The strategy is now in the early stages of implementation. The Corporation has finalized policies such as its code of business ethics and its code of conduct for managers and staff. It has updated its fraud policy and established a whistle-blower process. It is updating its Environmental Review Framework for capital projects.

88. We found that the Corporation used some good practices to develop its CSR strategy. It consulted with staff, union representatives, and certain external stakeholders; performed a gap analysis; and met quarterly with Export Development Canada, Foreign Affairs and International Trade Canada, and other federal organizations to share CSR practices. The Corporation communicated CSR principles to staff and stakeholders at a town hall meeting and its annual public meeting.

89. The Corporation has demonstrated commitment to CSR principles in its corporate plan. It has begun integrating its CSR vision and principles into its operations.

90. Need to implement or update corporate social responsibility practices. The Corporation's CSR strategy has the expected key elements, including a vision and guiding principles. Management needs to convert the strategy into a comprehensive framework that is tailored to the Corporation's activities and its Enterprise Risk Management framework by clearly defining and documenting

- its CSR risks in relation to its activities, customers, and competitors, and the impact if not mitigated;
- an accountability structure, setting out roles and responsibilities of the CSR team and employees; and
- a list of internal and external CSR stakeholders.

91. We observed that the Corporation has not yet established a system for monitoring and reporting on CSR performance. It identified adherence to CSR as a performance indicator during its strategic planning process but has developed no performance measures. Management needs to demonstrate its commitment and endorsement of CSR principles by developing clear targets, actions, goals, and performance indicators, and disclosing these to staff and the public.

92. At present, management does not transparently demonstrate to the public how it is committed to the CSR strategy. Better communications with the public would ensure that customers and suppliers understand the values and ethics of the Corporation, and know what to expect in doing business with it. There is some disclosure in the Corporation's annual report and corporate plan, as well on its website; however, the information about CSR is general and does not describe specific actions. A good practice would be a formal endorsement by the President to make stakeholders aware of the Corporation's commitment to CSR.

93. Recommendation. Management of the Canadian Commercial Corporation should tailor the corporate social responsibility (CSR) strategy to the Corporation's activities, including defining and documenting specific CSR risks. It should establish a performance monitoring and reporting system, indicating targets and results achieved. It should demonstrate to the public its commitment to corporate social responsibility.

The Corporation has responded. The Corporation agrees with the recommendation that public disclosure should be one of the next steps to demonstrate its formal commitment to CSR, along with reporting against established targets. It expects to complete the necessary action by December 2009.

Updating of the Environmental Review Framework for capital projects is not complete

94. The Corporation uses its 2002 Environmental Review Framework to assess environmental risks for capital projects. This framework is not consistent with the *Canadian Environmental Assessment Act* and regulations, including the regulation on capital projects outside Canada. Management has been addressing this matter but had not completed the process at the time of our examination. The Corporation is currently negotiating new capital projects, making the need for an updated framework even more critical.

95. We found that the Corporation has adopted a good practice for addressing and considering the environmental impacts of proposed projects. Because it lacks in-house expertise to conduct environmental analyses, it has contracted with private-sector firms, which carried out environmental reviews on behalf of the Corporation.

96. We encourage the Corporation to complete the process of updating its Environmental Review Framework for capital projects so that it is consistent with legislative requirements.

Conclusion

97. During the period under examination, the Corporation's systems and practices were designed and operated in a way that provided reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively. Throughout this report, we have also pointed out various opportunities for improving systems and practices.

About the Special Examination

All of the audit work in this report was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objective

Under Section 138 of the *Financial Administration Act* (FAA), federal Crown corporations are subject to a special examination once every 10 years. Special examinations of Crown corporations are a form of performance audit where the scope is set by the FAA to include the entire corporation. In special examinations, the Auditor General provides an opinion on the management of the corporation as a whole. The opinion for this special examination is found on page 5 of this report.

Special examinations answer the question: Do the corporation's systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively?

Key systems and practices examined, and criteria

At the start of this special examination, we presented the Corporation's Audit Committee with an audit plan, which identified the systems and practices, and related criteria, that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. These are the systems and practices and criteria that we used for examination.

Key system and practice examined	Criteria
Risk management and contracting	A focus on risk awareness is embedded in the corporate culture at all levels of the Corporation to support the fulfillment of the Corporation's mandate, business goals, and objectives. Key risks are identified, measured, mitigated, monitored, and reported.
Corporate governance, strategic planning, and performance measurement and reporting	<p>The corporate governance framework meets the expectations of best practices in board stewardship, shareholder relations, and communications with the public.</p> <p>The strategic direction and goals take into account government priorities, identified risks, and the need to control and protect corporate assets and to manage resources economically and efficiently.</p> <p>Performance indicators are identified to measure the achievement of the Corporation's mandate and statutory objectives. Reports provide complete, accurate, timely, and balanced information for decision making and accountability reporting.</p>

Key system and practice examined	Criteria
Marketing and business development	Marketing plans and practices are consistent with the Corporation's mandate. They support the corporate mission, objectives, and goals. They respond to market needs and are effectively operationalized.
Human resources management	Human resources are managed in a manner that provides the Corporation with the human resources capacity and the work environment it needs to achieve its goals and objectives.
Information technology	The planning, development, implementation, and management of information technology and information management systems support strategic and operational objectives, ensure business continuity, and satisfy information needs on a timely basis.
Corporate social responsibility	The Corporation's risks related to corporate social responsibility are identified, mitigated, corrective actions are taken, monitored, and reported.

Audit work completed

Audit work for this special examination was substantially completed on 27 February 2009.

Audit team

Assistant Auditor General: Douglas G. Timmins

Principal: Tammy Squires

Lead Director: Chantal Berger

Director: Greg Boyd

Sophia Khan

Yin-Mei Kwok

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

Appendix List of recommendations

The following is a list of recommendations found in the Special Examination Report. The number in front of the recommendation indicates the paragraph where it appears in the report. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Risk management and contracting	
<p>36. In the contracting process, management of the Canadian Commercial Corporation should aggregate, clearly link, and present all significant risks to support decision making. It should also document decisions related to the “lead and pursuit” phase. (30–35)</p>	<p>The Corporation agrees with the recommendation. It will continue to review and improve its due diligence in the contracting process, including better documentation of the “lead and pursuit” phase, progressively through to June 2010.</p>
<p>41. The Canadian Commercial Corporation should ensure that key elements of its strategic and operational risks are clearly considered in the contract management process. (37–40)</p>	<p>The Corporation agrees with the recommendation. It is committed to continuously enhancing its contract management process. This will include updating its instructions and training its staff to ensure that key elements of its strategic and operational risks are clearly considered and documented in the contract management process. We expect that these actions will be completed by June 2010.</p>
<p>47. The Canadian Commercial Corporation should implement procedures to monitor and document the effectiveness of corporate social responsibility clauses in its contracts. (42–46)</p>	<p>The Corporation agrees with the recommendation. As part of its contract management improvement initiative, it will add further monitoring requirements for predefined, higher-risk CSR clauses to the contract management process. The Corporation will complete this change by December 2009.</p>
<p>50. The Canadian Commercial Corporation should develop a quality assurance process that ensures there is appropriate documentation to support decisions and actions, and provides for annual reviews to assess compliance with contracting standards. (48–49)</p>	<p>The Corporation agrees with the recommendation. Six months ago it added a Director of Quality Management position to build a set of processes and practices for quality management, including quality assurance processes for contract management. We expect to complete these actions by June 2010.</p>

Recommendation	Response
Marketing and business development	
<p>74. The Canadian Commercial Corporation should</p> <ul style="list-style-type: none"> • establish a comprehensive, corporate-wide marketing strategy; • maintain information that covers all business lines and includes market research on Canadian exporters, client surveys, and data on competitors; and • update its fee policy, regularly review the relevance and appropriateness of its fee structure, and track costs by project to establish benchmarks that could support fee estimates for similar projects. (68–73) 	<p>The Corporation agrees with the recommendation. It is in the process of building a comprehensive, corporate-wide marketing strategy. The Corporation concurs that information covering all business lines is desirable, and it is working toward implementing this practice. The Corporation is in the process of updating its fee policy to include benchmarks supporting fee estimates, which will be reviewed periodically in accordance with the policy suite review. We expect that these actions will be completed by June 2011.</p>
Corporate social responsibility	
<p>93. Management of the Canadian Commercial Corporation should tailor the corporate social responsibility (CSR) strategy to the Corporation's activities, including defining and documenting specific CSR risks. It should establish a performance monitoring and reporting system, indicating targets and results achieved. It should demonstrate to the public its commitment to corporate social responsibility. (84–92)</p>	<p>The Corporation agrees with the recommendation that public disclosure should be one of the next steps to demonstrate its formal commitment to CSR, along with reporting against established targets. It expects to complete the necessary action by December 2009.</p>