CANADIAN COMMERCIAL CORPORATION

SPECIAL EXAMINATION REPORT

PRESENTED TO THE BOARD OF DIRECTORS

21 September 2004

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

13 September 2004

To the Board of Directors of the
Canadian Commercial Corporation

We have completed the special examination of the Canadian Commercial Corporation in accordance with the plan presented to the Audit Committee of the Board of Directors on 19 November 2003. We are pleased to provide the attached final special examination report to the Board of Directors, as required by section 139 of the *Financial Administration Act*.

We will be pleased to respond to any comments or questions you may have concerning our report at your meeting on 21 September 2004.

I would like to take this opportunity to express my appreciation to the Board, management and the staff for their excellent co–operation and assistance during the examination.

Yours sincerely,

Douglas Timmins

Douglas G. Timmins, CA
Assistant Auditor General

Att.

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CANADIAN COMMERCIAL CORPORATION

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To: The Board of Directors of Canadian Commercial Corporation

Special Examination Opinion

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

2. The FAA also requires the Corporation to have a special examination of these systems and practices carried out at least once every five years.

3. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the special examination (from September 2003 to March 2004) there were no significant deficiencies in the systems and practices we examined.

4. We based our examination plan on a survey of the Corporation's systems and practices, which included a risk analysis. We submitted the plan to the Audit Committee of the Board of Directors on 19 November 2003. 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.

5. The plan included the criteria for the special examination that we selected specifically for this examination in consultation with the Corporation. The criteria were based on our experience with performance auditing. Our choice of criteria was also influenced by legislative and regulatory requirements, by professional literature and standards, and practices followed by the Corporation and other organizations. The systems and practices we examined and the criteria we used are listed in Appendix A.

6. 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 an internal audit of post-contract management practices. In addition, we reviewed and drew evidence from selected reports by independent specialists on the implementation of the Corporation's fee for services, client satisfaction surveys, business opportunities and strategic market assessment, mandate review and information systems management review.

7. The Corporation has a number of good practices in place for overall risk management, contract risk assessment and contract monitoring. For example: the Corporate Plan identifies risks facing the Corporation; the Board approves risk policies and monitors quarterly risk reports; the Corporation has a contract risk assessment manual and authorizations are documented; and, the Corporation uses standard contract administration procedures to monitor contract risk.

8. The Corporation has recently taken a number of proactive steps to improve its risk management framework and contracting practices. These include establishing a committee of the Board of Directors to oversee the identification of risks related to the Corporation's strategic priorities and development of appropriate risk mitigation strategies. The Corporation has also developed a Post Contract Management Manual to improve the consistency and quality of existing practices. The manual provides comprehensive guidance on monitoring contracts according to the risks associated with them.

9. However, at the time of our examination, there were shortcomings in the Corporation's risk management framework and contracting practices. The Corporation did not yet have in place: a risk management framework—a mechanism for systematically identifying and prioritizing the risks that face the organization and allocating resources accordingly. It also lacked elements of good contracting practice, namely,

   - a quality management process that ensures appropriate documentation to support contracting decisions and actions and provides for reviews to assess officers' compliance with contracting standards;

   - a process to monitor adherence to the principles described in the Post Contract Management Manual; and

   - formal, mandatory training in contract management and a formal mechanism to capture and share best practices and lessons learned.

10. In our opinion, based on the criteria established for this special examination, there is reasonable assurance that except for the significant deficiency described above, there were no significant deficiencies in the systems and practices we examined.

11. The rest of this report provides more detailed information on the Corporation and our examination findings.

Douglas Timmins

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

Ottawa, Canada
02 March 2004

Overview of the Canadian Commercial Corporation

12. **Background and mandate.** The Canadian Commercial Corporation was established by Parliament in 1946 with the passage of the *Canadian Commercial Corporation Act*. It reports to Parliament through the Minister of International Trade and is governed by a Board of Directors comprising 11 members including the Chair and the President of the Corporation.

13. The Corporation's purpose is to assist in the development of trade between Canada and other nations. The Corporation generally performs this mandate by acting as a prime contractor for Canadian exporters on sales to customers abroad.

14. In early 2002, the Parliament of Canada reaffirmed the Corporation's mandate and passed three amendments to the *Canadian Commercial Corporation Act*. They were the first significant amendments to the Act since the Corporation was created in 1946. The three changes permitted the Corporation to charge commercial fees for its services, authorized it to borrow from commercial markets, and separated the positions of Board Chair and President.

15. As a Crown corporation wholly owned by the Government of Canada, the Corporation is ultimately accountable to Parliament through the Minister for International Trade. In addition to being subject to its enacting legislation, the Corporation must comply with the provisions of the *Financial Administration Act* that apply to Crown corporations, the *Official Languages Act*, the *Privacy Act*, the *Access to Information Act* and the *Canadian Environmental Assessment Act*.

16. By selling through the Corporation, Canadian companies gain direct access to US military and aerospace markets under the Canada–U.S. Defense Production Sharing Agreement. In 2002–03 the total value of orders received by Canadian firms under this program was about $600 million (around 60 percent of the total orders received).

17. The Corporation also provides access to a wide range of public procurement opportunities around the world through government–to–government transactions. Specifically, it provides foreign buyers with a unique guarantee of contract performance backed by the Government of Canada, which adds credibility to Canadian exporters and reduces the procurement risk perceived by international buyers. It also provides buyers with a single, dependable point of contact for requests to procure Canadian goods and services. It assists exporters through a wide range of contract services, ranging from pre-contract advice to contract management and post-contract support. Finally, the Corporation also helps small and medium–sized enterprises obtain project–related working capital from commercial sources through its Progress Payment Program. The Corporation charges fees for its services outside the market of the Defense Production Sharing Agreement.

18. As prime contractor, the Corporation provides the foreign buyer with an undertaking, backed by the Government of Canada, that a contract will be performed according to its terms. The Corporation matches its commitment through a "back to back" domestic contract with the Canadian supplier that mirrors the contract with the foreign buyer.

19. The Canadian Commercial Corporation deals primarily with foreign governments. There

are also sales to United Nations agencies and to customers in the private sector. Its major customer is the United States Department of Defense. U.S. contracts are largely administered by Public Works and Government Services Canada through a memorandum of understanding with the Corporation.

20. In August 2003 the government, represented by Canadian Commercial Corporation, Public Works and Government Services Canada, and the Department of National Defence, was found liable for damages in a case involving a contract entered into by the Corporation as prime contractor under the Defense Production Sharing Agreement—the Amertek case. The government has appealed this decision.

21. When the Corporation participates in a sale, it assesses risks posed by the foreign buyer and the Canadian supplier, assists in the preparation of the bid, participates in sales negotiations, manages the contract, guarantees performance, and arranges payment according to the negotiated terms.

22. In 2002–03, the Corporation signed new export contracts and amendments worth $952 million ($1.2 billion in 2001-02).

23. The Corporation's new mission statement adopted in 2002 is as follows:

> CCC's mission is to serve as an effective Canadian trade instrument, bringing buyers and sellers together and closing successful export contracts on the best possible terms and conditions.

24. **Public policy relevance.** The Corporation is an integral member of the Government's export promotion team and responds to a number of public policy issues.

25. The Corporation's broad role within the Government of Canada's public policy agenda is to facilitate trade, primarily in public sector markets in other countries. This, in turn, provides access and a level playing field for Canadian exporters in markets that are characterized by protectionism or politically based decision making.

26. Nevertheless, the most important single market for the Corporation is the United States, where it contributes significantly to the Government of Canada's priority of working with the United States to address the security needs of both countries. Furthermore, in times of crisis or war, the Corporation can be called upon (as it was during the 1990–91 Persian Gulf crisis) to play a support role by mobilizing Canadian industrial sources of supply, in keeping with Canada's obligations to the United States under the Defense Production Sharing Agreement.

27. Finally, providing assistance to small and medium-sized enterprises remains a policy priority for the Government of Canada. The Canadian Commercial Corporation contributes directly to this government commitment by providing these enterprises with export-related assistance and advice and facilitating their access to commercial sources of pre-shipment financing.

28. **Strategic objectives**. The Canadian Commercial Corporation has three key strategic objectives:

    - Achieve a diversified export contract portfolio.

- Sharpen the commercial focus.
- Enhance the corporate profile and increase awareness of its services among exporters and government decision– makers.

Special Examination Findings

29. We consider that a significant deficiency exists where a failure to satisfy one or more of the examination criteria prevents or puts at material risk the Corporation's ability to safeguard and control its assets; manage its financial, physical, and human resources economically and efficiently; or carry out its operations effectively.

    - We examined eight key areas (listed in Appendix). Other key systems underwent only basic examination and were not subject to detailed testing. Based on the information gathered from past audits and our survey, we determined that less work was needed to obtain the required evidence on corporate financial services and employee compensation systems.

30. Further, based on our survey work, interviews, review of key documents, risk analysis, and annual financial audit work, we also determined that no further work was necessary to conclude that in the areas of fees for service and financial management computer systems, there were no significant deficiencies.

Main Findings

31. This section sets out in detail the significant deficiency we identified during our special examination. Other findings follow in the next section.

Risk management framework and contracting

Overall risk management strategies

32. CCC's Annual Report and Corporate Plan identify external and internal risks facing the Corporation. These risks are discussed annually through the strategic planning process. The Board approves various risk management policies and monitors risks through quarterly reviews of reports summarizing the number and value of projects in various risk categories, risk capital available, country risk exposure and problem files.

33. However, there is no systematic, documented process to identify risks to CCC's strategic objectives, classified by likelihood and impact, and to relate them to risk management strategies. Effective risk management requires a formal process; without one, the Corporation lacks a basis to ensure that it identifies priority risk areas and allocates its resources accordingly.

34. The Corporation has not conducted a formal, documented risk assessment setting out

- strategic objectives ranked by importance to the Corporation's mandate and mission;
- processes and practices to assist in achieving each strategic objective;
- the likelihood of risks to the objective and their impact if not mitigated; and
- a prioritized list of risk mitigation measures or strategic initiatives, based on the importance of the strategic objective, the degree to which the measure or initiative addresses the risk, the cost of the measure or initiative, and the level of risk compared with the Corporation's risk tolerance level.

35. The Board of Directors has recognized the need for a process to prioritize risk management initiatives and allocate resources. It has established the Commercial Initiatives Committee to oversee the identification of risks to the Corporation's strategic priorities and the development of appropriate risk mitigation strategies. However, at the time of our examination, the Committee had not yet begun its work.

36. In our view, the lack of a formal, documented process to identify risks to the Corporation's strategic objectives and relate them to risk management strategies significantly impacts the Corporation's ability to demonstrate that it manages risks effectively.

Due diligence in contracting

37. One of the critical sources of information to help CCC staff exercise due diligence in the pre-contract phase is the Risk Assessment Manual, a consolidation of risk assessment, risk management, and control policies and procedures designed to provide direction to contracting and financial officers. Policies in the manual identify potential risks and related risk mitigation strategies that the officers conducting the risk analysis should consider, in the categories of supplier technical capacity, managerial capacity, financial capacity, project risks, and contract risks. The manual documents requirements for higher-level management approval as risk increases.

38. During our discussions with senior staff responsible for supervising contract officers we noted that they were knowledgeable about the contract risks and the related mitigation strategies. However, when we reviewed project files, we found weaknesses in the implementation of the policies and procedures set out in the Risk Assessment Manual. Files did not provide a clear history of projects, with significant activities or events linked to significant decisions and risks. Although files contained the appropriate authorizations, they contained no clear evidence of analyses to support the authorizations. We noted contracts that required specific conditions—evidence that risks had been identified and mitigated—but the analyses supporting the requirement was either scattered throughout the file or not evident.

39. Further, CCC does not have a process in place to regularly review either the quality of the documentation supporting its decisions or officer's compliance with the Corporation's contracting standards and to take corrective action as required.

40. In the absence of clear documentation to support authorizations and other decisions, there is a risk that the Corporation will be unable to defend its decisions and actions on each contract.

Monitoring contract risk

41. **Monitoring individual contracts.** CCC uses standard contract administration procedures to monitor contracts. Procedures include holding progress review meetings; monitoring production and delivery against pre-established milestones and targets; maintaining communication with the customer to identify issues and/or potential problems; and reviewing progress claims for accuracy and reasonableness as part of the payment process.

42. Staff prepare monthly management reports on problem contracts, estimates of potential loss, and damage control measures and submit them to the Board every quarter, along with reports on higher-risk contracts.

43. Recently, the Corporation developed a Post Contract Management Manual in response to an internal audit of post–contract management processes in 2002. The manual sets out a comprehensive approach to monitoring contracts and includes principles, standards, and guidelines.

44. The new manual provides comprehensive guidance on early warning signals that will assist in identifying problem contracts and the corrective measures and analysis required. The Corporation has also developed a training plan to help staff become familiar with the new requirements and expectations.

45. Use of the manual should improve the consistency and quality of existing practices. However, at the time of our examination it was too early to examine compliance with the guidelines in the manual. A process is needed for monitoring adherence to the principles in the manual.

46. **Sharing lessons learned.** An important part of risk monitoring is strengthening the practice across the organization. CCC uses several practices to identify and share key lessons learned, including

    - quarterly staff meetings to discuss both successful and problem projects;
    - monthly meetings with managers and team leaders;
    - case studies developed for ongoing training; and
    - post mortem reviews of problem contracts.

47. However, there is no formally defined mechanism for capturing and sharing best practices and lessons learned. This lack of a formal mechanism limits opportunities to prevent the recurrence of problems and to promulgate best practices.

48. The majority of the Corporation’s officers have been with the organization less than five years, yet currently staff receive no mandatory, systematic training in risk management.

49. CCC staff generally are trained through a mentoring process that assigns them to a specific senior officer or manager. Ad hoc training is also provided in a variety of forms, some of which we have already noted.

50. Formal training is needed in how to interpret and apply the Corporation's key operating manuals (the Risk Assessment Manual and Post Contract Management Manual) to help ensure that staff develop and use appropriate judgment in their work. Formal training will accelerate the learning process and help ensure that the principles in the manuals are applied consistently across the organization.

51. **Recommendation.** CCC should strengthen its strategic risk management framework by implementing a formal mechanism through which risks to the organization can be systematically identified and prioritized, and resources allocated accordingly.

52. While the Corporation follows appropriate guidance in assessing contract risk, CCC should develop a quality management process that ensures appropriate documentation to support decisions and actions and provides for annual reviews to assess compliance with standards.

53. CCC should continue implementing its Post Contract Monitoring Manual and develop an internal process to monitor adherence to the principles in the manual.

54. CCC should institute formal, mandatory training that includes sessions on the use of key risk assessment and monitoring manuals as well as case studies on best practices. It should develop a formal mechanism to capture and share best practices and lessons learned.

Management's response:

Management concurs with suggestions made by the OAG for the Corporation to improve the efficiency and effectiveness of its Strategic Risk Management Framework and Contracting area.

In the area of Strategic Risk Management or Enterprise-Wide Risk Management (ERM), Management acknowledges, that it can improve upon the existing strategic risk management processes in a more formal and documented manner. This will be addressed as part of the recently created Commercial Initiatives Committee review.

In the area of Due Diligence and Contract Risk Management, Management believes that its day-to-day risk management and contract management procedures are being addressed and that processes underway (such as the extensive training of staff on its recently developed Post-Contract Management Manual completed in June) will strengthen its current quality management capabilities. CCC's track record in regards to additional contract costs when compared to business volume of contracts signed, or the small number of contracts that become problems when compared to the large volume of contracts signed, year-after-year, are good indicators that processes in place are effective. However, the Corporation recognizes that other indicators can enhance management effectiveness.

Management has prepared a proposal to amend its Long-Term Audit Plan (LTAP) that will be presented to the Board of Directors in September. The proposed changes place an immediate focus on the Strategic Risk Management Framework and Contracting area and call for the identification of gaps between current documenting processes and best practices, followed by the development and implementation of processes to monitor compliance with Risk Management standards and Post-Contract Management principles. The proposed plan targets a FY 2005-2006 implementation period.

Other Findings

55. We describe here other areas we found that only partially met examination criteria and that we believe warrant the attention of the Board of Directors. We also discuss areas that fully met the examination criteria.

Corporate governance, strategic planning and management

56. In 2002, the Corporation underwent considerable change, with the separation of the Chair and the CEO positions and a new objective of self-sufficiency in all business unrelated to the Canada–U.S. Defense Production Sharing Agreement. The Board is responding to those changes by reviewing and renewing its governance structure. Primarily through the Chair and the CEO, the Board actively maintains good relations with the Minister, the Minister's office, Public Works and Government Services Canada, the Treasury Board Secretariat, Industry Canada, and Finance Canada. Formal assessment of the Board is also being implemented.

57. **Strategic direction.** The Canadian Commercial Corporation's strategic direction, as articulated in its corporate plan, appears to be fully consistent with its mandate and the government's trade priorities.

58. The amendments to its mandate have allowed the Corporation to charge commercial fees for its services and to borrow from commercial markets; its objective is to be self-sufficient by 2006–07 in business unrelated to the Canada–U.S. Defense Production Sharing Agreement. These changes have added considerable complexity to the strategic planning process.

59. While the Board has been active in making suggestions and challenging assumptions used in the corporate planning process, it recognizes the need to intensify those efforts. In January 2003 it created the Commercial Initiatives Committee, to develop a corporate vision and determine appropriate risk parameters for its commercial focus. To ensure that it has input into the strategic direction of the Corporation, the Board needs to work closely with management at an early stage of strategy development to develop a comprehensive internal and external environmental scan. This would help its members understand the needs of the shareholder and clients and the Corporation's capacity to meet those needs.

60. **Board structure and renewal.** The Board of Directors sets the Corporation's strategic direction, oversees its activities, and is responsible for ensuring that it fulfills its mandate effectively. During 2002, the Board expanded from 8 members to 11, including the President of the Corporation; all are appointed by the Governor in Council. The Board currently has three committees: the Audit Committee, the Compensation Committee, and Commercial Initiatives Committee.

61. A new Board Chair was appointed in November 2002, following the amendment of the *Canadian Commercial Corporation Act* earlier that year. This marked the operational separation of the Chair and the CEO positions. The Board has since made changes to adapt to its new structure and improve its governance capacity.

62. Having assessed how well its structure served its needs and creating the Commercial Initiatives Committee as a result, the Board is now updating the Audit Committee's charter. Detailed terms of reference have been created for the position of Chair. We would expect similarly clear roles and terms of reference for the Board, directors, and committees--particularly the Compensation Committee, whose role should include providing input on senior management recruitment and hiring approval, succession planning, and other strategic human resources issues.

63. The Board has established an inventory of the skills and experience an ideal Board would possess. As Board vacancies arise, the Chair and/or the CEO communicate orally with the Minister's office to identify the skills needed as a priority in the next appointment. We are advised that the Minister's office welcomes their submission of names as potential candidates.

64. The Board needs to establish and keep current a matrix of its present mix of skills and experience against those it needs to govern with maximum effectiveness. The matrix would clearly identify any gaps and would be a useful tool for directors to reach a consensus on the highest-priority skills to look for when the Board has vacancies to fill.

65. Currently, no formal assessment of the Board's performance is carried out. The Board has asked management to identify potential tools with a view to starting formal performance assessment. A more detailed description of the Board's mandate and directors' responsibilities would make the assessment tool easier to use and more effective in identifying needed improvements.

66. **Stewardship and risk management**. The Audit Committee meets the new Treasury Board Guideline requirement that its members be independent and financially literate and that one member have accounting or related financial management expertise. The Audit Committee has doubled the frequency of its meetings to better handle the workload. Its charter is being redrafted to be consistent with best practices in current professional literature and with the needs of the Corporation.

67. Subsequent to our examination, at its March 2004 meeting, the Board of Directors approved new terms of reference for the Audit Committee and clarified roles and responsibilities for risk management, budget review, and performance monitoring.

68. **Performance monitoring**. The Corporation has good data on its volume of business, but it could improve its measures of efficiency and effectiveness. In particular, the Corporate Plan does not report results against most of the efficiency measures considered to be "secondary." The Corporation is improving the integration of its operations business plans and its corporate support functions. The Board has informed us that it will outline the additional performance information it requires from management.

69. **CEO performance assessment and succession planning**. The CEO's performance is currently assessed by the Board's Compensation Committee. Performance assessment could be strengthened by a system to ensure that the full Board has input into the CEO's performance goals and the assessment of performance against those goals. The Board also needs to become involved more formally in succession planning for senior management to assure itself that succession plans respond to changing human resources needs in the organization.

70. **Shareholder relations**. The Chair and the CEO have been active in developing and maintaining good communication with the shareholder. Bi-monthly meetings with the Minister and established contacts in the Minister's office, Public Works and Government Services Canada, and the Treasury Board Secretariat have provided the Corporation with good information on shareholder priorities and direction.

71. **Recommendation.** We found that overall the Corporation's corporate governance framework reflects good practice and meets expectations for Board stewardship, shareholder relations, and communication with the public. However, the Board should provide timely input into the strategic direction of the Corporation and human resource issues such as senior management recruiting, compensation and succession planning. The Board should also implement its plans to formally assess its own performance.

Management's response:

Management is pleased that the OAG is satisfied with the developments and evolution of the Corporation's corporate governance framework over the last several years.

Work has commenced in 2004-2005 to address the suggestions offered by the OAG. As mentioned earlier, the Commercial Initiatives Committee was created specifically to contribute to the strategic direction of the Corporation.

In regards to the human resource issues cited: the senior management compensation framework is approved by the Compensation Committee; the recruitment process for the President is managed by the Nominating Committee; and appointment of Corporate Officers is approved through the Board.

Revised Terms of Reference have been developed for the Compensation Committee. The Terms of Reference will be approved and effective during 2004-2005. This will lead to a more disciplined approach to address compensation issues.

A succession plan framework has been developed and will be presented to the Board and, once approved, implemented during 2004-2005.

The Corporation has obtained the services of an outside consulting group to develop and implement a Board self-evaluation process. Phase one of this work has commenced and will be presented at a special Board meeting called in early September, further action will be based on the outcome of the discussion.

Environmental review and corporate social responsibility

72. **Scope of CCC's environmental review.** Federal organizations such as the Corporation need to ensure that the environmental effects of projects are carefully reviewed before proceeding to ensure that projects do not have significant adverse effects on the environment.

73. The Corporation uses the *Canadian Environmental Assessment Act's definition of a project* as "a physical work or construction." Based on this definition, it has decided that the scope of its environmental review will be limited to contracts for capital projects. The rest of the Corporation's contracts, the vast majority, involve the supply of goods and services in the defence, aerospace, water, transport, and energy sectors, and some of them could present risks to the environment. However, the risks are mitigated in that almost 80 percent of all its contracts are with the U.S. government and are therefore subject to U.S. environmental legislation. The remaining 20 percent of its contracts

involve sales to other countries and unless they involve capital projects, the Corporation does not subject them to environmental review.

74. The Corporation has no mechanism in place to capture environmental risks associated with contracts for goods and services, nor has it conducted a risk analysis to determine whether it is reasonable to exclude these contracts from environmental assessment. A project may or may not entail significant environmental risks but the fact that it is not a capital project means it is not subject to any environmental risk analysis that would justify excluding it from environmental review. The Corporation's procedures for determining environmental risks are at variance with those used by international financial institutions and export credit agencies.

75. **Environmental review framework.** The Corporation sometimes becomes involved in complex export projects involving the construction of heavy physical infrastructure that can have a measurable impact on the natural, social, and cultural environment of their locale. It is therefore important to ensure that business practices and projects undertaken by Canadian exporters are environmentally sound.

76. The Canadian Commercial Corporation has been using an interim environmental review framework (ERF) since 1999 and applies it to all capital projects. The ERF is closely patterned on the environmental review framework another export development agency used until December 2001. However, the other agency has since updated its framework extensively.

77. Many capital projects considered by the Corporation also involve financing from other export agencies. The Corporation's ERF requires consultation with these other agencies. This avoids duplication of effort and cost for Canadian exporters. Coordination of efforts should be one of the aspects considered in the eventual reworking of the framework.

78. The Corporation's ERF has about 70 percent of the elements of a suitable environmental review framework. However, it lacks some important elements such as a documented policy and procedures for supervising and monitoring transactions to ensure compliance with environmental covenants.

79. **Implementation of the environmental review framework**. We looked at whether the ERF was operating effectively, as designed.

80. We looked at two capital projects from the period covered by our audit: the Trinidad oncology facility; and the Quito Airport project, which involved the management of the existing airport and the construction and management of a new airport to replace it. In both capital projects we found evidence that the Corporation generally followed its ERF.

81. Before the Corporation agrees to participate in a capital project, the exporter is required to carry out an environmental assessment of the project at his or her own expense and to provide the Corporation with the results. Because of its relatively small staff complement, the Corporation does not have the in-house expertise to conduct environmental analysis of proposed projects. As is appropriate, it contracts with the Canadian Environmental Assessment Agency to review the environmental impact reports it receives; it also contracts with the private sector to carry out specific environmental reviews on its behalf.

82. We reviewed contract documents relating to the Quito Airport project and found that they contained general environmental agreements suitable for a transaction of this sort. However, the Corporation did not establish environmental monitoring requirements, beyond the normal progress reports required during the construction phase. Periodic progress reports on the project are provided to the Board, as required by contracting policy.

83. Because it deals infrequently with capital projects, the Corporation provides its staff with little guidance on environmental assessment. It has held initial information sessions on its ERF; other guidance material is still being developed. It will be important to clarify how the ERF fits into the Corporation's overall risk assessment procedures.

84. **New developments**. The *Canadian Environmental Assessment Act* was amended in 2003 to include Crown corporations in its requirements. The amendments will not take effect until 2006 and the Corporation is currently discussing regulatory options with Environment Canada. However, the uncertainty of the future regulatory environment should not prevent the Corporation from improving its environmental management practices, including adopting a more up-to-date environmental review framework.

85. **Corporate social responsibility.** The Corporation recognizes the challenge of promoting corporate social responsibility in global business activities. Although it has taken steps to develop a corporate social responsibility strategy, implementation is still at a preliminary stage.

86. In spring 2003, the Board reviewed and approved a long-term plan to adopt a Corporate Social Responsibility Policy that will integrate economic, environmental, and social imperatives into the Corporation's day-to-day activities. As part of its corporate mandate, the Corporation is also working with government departments to ensure that its corporate social responsibility initiatives address the Government of Canada's values and commitments. The President's message in the 2002–2003 Annual Report indicates that the Corporation's initial focus will be on developing a regulatory framework under new environmental legislation and addressing the issues of international bribery and corruption. The long-term plan for a corporate social responsibility strategy indicates that the Corporation will work with its clients to raise awareness of the federal *Corruption of Foreign Public Officials Act* and develop a policy on the actions it should take when clients do not adhere to the principles of the Act. The Corporation has developed contract requirements that adhere to the Act, and it has a Conflict of Interest Policy. However, it has not yet developed a code of business ethics or a code of conduct for staff. It compensates somewhat for their absence through informal discussions at quarterly staff meetings. It has not yet established a guide for Canadian exporters that deals with the subject of corruption.

87. **Recommendation.** The Canadian Commercial Corporation has successfully implemented its current Environmental Review Framework and is conducting appropriate environmental reviews of its capital projects. However, it should develop an appropriate policy and processes of environmental risk analysis for the export of goods and services to foreign buyers apart from those in the United States. The Corporation's Environmental Review Framework should be updated to bring it into line with the environmental policies of other major organizations involved in supporting the export of Canadian goods and services.

88. The Corporation should develop a plan for implementing its corporate social responsibility strategy. It should also develop and publish a code of business ethics and code of conduct for its managers and staff.

Management's response:

Management agrees to continue to update and improve its Environmental Review Framework. The Corporation does keep up to date with developments in the environmental assessment area, and it is supported in its due diligence directly through actions of the leading international institutions whose requirements for exporters involved in foreign projects (outside the US) generally reflect state of the industry thinking. CCC also relies on foreign government laws to set appropriate standards for those countries and part of its own diligence is to ensure exporters meet identifiable environmental laws. CCC is working on enhancing its own environmental risk analysis policies and processes which it intends to model on the requirements of other major international organizations involved in such studies. A CEAA/ Environmental framework work plan has been developed and discussed with Executive Management and the Board of Directors. Based on this plan, documentation and implementation should be complete by mid-2005 (i.e. FY 2005-2006).

Management has established a plan to implement CSR initiatives, including a code of business ethics, a code of conduct for its managers and staff and a policy on bribery and corruption. CCC intends to work closely with the Department of International Trade and other organizations involved in CSR activities to ensure that these initiatives address the Government of Canada's values and commitments, acknowledge the international competitive playing field of Canadian exporters and respect foreign government sovereignty matters. A CSR work plan and schedule was developed in late May, accepted by the Board of Directors in June and work was initiated during this summer. Implementation is scheduled by the summer of 2005 (i.e. FY 2005-2006).

Human resources

89. The Corporation recognizes that its human resources are the source of its competitive advantage. The Human Resources Directorate has created a coherent human resources strategy with a framework of policies and practices and has integrated this strategy into its overall strategic planning. The Corporation uses a competency-based approach to selecting, promoting, evaluating, and training staff. Human resources plans are prepared annually as part of the corporate planning exercise. A client-focussed culture and a requirement for appropriate interpersonal communication are emphasized at all levels of the Corporation. Policies on daily interactions and communications in the workplace have been established and communicated.

90. The Corporation is committed to providing its staff with the training they need to carry out their responsibilities and has allocated resources for training in its annual budget. As it moves toward implementing its new corporate strategy, it needs to ensure that it has people with the necessary skills to provide clients with new types of services and manage contracts for major capital projects that carry different types of risks from those of traditional contracts for goods and services.

91. **Recommendation.** In general, we found that the human resources management systems and practices are adequate to ensure that the Corporation has the right number of people with the appropriate skills to enable it to implement its corporate plan successfully. The Corporation should work to ensure that its human resources activities

are developing the skills and capacities to move it toward commercialization. This would include involving the Board in succession planning and training staff in the use of the environmental risk framework.

Management's response:

Management agrees. Human Resource training plans have been developed and are underway with activities focused at increasing the skills and capabilities of staff given the corporation's commercial direction. Management sees this as an ongoing process and will continue to maintain a commitment to enhance staff's ability to meet the corporate goals. The Commercial Initiatives Committee will examine the requirements and will report to the Board before the year-end 2004-2005.

In regards to executive succession planning, preliminary discussions with the Compensation Committee of the Board of Directors have taken place. Based on these discussions, a plan will be developed by the end of 2004-2005.

A half-day course on the environmental issue impact on capital projects was given to operations staff last January 19, 2004, by a former CEAA employee who is an expert in environmental impact studies. Future training will be conducted pending the completion of the CEAA/ Environmental Framework Work Plan that is scheduled for implementation by mid-2005 (ie. FY 2005-2006).

Marketing and business development

92. We found that marketing and plans for new product development are consistent with and support the Corporation's vision, mission, objectives, and goals.

93. The Corporation's key strategic objectives are to achieve a diversified export contract portfolio; enhance the corporate profile; increase awareness of its services; and sharpen its commercial focus, including achieving self-sufficiency in business that does not involve the Canada–U.S. Defense Production Sharing Agreement (DPSA). Self-sufficiency is the ability to make enough profit to expand the business.

94. To achieve these objectives, the Corporation needs to conduct effective marketing and business development activities. Its clients express high and rising levels of satisfaction with the value of its services, indicating that the Corporation does a good job of satisfying current clients' needs. It has identified markets that it believes offer opportunities that match the capabilities and strengths of Canadian manufacturers and service providers and that do not present significant barriers to entry; it has active programs in what it considers the best of these markets.

95. Corporate objectives for marketing and development are not always translated into clear, demanding, quantified output goals. For example, the quantified goal for an enhanced profile is vague; targets for inputs or activities to achieve the goal are specific but their significance is not obvious. The degree of emphasis on small and medium-sized enterprises is measured by number and percentage of clients, but the type of business also needs to be considered.

96. **Ability to meet corporate objectives.** The Corporation achieved its self-sufficiency. objective in 2002–03, ahead of the target date 2006–07.

97. Nevertheless, it has shown little progress toward achieving its objective of diversification. Its corporate plan predicts only modest improvement—from 47 percent of non–DPSA business activities in 2001–02 to 53 percent in 2008–09 (measured as a percentage of total orders received).

98. It is possible that by moving too fast to achieve the first objective, the Corporation has constrained its ability to achieve the second. In the short term, the costs of its marketing activities may not be recovered fully by the income from fees, as it usually takes several years to recoup the up-front costs of developing new markets.

99. The Corporation has recognized this and has commissioned an independent examination of the amounts and structure of its fees. That examination has been completed and is now under discussion within the Corporation. This issue needs to be addressed quickly, because client surveys indicate that fees are a concern. Like most Crown corporations, the Canadian Commercial Corporation has to balance commercial goals with public policy objectives. It needs information to ensure that its activities in support of the government's policy to enhance export activity by small and medium-sized enterprises do not impair its ability to fund and pursue commercially viable activities that will enable it to achieve its other objectives. Currently, such information can be obtained only with a significant amount of manual effort. The Corporation needs to improve its information system to allow for readily available, consistent information so it can compare fees generated by small and medium-sized enterprises with those generated by larger clients.

100. **Recommendation.** Our examination of the marketing and business development function showed that the Corporation has developed effective marketing plans to support its corporate strategy of promoting foreign trade and increasing awareness of its products and services among its various stakeholder groups, including small and medium-sized enterprises. We also noted that the Corporation maintains regular contacts with Foreign Affairs and International Trade and other government entities involved in foreign trade and obtains timely information on export opportunities. Its services meet client needs and expectations and its costing system provides appropriate information for establishing service fees. However, the Corporation should review its fee structure so it can make balanced progress toward all of the its significant goals and objectives over the period covered by its corporate plan.

Management's response:

Management agrees. The Corporation undertook a business review that included extensive consultation with clients in regards to its fee for service structure. The review examined the principles of transparency, accountability, flexibility, fairness, sound business practices, market discipline and the policy directions of the shareholder.

Overall the review indicated that a radical or fundamental policy change was not necessary. The Corporation has listened to its clients and has adjusted its policy accordingly. Options were presented to Executive Management for approval in April and the Board of Directors were briefed of the changes in June. Communication lines have been developed for internal and external dissemination of the changes to the policy and the revised policy is currently in effect.

MOU with Public Works and Government Services Canada

101. The Corporation relies on Public Works and Government Services Canada (PWGSC)

to exercise appropriate due diligence and monitoring of all contracts related to the Canada–U.S. Defense Production Sharing Agreement (DPSA). This makes it critical that PWGSC follow appropriate processes and practices in dealing with the Corporation's contracts. Currently, a number of checks and balances help ensure that contracts have been certified appropriately (including due diligence) and monitored. The Corporation has a high level of confidence that contracts related to DPSA are subjected to appropriate monitoring, given the number of parties involved in monitoring defence contracts, including the U.S. Defense Contract Management Agency and National Defence, which performs quality assurance on these contracts. The wide range of reviews also helps to mitigate the risks these contracts may present. In addition, PWGSC conducts annual internal audits and reviews of its files to ensure compliance with pre- and post-contract policies and procedures.

102. The memorandum of understanding with Public Works and Government Services Canada is currently under review. The Corporation needs to strengthen the MOU in a number of areas and establish a process to systematically monitor its implementation. It also needs to formally assign to one member of management the overall responsibility for that monitoring. We would expect to find the following elements in the memorandum of understanding to provide the Corporation with an appropriate level of comfort about PWGSC's work on its behalf:

- clear roles and responsibilities;
- clearly defined service standards for work on the Corporation's contracts;
- details on training to be provided to PWGSC staff;
- a requirement for quarterly meetings at the managerial and/or project staff levels for timely identification and resolution of problems with specific contracts before they escalate;
- specific requirements for PWGSC's monitoring of its performance and quality assurance mechanisms in work related to the Corporation, through internal audit or other means, to provide assurance that processes and practices are operating as intended; and
- continuation of the existing requirement that PWGSC make available to the Corporation all files, records, data, and other information on the services provided under the memorandum of understanding.

103. **Recommendation.** The Corporation has in place a number of checks and balances to help ensure that contracts are appropriately assessed and monitored. However, it should improve its monitoring to ensure compliance with the terms of the memorandum of understanding with PWGSC. It should also establish a quality control mechanism to ensure that deficiencies are identified and resolved on a timely basis.

Management's response:

Management agrees and has already taken action in this regard. An Interdepartmental Working Group has been created consisting of Management and staff members from CCC and PWGSC. The group's mandate is to establish processes that would provide an ongoing review of conditions within the Memorandum of Understanding and develop means to measure service performance standards for activities performed by PWGSC on CCC's behalf.

It is anticipated that this could potentially lead to the signing of an updated MOU by the end of fiscal 2004-2005.

Information technology

104. In 2001, the Corporation undertook a project to implement a computer information system for enterprise resource management. The first phase of this project was the financial information systems. As we noted in paragraph 31 of this report, we determined from our survey, our annual financial audit, and a risk analysis that the financial information systems present no significant risk to the achievement of the Corporation's expected results.

105. At the beginning of 2003 the newly appointed Director of Information Technology, with the assistance of experts, carried out a review of the Corporation's information systems. The aim was to develop a plan and strategy for ensuring that appropriate systems and processes are in place to support the Corporation's business objectives. The review found that there was no organization-wide strategy for information systems management and recommended a number of improvements. As a result, the Corporation has embarked on a major re-examination and expansion of its information systems infrastructure and capability.

106. **Recommendation.** In general, there is reasonable assurance that the Corporation has appropriate information systems that effectively support its goals and objectives. However, the Corporation should implement an organization-wide strategy for aligning its information systems with its business objectives.

Management's response:

Management agrees and has developed a plan. The Information Technology plan for 2004-2005 will concentrate on consolidating and streamlining the technical infrastructure, building in-house technical capacity, ensuring alignment with the business priorities, developing and implementing formal support processes, and enhancing consultation with all system stakeholders.

Key Systems and Practices	Examination Criteria
Corporate governance, strategic planning and management	• CCC should have a well–performing corporate governance framework that meets best–practice expectations for Board stewardship, shareholder relations, and communications with the public to maximize the effectiveness of the Corporation. • CCC should establish specific and measurable objectives consistent with its legislated mandate and government priorities, and monitor and report its performance against those objectives
Commercial risk management framework and contracting	• CCC should have: overall risk management strategies that are approved by the Board; due diligence; and monitoring to ensure that: – significant risks are identified; –proper strategies are developed; –key preventative risk management steps are taken; –additional contract costs are minimized; – problems are identified promptly; and – appropriate remedial actions are initiated on a timely basis
Corporate social responsibility and environmental review framework	• CCC should ensure that its activities are in compliance with internal CSR objectives and CCC international trade obligations. • CCC should have an environmental policy framework in place that effectively deals with the environmental risks that could arise from CCC's involvement in export contracting activities.
Marketing and business development	• CCC should develop and implement effective plans to support its corporate strategy of promoting foreign trade and increasing awareness of its products and services among its various stakeholder groups, particularly SME's. • CCC should maintain regular contacts with DFAIT and other government entities involved in foreign trade to ensure it obtains information on foreign export opportunities on a timely basis and also makes those entities aware of CCC's concerns relating to foreign trade matters. • CCC should provide products and services that meet customer needs and expectations at an appropriate price. • CCC should have a suitable costing system for supporting its fee structure and for providing transparency.
Memorandum of understanding (MOU) with PWGSC for contracting services	• The MOU between CCC and DSS should clearly specify the roles and responsibilities of each party. • CCC should monitor PWGSC's performance of its responsibilities under the MOU on a regular basis.
Human resources	CCC should ensure that: • it has the right number of people • staff have appropriate skills and • human resources are available when required so that the Corporation is able to successfully implement its corporate plan. • Succession plans for senior executive positions should be prepared. • Appropriate leadership and direction should be provided to staff to ensure the Corporation achieves its objectives.
Information technology	• CCC should have appropriate information systems that effectively support its goals and objectives.