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CANADA

**CHAPTER 6, SPECIAL EXAMINATIONS OF
CROWN CORPORATIONS – 2011, OF THE SPRING
2012 REPORT OF THE AUDITOR GENERAL OF
CANADA**

**Report of the Standing Committee on
Public Accounts**

**David Christopherson
Chair**

JUNE 2013

41st PARLIAMENT, FIRST SESSION



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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

FIFTEENTH REPORT

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied the Chapter 6, Special Examinations of Crown Corporations – 2011, of the Spring 2012 Report of the Auditor General of Canada and has agreed to report the following:

INTRODUCTION

Crown corporations are owned by the federal government but operate at arm's length. They have more autonomy than most other federal government entities, in part, because Crown corporations may have commercial objectives as well as public policy objectives. A board of directors, or a similar governing body, holds management responsible for the corporation's performance. The board is in turn accountable to Parliament through the responsible minister.

As part of their accountability, under the *Financial Administration Act*, each federal Crown corporation is required to have a special examination carried out by the Office of the Auditor General of Canada (OAG) at least once every ten years.¹ In special examinations, the OAG provides an opinion on the management of the corporation as a whole. 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? The OAG expresses an opinion on whether there are significant deficiencies in the systems and practices examined.

In its *Spring 2012 Report*, the OAG included in a separate chapter the main points of three special examinations that were completed in 2011: the Canadian Dairy Commission, the Canadian Race Relations Foundation and the Public Sector Pension Investment Board.²

On 2 October 2012, the House of Commons Standing Committee on Public Accounts (the Committee) decided to conduct a study of this chapter, focusing on the Canadian Dairy Commission and the Canadian Race Relations Foundation. The Committee held two hearings as part of its study. On 29 November 2012, the Committee met with Michael Ferguson, Auditor General of Canada, and Dale Shier, Principal, as well as Randy Williamson, Chairperson of the Canadian Dairy

¹ See Part X, section 138 of the *Financial Administration Act*.

² Auditor General of Canada, *Spring 2012 Report*, Chapter 6, "Special Examinations of Crown Corporations — 2011," Ottawa, 2012.

Commission.³ On 4 December 2012, the Committee met with Michael Ferguson, and Nicholas Swales, Principal, as well as Rubin Friedman, member of the board of directors and Principal Operating Officer of the Canadian Race Relations Foundation.⁴

CANADIAN DAIRY COMMISSION

The Canadian Dairy Commission was established in 1966. Its mandate is to provide efficient producers with the opportunity to obtain a fair return for their labour and investment and to provide consumers with a continuous and adequate supply of high quality dairy products. The Commission sets support prices for butter and skim milk powder and establishes the market-sharing quota for the production of milk.

The Commission is governed by a board of directors of three people, and its day-to-day operations are overseen by a chief executive officer. The Commission has approximately 65 employees and has its headquarters in Ottawa. In its fiscal year ending 31 July 2010, the Commission received \$3.8 million from the federal government for operating expenses.

The OAG's special examination found no significant deficiencies in the Commission's systems and practices. The OAG noted good practices in a number of areas. The Commission had the key elements of an effective governance framework in place. The roles and responsibilities of the board of directors were clearly defined and it worked closely with management.

The Commission also managed its key operational functions well. It set support prices and market-sharing quotas in a manner consistent with its legislation and objectives. It also had procedures in place to protect inventory and manage structural surpluses. The Commission's approach to risk management, incorporating an annual assessment of risks and regular monitoring, allowed it to manage risks in a way that helped it achieve its objectives. The Commission managed its human resources in a way that provided it with the core competencies needed to achieve its goals and

³ House of Commons, Standing Committee on Public Accounts, *Evidence*, 1st Session, 41st Parliament, 29 November 2012, Meeting 68.

⁴ *Ibid*, 4 December 2012, meeting 69.

mandate. This included developing succession plans for an upcoming wave of retirements.

The OAG also noted some areas where the Commission would benefit from improvements to its practices. With only three members, it was difficult for the board of directors to have all the skills needed for good governance. Also, the Commission's governance rules made it difficult to avoid conflicts of interest because they stated that, "either the Chairperson or the Commissioner must have significant experience in the milk production sector; the other must have significant experience in the dairy processing sector." The board member with significant experience in the processing sector is a current dairy producer and may be in a possible conflict situation when the board votes on dairy pricing decisions. The OAG concluded that the board did not have a process in place for directors to periodically declare and manage conflicts of interest, even though the OAG had recommended this course of action in its report in 2005.

The OAG recommended that the Commission's board of directors periodically assess its collective skills and seek outside expertise to complement the skills of the board members.⁵ The OAG also recommended that the board develop procedures for members to declare and manage conflicts of interest.⁶

With respect to the skills of the board, Randy Williamson, Chairperson of the Commission, told the Committee that:

There was an indication by the OAG that, in particular and more specifically, there was a shortfall in the financial skill set on the board. We concur. In fact, we have a number of requirements relative to the skill set. We feel that it is relative to the complexity of the nature of the business and the nature of supply management. Having an individual on the board who is familiar with producer issues and an individual on the board who is familiar with processor issues is also very important. With a three-member board, it becomes very difficult to ensure that we have the breadth of skill. To the extent that we recognized the shortfall, the recommendation was received and our response to it is that where the board feels there is a shortfall, we seek outside expertise. An example of that is our recent

⁵ Auditor General of Canada, *Special Examination Report — 2011, "Canadian Dairy Commission,"* Ottawa, 2011, paragraph 33.

⁶ *Ibid*, paragraph 36.

conversion from the previous accounting standards to an IFR, international financial reporting standards system. We solicited the services of an outside firm to assist us in that transition.⁷

When asked how the Board determined whether outside expertise was required, Mr. Williamson said, “The manner in which we assess the need for support, if you like, in terms of shortfalls in skill sets, is our judgment. It’s a judgment on a particular agenda item, a particular issue, in terms of whether or not we believe that the skill sets of the individuals are adequate to meet the needs of our mandate.”⁸ Michael Ferguson, Auditor General of Canada, suggested that a more formal method would be best practice, stating, “If there were a bit of an inventory of what skill sets were required, and then an assessment of what the existing members have against that sort of inventory, the gaps would be the areas in which you would get outside assistance.”⁹

The Committee agrees with the Auditor General and recommends:

RECOMMENDATION 1

That, by 30 September 2013, the Canadian Dairy Commission’s board of directors develop an inventory of skills required of board members for effective governance.

With respect to the possible conflict of interest identified by the OAG, Mr. Williamson told the Committee that:

[T]he conflict was in the fact that we have a three-member board. A producer recommendation provides one of the commissioners and processors another, and there is an apparent conflict as it relates to the producer ruling on support prices and being part of the process that establishes support prices. We recognize that as an issue. We have changed our bylaws to ensure that at the commencement of every meeting any agenda item is reviewed to determine whether or not any individual member has a conflict of interest, and there is an expectation to recuse oneself, should any exist. In addition, we take a position of neutrality. This is certainly the expectation we have of all members, that

⁷ Meeting 68, 1110.

⁸ Meeting 68, 1115.

⁹ Meeting 68, 1120.

we have a neutral position on the issues we deal with such that we avoid any conflict of interest.¹⁰

In order to identify more clearly how the Commission's board is managing conflicts of interest, the Committee recommends:

RECOMMENDATION 2

That by 30 September 2013 the Canadian Dairy Commission provide the Public Accounts Committee with the policies and practices it has put in place to respond to the Office of the Auditor General's recommendation on managing conflicts of interest.

Mr. Williamson suggested a possible solution to both the gaps in the board member skills and possible conflicts of interest. He said, "It would be a much simpler solution, if you like, if we had a larger board. That would provide us with an opportunity to solve a couple of issues, the skill set being one and the other being a potential issue around conflict."¹¹ He also said, "We are in complete agreement with the Auditor General if he is suggesting that it would be better served with a larger contingent on the commission. We are in complete agreement with that. We are currently constrained by the [Canadian Dairy Commission] Act."¹²

The Committee believes that it is worth exploring the feasibility of a larger board of directors for the Canadian Dairy Commission. It recommends:

RECOMMENDATION 3

That the Department of Agriculture and Agri-Food review the *Canadian Dairy Commission Act* with regard to the size of the Commission's board of directors, and report to the Public Accounts Committee by 30 September 2013 on the results of its examination.

There was a third area where the OAG believed that the Commission could improve its practices. While the Commission had a strategic planning process that allowed it to guide and control its operations, the quantitative performance indicators

¹⁰ Meeting 68, 1110.

¹¹ Meeting 68, 1155.

¹² Meeting 68, 1120.

used by the Commission did not allow it to assess how well it was achieving its mandate because they were not linked to the Commission's overall mandate and were focused on tasks and activities. The OAG recommended that the Commission identify and report on performance indicators that better demonstrate whether it is achieving its mandate.¹³

Mr. Williamson explained the steps the Commission had taken in response to the recommendation, stating:

We link our objectives in a given three-year period back to our mandate. Our high-reaching goals are basically the two components of our mandate. Within that, and on an annual basis, we identify what our objectives are and the strategies within those objectives. Within those strategies, we ensure those objectives and strategies are measurable. We ensure they are very specific. We ensure they're achievable, resourced, and time sensitive. We ensure we have a timeline we can measure against and a number we can measure against, in terms of whether we have achieved the objectives. It is in our annual report. It is a new approach. It's four or five years old, and it's having a very positive effect.¹⁴

The Committee notes the actions outlined by Mr. Williamson to improve the Commission's performance information, as well as the Commission's response to the OAG's recommendation, which indicates that improvements will continue to take place over the next strategic planning cycle.

CANADIAN RACE RELATIONS FOUNDATION

The Canadian Race Relations Foundation was established in 1997 as part of the 1988 Japanese Canadian Redress Agreement. The Foundation received a one-time \$12 million contribution from the National Association of Japanese Canadians and \$12 million from the federal government. The Foundation's operating income is derived from investing the \$24 million endowment. It does not receive an annual appropriation from Parliament. A small amount of additional income is generated from workshops, projects, publications and donations.

¹³ *Special Examination Report — 2011, "Canadian Dairy Commission,"* paragraph 55.

¹⁴ Meeting 68, 1125.

The Foundation is governed by a board of directors of eleven members and its day-to-day operations are managed by an executive director. The Foundation has six full-time employees, and its office is located in Toronto.

The Foundation's mandate is to contribute to the elimination of racism and all forms of racial discrimination in Canadian society. It works towards this goal through public campaigns, education and training programs, a national information base, national surveys, roundtables, symposia and lectures.

Overall, the OAG'S special examination found that the Foundation had the key elements of a good governance framework.¹⁵ The OAG noted good practices in a number of areas, and found some practices that could be improved.

The Foundation's board of directors had most of the elements for effective governance, and it provided management with strategic direction and oversight. However, its competency profile did not reflect the specific skills and experience required on the board, such as the investment management expertise needed to oversee the Foundation's endowment. The OAG recommended that the board's competency profile be updated to include all skills needed, including financial and investment management expertise.¹⁶

In response to this recommendation, Rubin Friedman, member of the board of directors and Principal Operating Officer of the Canadian Race Relations Foundation, told the Committee that, "the profile of competencies required has been completed, and we continue to search for a potential board member who has the qualifications to assist us in looking at our investments. That remains both a priority and a challenge."¹⁷

Some members of the Committee were concerned that the responsible minister had not appointed an individual recommended by the board who had the needed investment experience. Information provided to the Committee indicated that the

¹⁵ Auditor General of Canada, *Special Examination Report — 2011, "Canadian Race Relations Foundation,"* Ottawa, 2011.

¹⁶ Ibid, paragraph 32.

¹⁷ Meeting 69, 1110.

minister had acted on recommendations from the board regarding the appointment of members with financial expertise, but there were no recommendations from the board on individuals with the desired investment background.

Given the importance of finding a board member with the requisite investment expertise, the Committee recommends:

RECOMMENDATION 4

That the Canadian Race Relations Foundation inform the Public Accounts Committee when an individual with appropriate investment expertise has been appointed to its board of directors.

The OAG also found that the Foundation had most of the elements necessary to manage its investment portfolio, including a new investment policy, but several sub-policies and the agreement with the investment advisor needed to be updated to be consistent with the new policy. As well, the investment advisor had not provided the board with information on how fund managers were meeting the new performance measures. The OAG recommended that the Foundation establish a process for obtaining how the performance measures for its investment portfolio were being met.¹⁸

Mr. Friedman told that the Committee that since the special examination:

[O]ur fund managers and the investment consultant we had at the time continued to perform under the benchmarks and were not able to meet expected performance measures. After a thorough RFP process, followed by further negotiations, on April 1, 2012, CRRF signed an agreement with RBC to manage its portfolio based on the measures and guidelines stated in the CRRF 2009 investment policies and goals statement, IPGS. We have received two quarterly reports and we plan to review the RBC's one-year performance in April 2013, along with the performance measurement criteria stated in the IPGS.¹⁹

He also noted that, "Given that we have changed our fund manager, we have not reviewed all the [performance] criteria at this time. However, after one year's operation,

¹⁸ *Special Examination Report — 2011, "Canadian Race Relations Foundation,"* paragraph 43.

¹⁹ Meeting 69, 1110.

we are going to review both the extent to which the current manager's objectives have been met and the criteria themselves."²⁰

The Committee notes how important an effective investment strategy is to the Foundation. The Foundation's endowment fund suffered major losses during the 2008 global financial crisis, as a significant portion of the fund was invested in the stock market. The Foundation had to reduce expenditures almost 40 percent. While the fund is now back to its original level, it will be important for the Foundation to carefully manage its investments. Given the importance of this issue to the Foundation, the Committee recommends:

RECOMMENDATION 5

That the Canadian Race Relations Foundation report by 31 March 2014 to the Public Accounts Committee on the extent to which the Foundation is meeting its investment objectives.

The OAG noted that the Foundation had clearly defined its strategic directions and aligned its operations accordingly. Major risks had been identified, but no formal follow-up action plans had been conducted to mitigate those risks. The OAG recommended that the Foundation periodically review its risk mitigation action plans and report them to the board.

In response to the recommendation, Mr. Friedman informed the Committee that:

[I]n November 2011 the foundation engaged Grant Thornton chartered accountants to conduct an internal audit review of the foundation's financial operations. The objective of the audit was to corroborate our risk management through the internal controls in place in the areas of payroll, internal financial reporting, information technology, general controls, and investment management. Grant Thornton's report to the board of directors did not identify any material weaknesses. They reported one significant and six minor findings, none with respect to investment management. CRRF has acted on the points raised in the internal audit and continues to ensure that proper procedures are followed. We are committed to maintaining and enhancing governance and organizational structure and

²⁰ Meeting 69, 1120.

capabilities, as well as ensuring our long-term sustainability and development.²¹

The Committee notes the efforts taken by the Foundation to review and address any weaknesses in its financial operations.

CONCLUSION

The special examinations of both the Canadian Dairy Commission and the Canadian Race Relations Foundation did not find any significant deficiencies in the Crown corporations' systems and practices. The OAG noted a number of good practices for both corporations. The Committee believes that this finding is particularly impressive for the Foundation, as it was the Foundation's first special examination, and it is a small organization with only six employees.

The OAG found several areas where improvements can be made in the corporations' practices. The Committee notes that the Commission and the Foundation appear to have plans in place to address those issues, but further attention may be required to ensure that the boards of both corporations have the skills needed for effective governance.

²¹ Meeting 69, 110.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Canadian Dairy Commission Randy Williamson, Chairperson	2012/11/29	68
Office of the Auditor General of Canada Michael Ferguson, Auditor General of Canada Dale Shier, Principal		
Canadian Race Relations Foundation Rubin Friedman, Member of the Board of Directors and Principal Operating Officer	2012/12/04	69
Office of the Auditor General of Canada Michael Ferguson, Auditor General of Canada Nicholas Swales, Principal		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings (41st Parliament, 1st Session: [Meetings Nos. 68, 69, 78, 83, 88, 91, 94 and 95](#)) is tabled.

Respectfully submitted,

David Christopherson

Chair