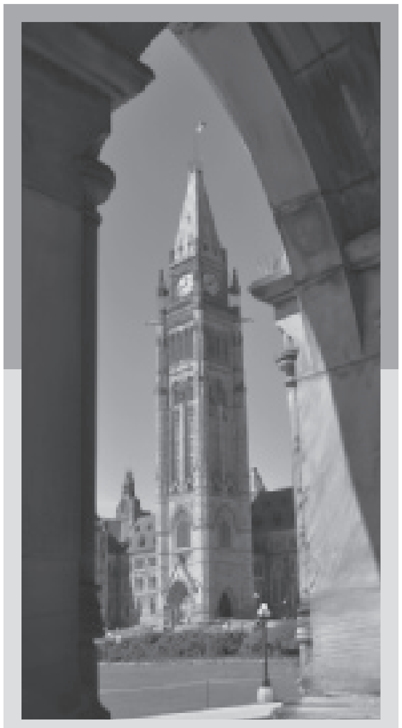

Canada Lands Company Limited

Special Examination Report—2014

OAG-BVG

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

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

To the Board of Directors of Canada Lands Company Limited:

We have completed the special examination of Canada Lands Company Limited in accordance with the plan presented to the Audit Committee of the Board of Directors on 3 October 2013. 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 appreciated the opportunity to respond to your comments and questions at your meeting on 19 June 2014.

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

Yours sincerely,

Sylvain Ricard, CPA, CA
Assistant Auditor General

Ottawa, 8 July 2014

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

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Special Examination Opinion

To the Board of Directors of Canada Lands Company Limited

Our opinion

1. In our opinion, based on the criteria established, there is reasonable assurance that during the period covered by the examination there were no significant deficiencies in the systems and practices that we selected for examination of Canada Lands Company Limited and its subsidiaries (the Corporation). The Corporation has maintained these systems and practices in a manner that provides 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.

Findings that support our opinion

2. **Corporate governance.** We found that the Corporation had in place the key elements of a governance framework that meets the expectations of sound practices in board stewardship, shareholder relations, and communications with the public. However, we noted that the Corporation's reports to the Board of Directors were limited in a few key areas.

3. **Strategic planning, risk management, and performance measurement and reporting.** We found that because of the changes related to the upcoming amalgamation and the turnover in senior management and on the Board of Directors, the Corporation did not yet have its new strategic direction in place. It also did not have new measurable goals and objectives to achieve its mandate and its statutory control objectives. Furthermore, the Corporation did not yet have corporate risk management processes fully in place for managing the achievement of its objectives for all subsidiaries.

4. **Property development and management.** We found that the Corporation had the systems and practices required to ensure good management and monitoring of its operations. It has maintained these systems and practices in a manner that safeguards and controls its assets and helps it achieve its mandate. We also found that the Corporation was managing environmental and sustainable development risks. However, there were some gaps in contracting systems and practices.

5. **Human resource management.** We found that the Corporation had systems and practices for managing human resources in a manner that provides it with the human resource capacity and the work environment needed to achieve its goals and objectives. However, we noted areas for improvement, specifically in long-term human resource planning, including succession planning and the assessment of corporate training needs.

Findings, recommendations, and responses

6. The rest of this report provides an overview of the Corporation and more detailed information on our examination findings and recommendations. The Corporation agrees with all of the recommendations. Its detailed responses follow the recommendations throughout the report.

What the Corporation is required to do

7. Under section 131 of the *Financial Administration Act* (FAA), 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.

8. Section 138 of the FAA requires the Corporation to have a special examination of these systems and practices carried out at least once every 10 years.

What the Office of the Auditor General is responsible for

9. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination—from June 2013 to April 2014—there were no significant deficiencies in the Corporation's systems and practices that we selected for examination.

Signature and date

Sylvain Ricard, CPA, CA

Assistant Auditor General
for the Auditor General of Canada

18 June 2014
Ottawa, Canada

Introduction

Overview of Canada Lands Company Limited

Role and mandate

10. Canada Lands Company Limited is a parent Crown corporation that reports to the Parliament of Canada through the Minister of Public Works and Government Services. It is a *Canada Business Corporation Act* corporation listed in Schedule III, Part I, of the *Financial Administration Act* and is an agent of Her Majesty. Canada Lands Company Limited is a holding corporation with its mandate carried out by its three wholly owned subsidiaries:

- Canada Lands Company CLC Limited (CLC),
- Old Port of Montréal Corporation Inc., and
- Parc Downsview Park Inc.

In this report, we use "the Corporation" to refer to Canada Lands Company Limited and its subsidiaries as a whole. We use "the Board" to refer to the Board of Directors of the parent Crown corporation and the boards of its subsidiaries, which are composed of the same members.

11. The Corporation's mandate focuses on obtaining the best financial value from the sale of federal government surplus properties that possess significant development potential. In addition to these financial considerations, the mandate also requires that strategic non-financial considerations be taken into account, including the views of affected communities, as well as heritage and environmental issues. The Corporation also carries out its mandate by managing properties such as the CN Tower, the Montréal Science Centre, and Downsview Park.

Nature of business and operating environment

12. On 29 November 2012, the Government of Canada authorized the amalgamation of the Old Port of Montréal Corporation Inc. and Parc Downsview Park Inc. with CLC. Although the full legal amalgamation has not yet occurred, Canada Lands Company Limited is currently managing all of the subsidiaries. The subsidiaries' current operations include real estate, tourism, and education businesses.

13. In the 2012–13 fiscal year, the Corporation spent $176 million and brought in $224 million in revenue, including $8 million in government funding. It earned a total of $48 million in net income. From that amount, the Corporation paid the government a dividend of $20 million.

14. As of December 2013, the Corporation had approximately 687 full-time equivalent positions. CLC had 426 of these positions, 364 of which were at the CN Tower; the Old Port of Montréal Corporation Inc. had 215; Parc Downsview Park Inc. had 45; and the holding corporation itself had 1.

Current challenges

15. The Corporation has been facing a few challenges. Its priority at the time of our audit was managing important corporate changes related to the upcoming amalgamation. The Corporation was addressing financial implications, including the loss of government funding for the Old Port of Montréal Corporation Inc. and managing the debt previously incurred by Parc Downsview Park Inc. The Corporation was also updating its management and board practices for the management and control of all of the subsidiaries.

16. Adding to the challenges, there has been a significant turnover in senior management and on the Board of Directors. In 2013, there was an interim president and CEO, and all but one member of the senior management team were either new to the Corporation or acting in a new capacity. Furthermore, the terms of five of the seven directors either expired in 2013 or were set to expire by early 2014. By April 2014, the appointment processes were complete: one director was reappointed, and four were replaced; and the new CEO was in place.

Focus of the special examination

Objective

17. Our objective for this audit was to determine whether the systems and practices we selected for examination at the Corporation were providing it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively. We selected systems and practices in the following areas:

- corporate governance;
- strategic planning, risk management, and performance measurement and reporting;
- property development and management (including consideration of the environment and sustainable development); and
- human resource management.

Further details

18. Further details on the audit objectives, systems and practices that we selected for examination, period of the audit, and criteria are provided in **About the Special Examination** at the end of the report.

Findings and Recommendations

Corporate governance

Overall finding

19. We found that the Corporation had in place the key elements of a governance framework that meets the expectations of sound practices in board stewardship, shareholder relations, and communications with the public. However, we noted that the Corporation's reports to the Board of Directors were limited in a few key areas.

Context

20. In 2013, the Board and senior management focused on the decisions needed to address the objectives of the upcoming amalgamation and the expanded corporation. The Board played an active role in managing and directing changes to the Corporation's three subsidiaries and was accountable for meeting the Minister's expectations on this matter.

21. By the end of our audit period, the main focus on managing the amalgamation had shifted to managing the operations of all the subsidiaries, including their real estate, tourism, and education businesses. As well, a new senior management team was in place, and all changes in appointments to the Board of Directors had been made.

22. At all times, the Board is responsible for performing its oversight role to ensure that the Corporation is fulfilling its mandate.

Key elements of good governance were in place

What we found

23. We found that the Corporation had in place key elements of good governance.

Why this finding is important

24. Good governance practices help ensure that the Corporation can fulfill its mandate and meet the objective outlined in the *Financial Administration Act*. This objective is to maintain systems and practices in a manner that ensures that

- its assets are safeguarded and controlled,
- its resources are managed economically and efficiently, and
- its operations are carried out effectively.

What we recommended

25. We made no recommendation in this area.

What we observed to support this finding

26. Governance. We found that the Board had the following key elements of good governance in place (Exhibit 1).

Exhibit 1 Key elements of good governance at the Corporation

Governance element	Observations
Roles and responsibilities	The Board has clearly defined its role and responsibilities, and those of its committees, in the respective terms of reference.
Committees	The Board is supported by a set of committees, including • a governance committee, • an audit committee, • a human resource committee, • an investment committee, • a risk committee, and • an ad hoc committee for the upcoming amalgamation.
Independence	Board members • are informed that they are subject to the *Conflict of Interest Act*; • proactively disclose potential conflicts of interest at Board meetings, when needed; and • regularly conduct in-camera meetings without management.
Competencies	In 2013, the Board conducted a self-assessment to measure its performance and that of its committees in carrying out responsibilities. The assessment identified areas for improvement, which the Board has recently taken steps to address. The Board • provides new directors with key corporate documents and an orientation session, and informs them of training opportunities to enhance their competencies and skills; and • has a Board profile, which identifies the specific skills, knowledge, and experience to be considered when filling directors' positions.
Communication	The Board • completes an annual report and makes it available on the Corporation's website; • holds an annual public meeting; • has ongoing communications with the Minister and stakeholders; • maintains ongoing communications with the CEO and the senior management team; and • assesses the performance of the CEO regularly.

The Corporation's reports to the Board were limited in a few key areas

What we found

27. We found that reports needed to support the Board of Directors' corporate oversight were limited in the areas of

- achieving the Corporation's mandate,
- managing corporate risk, and
- monitoring ethical performance.

Why this finding is important

28. The Board is responsible for overseeing the Corporation's management and operations and for ensuring that it fulfills its mandate. The Board needs to receive and review appropriate and timely information in order to support its oversight decisions and monitor the Corporation's performance.

What we recommended

29. Recommendation. To help the Board better perform its oversight role, the Corporation should improve its three-year reports on projects to the Board by including

- summary financial information for key properties presented more consistently; and
- operational objectives for the non-financial considerations of its mandate (communities, heritage, and environmental issues).

In addition, the Corporation should

- prepare reports on corporate risk mitigation as part of the implementation of the overall processes for corporate risk management, and
- produce a periodic report on its ethical performance.

The Corporation's response. *Agreed. The Corporation will continue to refine and improve the reporting format to satisfy the needs of the Board. At present, projects are measured against financial and non-financial targets and project risks, which are evaluated and regularly reported to the Board; however, management will work to make such reports more consistent.*

The Corporation's balanced scorecard metrics will be reviewed and revised during the development of the strategic plan in the third quarter of this year, and incorporated into Board reports on completion of the review.

Project reviews will be expanded to include a review of specific project-related risks. Management will work with the Board Risk Committee to implement appropriate corporate risk assessment, monitoring, mitigation, and reporting practices.

Ethical performance is monitored through annual review and signature of the Corporation's Code of Conduct and Conflict of Interest Policy by each employee of the Real Estate division of Canada Lands Company CLC Limited. This practice will be expanded to include non-unionized employees of all divisions, and compliance and exceptions will be reported to the Board annually, beginning in January 2015.

What we observed to support this finding

30. **Achieving the Corporation's mandate.** The Corporation's mandate focuses on obtaining the best financial value from the sale of federal government surplus properties that have significant development potential. The Corporation's Project Review Policy states that during the development period of certain properties, investment reports should be prepared for the Board so that it can periodically review these long-term projects. This step ensures that strategies are still relevant and appropriate, and that project objectives are being met. These reports are required every three years. They are intended to assess a project's progress against its original objectives, budget, and time frame and to make any recommendations for changes.

31. Such reports were provided to the Board; however, we found that they lacked consistent reporting across projects. As well, they did not compare current status against original financial targets, such as the internal rate of return, over the period in which properties were developed and sold. Although the Corporation provides ongoing, detailed financial information to the Board, it could improve the summary information in its three-year reports on projects. Doing so would help the Board oversee individual decisions on real estate investments over time to ensure the best value.

32. The Corporation's mandate also requires it to consider communities, as well as heritage and environmental issues, associated with the properties. We found that the Corporation had not established operational objectives for these considerations for each project. As a result, it could not track progress on these objectives in its three-year reports. Instead, its practice was to report on selected project results through a different reporting tool, called a balanced scorecard.

33. **Managing corporate risk.** The Board is responsible for ensuring that the key corporate risks have been identified, and that processes are in place to manage and monitor them. Risk is also a key consideration in strategic planning and resource allocation. In 2013, the Corporation hired an external consultant to provide management with an objective corporate risk review, which was presented to the Board. At the time of our audit, the Corporation had just begun to implement formal corporate risk management processes that would include periodic reports to the Board.

34. **Monitoring ethical performance.** The Corporation updated many policies in late 2013 to reflect changes in operations due to the upcoming amalgamation. However, we found that the Corporation's recently updated Code of Conduct and Conflict of Interest Policy still did not include a corporate-wide process to monitor and provide periodic reports to the Board on its ethical performance, even though this is one of the responsibilities of the Board's Governance Committee.

Strategic planning, risk management, and performance measurement and reporting

Overall finding

35. We found that because of the changes related to the upcoming amalgamation and the turnover in senior management and on the Board of Directors, the Corporation did not yet have its new strategic direction in place. It also did not have new measurable goals and objectives to achieve its mandate and its statutory control objectives. Furthermore, the Corporation did not yet have corporate risk management processes fully in place for managing the achievement of its objectives for all subsidiaries.

Context

36. The Corporation and the Board decided to delay updates to their strategic plan and performance indicators in order to focus on the impact of the upcoming amalgamation. They also wanted to wait until the appointments of the new directors and the new CEO, which took place near the end of our audit.

37. By mid-2013, the Corporation had hired an external consultant to provide an objective corporate risk review and assessment that updated previous risk assessments and was expanded to cover all of the subsidiaries. The assessment was reviewed by the Board at the end of 2013.

Strategic planning and performance measurement processes had not been updated

What we found

38. We found that the Corporation did not yet have a new strategic direction or related measurable goals and objectives for achieving its mandate and its statutory control objectives.

Why this finding is important

39. With the upcoming amalgamation, the Corporation needs to develop new long-term strategic plans and develop key performance indicators to show that it is achieving its legislated objective and mandate. Performance measurement is also important for informed decision making and accountability.

What we recommended

40. **Recommendation.** Now that the appointments of the CEO and the Board's new directors have been completed, the Corporation should update its strategic plan to articulate its overall long-term perspective. As part of the update, the Corporation should streamline and align key performance indicators with the corporate objectives in order to show how well it is fulfilling its mandate and its legislative objective.

The Corporation's response. *Agreed. With the new Board and CEO in place, a strategic plan including performance indicators will be developed and reviewed with the shareholder for alignment of policy objectives within the calendar year.*

The Corporation places a high degree of urgency on the need to update the strategic plan—with particular emphasis on the Old Port of Montréal Corporation Inc. and Parc Downsview Park Inc.

The Corporation's balanced scorecard metrics are being reviewed during the development of the strategic plan in the third quarter of this year.

What we observed to support this finding

41. **Strategic planning and performance measurement.** The Corporation's previous strategic plan, prepared in the 2010–11 fiscal year, was due to be updated this year and to reflect the upcoming amalgamation of the three subsidiaries. This update was postponed as a result of changes from the amalgamation as well as pending changes in directors and the CEO. In the meantime, the Corporation articulated its view of the amalgamated corporation in its five-year corporate plan, which was approved by the Board and the Governor in Council. While developing the five-year plan, the Corporation prepared detailed operational plans for each of the subsidiaries and divisions.

42. In the documents we examined, we found over 120 performance indicators. However, they were not always aligned to support clear accountability for achieving the Corporation's mandate.

Risk management processes were not fully in place

What we found

43. We found that the processes for corporate risk management were not fully in place. In addition, the corporate risk review did not identify or include fraud risk, and operational risk management for real estate properties was limited.

Why this finding is important

44. The Corporation must implement corporate risk management in order to identify risks, as well as to assess, prioritize, and mitigate them. The Corporation needs to allocate resources to address the risks and then monitor and report on them to management and the Board. Corporate risk assessments would help the Board identify key matters on which it needs to provide oversight.

What we recommended

45. **Recommendation.** The Corporation should complete the implementation of corporate risk management processes and include an assessment of fraud risk. As well, the Corporation should improve its monitoring of operational risks for real estate properties.

The Corporation's response. *Agreed. To elevate the emphasis on risk oversight, corporate risk management was elevated from a sub-committee of the Audit Committee to a standing committee of the Board in June 2012. The Corporation plans to complete the implementation of its enterprise risk management processes by January 2015.*

The standing Risk Committee will review enterprise risk reports at each meeting, beginning September 2014. The Committee's review will include review of significant fraud and operational risks. The risk of fraud is reviewed by management on an ongoing basis. Risks are mitigated by an effective system of internal controls and procedures, and are periodically assessed by independent internal audits, with findings reported to the Board. Management will work to further improve its reporting of fraud risk mitigation practices to the Board.

What we observed to support this finding

46. **Corporate risk management.** In 2013, the Corporation hired an external consultant to provide an objective corporate risk review that expanded on the previous risk assessment of Canada Lands Company CLC Limited (CLC) to include the Old Port of Montréal Corporation Inc. and Parc Downsview Park Inc. The assessment identified nine key corporate risks that could have a direct impact on the organization's ability to achieve its strategic and operational objectives. The risks were prioritized according to their potential impact and likelihood in the absence of controls. Current management control activities were assessed, and opportunities for improving them were identified. Management presented this assessment to the Board in the fall of 2013. At the time of our audit, the Corporation had not yet taken steps to implement corporate risk management and reporting processes.

47. We also found that the corporate risk assessment did not identify and assess fraud risk. Given the importance of the Corporation's business in construction contracting—and the potential impact of fraud on the Corporation's reputation—this is an important element that should be included in the Board's oversight.

48. Finally, we noted that although the Corporation assessed risks when acquiring individual properties, it did not formally or consistently monitor operational risks throughout the phases of property development and disposal.

Property development and management

Overall finding

49. We found that the Corporation had the systems and practices required to ensure good management and monitoring of its operations. It has maintained these systems and practices in a manner that safeguards and controls its assets and helps it achieve its mandate. We also found that the Corporation was managing environmental and sustainable development risks. However, there were some gaps in contracting systems and practices.

Context

50. Real estate is a major focus for the Corporation, which purchases surplus properties with significant development potential from the federal government, then holds and manages the properties, or improves and sells them. The Corporation relies considerably on contractors and consultants to complete much of the development work. The life cycle for property development and sales depends on many factors and can take many years. In addition, the Corporation holds and manages certain properties, such as the CN Tower, the Montréal Science Centre, and Downsview Park.

Sound practices for developing real estate property and managing properties were in place

What we found

51. We found that the Corporation had the systems and practices to ensure good development and management of its real estate properties. It also had systems and practices for ensuring the maintenance, safety, and security of its assets.

Why this finding is important

52. The Corporation develops multiple real estate properties. Many of these properties have significant development potential. The Corporation has the responsibility of improving and selling them at an appropriate time and price. Through these long cycles, its objective is to obtain the best financial value for Canadians while considering communities, as well as heritage and environmental issues.

53. In terms of property management, the Corporation also has the objective of obtaining the best value for Canadians by generating net income from operations. It is also responsible for safeguarding its assets and managing environmental and sustainable development risks.

What we recommended

54. We made no recommendations in this area.

What we observed to support this finding

55. **Property development.** We found that the Corporation had sound practices for developing property. The Corporation's development process includes

- performing due diligence checks on properties before acquiring them, including heritage and environmental assessments;
- preparing an initial business acquisition plan that includes strategic considerations, a development concept, risk analysis, opportunities for sustainable development, and financial analysis; and
- negotiating a fair market value price.

56. We noted that once the Corporation owned a property, it did extensive work to

- plan the project,
- conduct environmental assessments and clean up contaminated soil (if needed),
- hold public consultations,
- ensure proper zoning and servicing, and
- sell building lots.

57. We noted that the Corporation creates economic, community, environmental, and heritage value in the planning and development of its properties. For example, the Rebecca Street project in Oakville and the Currie Barracks project in Calgary obtained the Leadership in Energy and Environmental Design–Neighbourhood Development (LEED-ND) certification. The Garrison Crossing project, a former military base, commemorates military history.

58. We noted that the Corporation had the systems and practices to closely monitor aspects of its property development projects. We also noted that at the sales phase, the Corporation considers factors such as reputation and experience with LEED-ND projects, in addition to financial value, when selecting builders.

59. **Property management.** The Corporation had the systems and practices for operating and maintaining its assets, which include a wide variety of properties and unique architectural structures. These systems and practices help the Corporation ensure that its properties are protected and that activities are carried out safely.

60. We noted that the Corporation had effective systems and practices for managing its operations across its subsidiaries. We also noted that the Corporation had proper asset management systems in place to ensure that its properties were well maintained. The Corporation conducts regular inspections that provide detailed information on the condition of the mechanical, electrical, structural, and architectural components of buildings. The Corporation periodically allocates resources to ensure proper maintenance of its assets. The Corporation also had systems and practices to ensure the safety and security of its assets, the public, and its employees.

There were some gaps in contracting systems and practices

What we found

61. We found there were some gaps in the Corporation's contracting systems and practices in the following areas:

- compliance with contracting procedures, and
- the competitive process.

Why this finding is important

62. The Corporation relies considerably on consultants and contractors to carry out much of the actual project work. During the 2012–13 fiscal year alone, close to $70 million was committed to the payment of consultants and contractors.

63. Contracting policies and procedures are intended to ensure that

- well-qualified firms or individuals are selected;
- the selection process is competitive, transparent, fair, and objective; and
- the Corporation receives the best value for the contract.

What we recommended

64. Recommendation. The Corporation should strengthen its systems and practices for contracting to ensure that it

- follows its own contracting procedures, in particular, reporting to the Board all exceptions to competitive proposals; and
- clearly defines requirements for the competitive process.

The Corporation's response. *Agreed. The Corporation's contracting policies and procedures define the processes and authorities required to tender and award contracts. The Corporation will enhance its contracting procedures and guidelines by 31 March 2015 to ensure that the requirements for competitive processes are more clearly defined.*

The exception to competitive proposals referred to is the reporting to the Board of all sole-source contracts that exceed $50,000. Although this reporting function was missed for a finite period, all contracts would have been independently approved by both a vice-president and the president during this time, under the delegation of authority.

The omission of reporting sole-source contracts to the Board in excess of $50,000 was an oversight that will be corrected by the end of this calendar year.

What we observed to support this finding

65. Contracting. We found that there were gaps in a few areas of the Corporation's contracting systems and practices (Exhibit 2).

Exhibit 2 Gaps in contracting

Area	Observations
Compliance with contracting procedures	The Corporation was not in compliance with its own contracting procedures. Exceptions to competitive proposals for commitments greater than $50,000 had not been reported to the Board since December 2011, contrary to what was required by the procedures.
Competitive process requirements	The Corporation did not clearly define its key requirements for the competitive process in its contracting procedures. The Corporation's contracting procedures required that all commitments greater than $50,000 be procured through a competitive process. However, there were no guidelines on the number of suppliers to be contacted, or on the number of formal submissions to be secured, relative to the contract's value.

Human resource management

Overall finding

66. We found that the Corporation had systems and practices for managing human resources in a manner that provides it with the human resource capacity and the work environment needed to achieve its goals and objectives. However, we noted areas for improvement, specifically in long-term human resource planning, including succession planning and the assessment of corporate training needs.

Context

67. In the past year, the Corporation's human resource focus was on the short-term challenges related to the upcoming amalgamation. Prior to 2013, each subsidiary had its own systems and practices for human resource management. During 2013, the Corporation took some steps to harmonize and coordinate its human resource practices, including launching a review of its overall compensation practices. Changes resulting from this review are due to be implemented in 2014.

Systems and practices were in place for managing human resources, but there were gaps in planning

What we found

68. We found that the Corporation had systems and practices for human resource management. However, there were gaps in human resource planning, including succession planning and the assessment of corporate training needs.

Why this finding is important

69. The Corporation's success in achieving its mandate depends largely upon having the right people with the right skills. An effective framework for managing human resources would align human resource planning, training and development, compensation, performance management, and health and safety with the Corporation's long-term direction.

What we recommended

70. **Recommendation.** The Corporation should align its human resource plan with the new strategic plan to ensure that it has sufficient and qualified human resources to achieve its objectives. The human resource plan should include a succession plan and a corporate-level analysis of current and emerging training needs.

The Corporation's response. *Agreed. Once the Corporation has completed its new strategic plan this calendar year, we will begin to develop the human resource plan for completion by December 2015. The Corporation will also put* *in place a plan to identify critical roles and high-potential individuals, and a succession plan to fill vacancies in the identified critical positions.*

Given the size of the enterprise, training needs are identified on an individual basis. The Corporation will review the sum of these needs to seek opportunities for efficiencies.

The Corporation will re-emphasize to managers the need to identify training needs for employees as part of their annual performance reviews, and corporate training needs will be a recurring topic of discussion by the senior management team, beginning June 2015.

What we observed to support this finding

71. **Human resource management.** The Corporation had compensation policies and procedures for each of its subsidiaries. It reviewed the salary budget and salary ranges annually to ensure that they were helping to attract, retain, and reward employees. The Corporation also had some human resource plans for the short term, mainly to identify current recruitment needs.

72. The Corporation had a performance management program for each of its subsidiaries, except for unionized employees at the CN Tower. These programs included an annual goal-setting exercise against which performance would be assessed at year-end to award salary increases and bonuses. These programs also included a development plan and a mid-year review process. We noted that the Corporation was managing its training and development activities mainly through supervisors' assessments of employee needs during performance reviews.

73. The Corporation also had health and safety policies, programs, and committees, as well as a practice of documenting accidents and reporting them to the Board. Some of the Corporation's activities included workplace inspections, accident and incident investigations, emergency procedures, workplace hazards, and programs for alcohol and drug addiction.

74. At the time of our audit, we noted that the compensation of some vice-presidents exceeded that of the CEO. Compensation of the CEO—both salary and bonuses—was determined through a government process fixed by an order-in-council, whereas the vice-presidents' compensation was established internally and approved by the Board.

75. The Corporation is undertaking an external review of its overall compensation practices. The review will provide an arm's-length perspective on the appropriateness of the Corporation's current compensation approach. The review will include a compensation strategy for executives as well as competitive market analysis with proposed benchmarks.

We encourage the Board to ensure that the principles, strategy, rationale, and benchmarks that will be approved for the Corporation's executive compensation are clearly defined and documented.

76. **Human resource planning.** We found that the Corporation had not completed its long-term human resource planning. Such human resource planning usually includes

- identifying current and future competencies and skills;
- assessing capabilities for critical areas;
- developing succession plans; and
- establishing strategies for recruiting, training, and retention.

77. We also found that there was limited corporate-level analysis of current and emerging training needs. We noted that employees' development tended to be based only on short-term, individual needs.

Conclusion

78. In our opinion, based on the criteria established, there is reasonable assurance that during the period covered by the examination there were no significant deficiencies in the Corporation's systems and practices that we selected for examination. The Corporation has maintained these systems and practices in a manner that provides 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.

About the Special Examination

All of the audit work in this report was conducted in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Canada Handbook—Assurance. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

As part of our regular audit process, we obtained management's confirmation that the findings reported in this report are factually based.

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 objective is set by the FAA.

The Auditor General provides an opinion on the corporation's systems and practices examined. Special examinations answer the question: Do the Corporation's systems and practices provide reasonable assurance that assets are safeguarded and controlled, resources are managed economically and efficiently, and operations are carried out effectively? A significant deficiency is reported when there is a major weakness in the Corporation's key systems and practices that could prevent it from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed efficiently and economically, and its operations are carried out effectively. The opinion for this special examination is found on page 1 of this report.

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 that 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 our special examination.

These criteria were selected for this examination in consultation with the Corporation. They were based on our experience with performance auditing—in particular with our special examinations of Crown corporations—and on our knowledge of the subject matter. Management reviewed and accepted the suitability of the criteria used in the special examination.

The scope of our audit work covers the parent Crown corporation, Canada Lands Company Limited, and its three subsidiaries—Canada Lands Company CLC Limited, Old Port of Montréal Corporation Inc., and Parc Downsview Park Inc.

Key systems and practices examined	Criteria
Corporate governance • Board oversight process, including interpretation of mandate, strategic direction, risk management, fraud, information provided, executive travel, and hospitality • The functioning of the Board and its committees, including roles and responsibilities, governance structure, and evaluation of performance • Processes regarding ethics and values • Board composition, selection, and appointment processes for directors and the CEO, including succession planning • Board orientation and training processes • Board and management communications processes within the Corporation, with the Minister, and with other stakeholders, central agencies, government departments, and the public	To maximize the Corporation's effectiveness and its ability to balance public policy objectives with its commercial objectives, the Corporation has a well-performing corporate governance framework that meets the expectations of sound practices in board stewardship, shareholder relations, and communications with the public.
Strategic planning, risk management, performance measurement and reporting • Strategic planning process—establishing strategic objectives and alignment with operational plans and communication • Risk management process • Process for establishing performance expectations • Performance measurement and reporting processes	The Corporation has clearly defined strategic directions and specific and measurable goals and objectives to achieve its legislative, commercial, and public policy mandate. Its strategic direction and goals take into account government priorities, identified risks, and the need to control and protect its assets and manage its resources economically and efficiently. The Corporation has identified performance indicators to measure the achievement of its mandate and statutory objectives.
Property development and management • Operational planning processes, including establishing objectives, setting targets, and budgeting, while performing appropriate consultation and considering heritage and environmental issues • Systems and practices to deliver programs and dispose of real estate to achieve objectives—for example, project management, contracting, lease management, and reporting • Asset management, safety, and security • Overall monitoring and reporting by entity • Implementation and monitoring of ethical practices	The Corporation has systems and practices in place for its operations to clearly define operational objectives and targets for planning, designing, implementing, and monitoring operations in a manner that safeguards and controls assets, enables economical and efficient use of resources, and operates effectively to achieve its mandate.
Human resource management • Human resource planning including the impact of an upcoming amalgamation • Communication processes with employees • Training and development processes • Appraisal and compensation practices • Succession planning for senior management • Knowledge management practices	Human resources are managed in a manner that provides the Corporation with the human resource capacity and the work environment it needs to achieve its goals and objectives.

Key systems and practices examined	Criteria
Environment and sustainable development • Environmental policies and practices in place, reflecting legal and regulatory requirements • Identification of environmental risks and liabilities • Assessment of environmental priorities, and monitoring and reporting	The Corporation identifies and manages significant environmental and sustainable development risks and opportunities associated with its activities and operations in order to support the attainment of its objectives in this area and in a manner consistent with regulatory and other requirements.

Period covered by the special examination

The special examination covered the systems and practices that were in place between June 2013 and April 2014. However, to gain a more complete understanding of the significant systems and practices, we also examined certain matters that preceded the starting date of the special examination.

Internal audit

In carrying out the special examination, we did not rely on any internal audits. However, such audits were used to inform our work.

Audit team

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Appendix List of recommendations

The following is a list of recommendations found in this 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
Corporate governance	
29. To help the Board better perform its oversight role, the Corporation should improve its three-year reports on projects to the Board by including • summary financial information for key properties presented more consistently; and • operational objectives for the non-financial considerations of its mandate (communities, heritage, and environmental issues). In addition, the Corporation should • prepare reports on corporate risk mitigation as part of the implementation of the overall processes for corporate risk management, and • produce a periodic report on its ethical performance. **(27–34)**	**The Corporation's response.** Agreed. The Corporation will continue to refine and improve the reporting format to satisfy the needs of the Board. At present, projects are measured against financial and non-financial targets and project risks, which are evaluated and regularly reported to the Board; however, management will work to make such reports more consistent. The Corporation's balanced scorecard metrics will be reviewed and revised during the development of the strategic plan in the third quarter of this year, and incorporated into Board reports on completion of the review. Project reviews will be expanded to include a review of specific project-related risks. Management will work with the Board Risk Committee to implement appropriate corporate risk assessment, monitoring, mitigation, and reporting practices. Ethical performance is monitored through annual review and signature of the Corporation's Code of Conduct and Conflict of Interest Policy by each employee of the Real Estate division of Canada Lands Company CLC Limited. This practice will be expanded to include non-unionized employees of all divisions, and compliance and exceptions will be reported to the Board annually, beginning in January 2015.

Recommendation	Response
Strategic planning, risk management, and performance measurement and reporting	
40. Now that the appointments of the CEO and the Board's new directors have been completed, the Corporation should update its strategic plan to articulate its overall long-term perspective. As part of the update, the Corporation should streamline and align key performance indicators with the corporate objectives in order to show how well it is fulfilling its mandate and its legislative objective. **(38–42)**	**The Corporation's response.** Agreed. With the new Board and CEO in place, a strategic plan including performance indicators will be developed and reviewed with the shareholder for alignment of policy objectives within the calendar year. The Corporation places a high degree of urgency on the need to update the strategic plan—with particular emphasis on the Old Port of Montréal Corporation Inc. and Parc Downsview Park Inc. The Corporation's balanced scorecard metrics are being reviewed during the development of the strategic plan in the third quarter of this year.
45. The Corporation should complete the implementation of corporate risk management processes and include an assessment of fraud risk. As well, the Corporation should improve its monitoring of operational risks for real estate properties. **(43–48)**	**The Corporation's response.** Agreed. To elevate the emphasis on risk oversight, corporate risk management was elevated from a sub-committee of the Audit Committee to a standing committee of the Board in June 2012. The Corporation plans to complete the implementation of its enterprise risk management processes by January 2015. The standing Risk Committee will review enterprise risk reports at each meeting, beginning September 2014. The Committee's review will include review of significant fraud and operational risks. The risk of fraud is reviewed by management on an ongoing basis. Risks are mitigated by an effective system of internal controls and procedures, and are periodically assessed by independent internal audits, with findings reported to the Board. Management will work to further improve its reporting of fraud risk mitigation practices to the Board.

Recommendation	Response
Property development and management	
64. The Corporation should strengthen its systems and practices for contracting to ensure that it • follows its own contracting procedures, in particular, reporting to the Board all exceptions to competitive proposals; and • clearly defines requirements for the competitive process. **(61–65)**	**The Corporation's response.** Agreed. The Corporation's contracting policies and procedures define the processes and authorities required to tender and award contracts. The Corporation will enhance its contracting procedures and guidelines by 31 March 2015 to ensure that the requirements for competitive processes are more clearly defined. The exception to competitive proposals referred to is the reporting to the Board of all sole-source contracts that exceed $50,000. Although this reporting function was missed for a finite period, all contracts would have been independently approved by both a vice-president and the president during this time, under the delegation of authority. The omission of reporting sole-source contracts to the Board in excess of $50,000 was an oversight that will be corrected by the end of this calendar year.
Human resource management	
70. The Corporation should align its human resource plan with the new strategic plan to ensure that it has sufficient and qualified human resources to achieve its objectives. The human resource plan should include a succession plan and a corporate-level analysis of current and emerging training needs. **(68–77)**	**The Corporation's response.** Agreed. Once the Corporation has completed its new strategic plan this calendar year, we will begin to develop the human resource plan for completion by December 2015. The Corporation will also put in place a plan to identify critical roles and high-potential individuals, and a succession plan to fill vacancies in the identified critical positions. Given the size of the enterprise, training needs are identified on an individual basis. The Corporation will review the sum of these needs to seek opportunities for efficiencies. The Corporation will re-emphasize to managers the need to identify training needs for employees as part of their annual performance reviews, and corporate training needs will be a recurring topic of discussion by the senior management team, beginning June 2015.