Freshwater Fish Marketing Corporation

Special Examination Report—2010

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

Ce document est également publié en français.

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

To the Board of Directors of the Freshwater Fish Marketing Corporation

We have completed the special examination of the Fish Marketing Corporation in accordance with the plan presented to the Board of Directors on 3 September 2009. As required by section 139 of the *Financial Administration Act* (FAA), we are pleased to provide the attached final special examination report to the Board of Directors.

Pursuant to section 140 of the FAA, it is our opinion that this report contains information that should be brought to the attention of the Minister of Fisheries and Oceans Canada. Accordingly, as discussed with the Board on 25 November 2010, we will be communicating with the Minister.

Please note that, as per section 139(3) and (4) of the FAA, the board of directors shall, within 30 days after the day on which it receives the report, submit the report to the appropriate Minister and the President of the Treasury Board and within 60 days, make the report available to the public.

I would like to take this opportunity 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,

Nancy Y. Cheng, FCA
Assistant Auditor General

OTTAWA, 15 December 2010

Enclosure

Table of Contents

Freshwater Fish Marketing Corporation

Special Examination Report—2010

Main Points

What we examined

The Freshwater Fish Marketing Corporation was established in 1969 to market and trade in Canadian freshwater fish and fish products and by-products. The Corporation reports to Parliament through the Minister of Fisheries and Oceans. It is required to be financially self-sustaining and operates without government funding, although the Government of Canada guarantees the Corporation's borrowing up to a legislative limit of $50 million.

The Corporation has 53 full-time employees in corporate functions such as marketing, finance, and human resources. It also has the equivalent of approximately 150 full-time employees working in production; while the number of employees can increase during peak production periods. The Corporation buys around 17 million kilograms of fish each year at more than 50 collection points on over 265 lakes; the fish are then processed at the Corporation's plant in Winnipeg. From 2006 to 2010, the Corporation's total annual sales were between $55 million and $64 million each year. Over seventy percent of these sales are to markets outside Canada.

We examined whether the Freshwater Fish Marketing Corporation's systems and practices provide 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. We focused on the following areas: corporate governance; strategic planning and risk management, and prices paid to fishers; performance management; production efficiency; quality management; human resource management; capital asset management and procurement; marketing and sales planning; and inventory management. Our examination covered the systems and practices that were in place between January 2009 and March 2010.

Why it's important

The fish in Canada's many lakes and rivers are a very valuable resource that the Corporation promotes and brings to market around the world. Working with fishers through agreements with Alberta, Saskatchewan, Manitoba, Ontario, and the Northwest Territories, the Corporation has a mandate to purchase fish that are legally caught and sold, create an orderly market, promote freshwater fish in international markets, increase the size of the fish trade, and increase the profits earned by fishers.

The Corporation currently faces several critical challenges to its continued ability to be financially self-sustaining, including its rising debt levels, aging physical assets, the announced intent of Northwest Territories and Saskatchewan to withdraw from the agreement each signed with the federal government, and foreign currency fluctuations. These challenges will need to be well managed if the Corporation is to successfully fulfill its mandate and objectives.

What we found

Our examination found significant deficiencies in the Corporation's systems and practices related to governance, strategic planning and risk management; and in operational areas, including processes to establish prices paid to fishers in order to remain self sufficient and meet its mandate, capital asset management and procurement, production efficiency, and human resources. A significant deficiency is a major weakness that could prevent the Corporation from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. The deficiencies we found are explained below.

- While we understand that the Corporation has focused on keeping its plant open by addressing the most serious issues raised by regulators and others, it has not successfully addressed its key strategic challenges. The Corporation has not been able to obtain approval from the Government of Canada (the Corporation's shareholder) of a viable plan that would enable the Corporation to continue to operate as a financially self-sustaining entity and fulfill its mandate. The Corporation has significant shortcomings in its governance practices: The Board is not focused on high risk issues; the current Board profile does not reflect the specific skills and experience required; the Audit Committee is not in compliance with the *Financial Administration Act*; the Corporation does not have internal audits conducted as required by the Act; and potential conflicts of interest on the part of Board members are not well managed.

- In addition to lacking a corporate plan that would be approved by the government and would address the financial issues, the Corporation has not put in place a risk management process to provide reasonable assurance that it will achieve its strategic and operational objectives, manage its resources economically and efficiently, and protect its assets. The Corporation does not have a current strategic plan to overcome its critical challenges. The last strategic plan was approved by the Board of Directors in 2007; since then, much has changed in the Corporation's internal and external operating environment.

- The Corporation has not met its annually budgeted net income levels over the past five years and is struggling financially. It has significantly increased its debt levels in recent years to finance capital additions and meet working capital requirements, and is now approaching its approved borrowing limits. The Corporation's practices for setting prices paid to fishers have not provided for the forecasted amounts of capital reinvestment needed. Consequently the Corporation has not reinvested the necessary capital in its aging production facility to safeguard its assets. Without the reinvestment there is a significant risk that the Corporation will not be able to operate efficiently and continue to fulfill its mandate. In addition, the Corporation's systems and practices do not ensure that capital assets are procured in an economical and efficient manner. For example, there are insufficient contracting policies for large capital contracts and no established approach to ensure that all significant procurement risks are assessed and managed.
- In our 2005 Special Examination Report, we considered yield measurement practices to be a serious shortcoming. Five years later no substantive change has been made to adequately address this issue. Currently the Corporation does not have an effective method of monitoring yield and is not in a position to determine whether its operations meet reasonable efficiency targets in comparison to the industry. It also has not assessed its own performance over time.
- The Corporation does not have a human resource strategy for addressing its key challenges, including high levels of absenteeism and high employee turnover, which directly affect the day-to-day operations of the plant.

In our opinion, given the pervasiveness and significance of the deficiencies mentioned, and based on the criteria established for the examination, the Corporation does not have the reasonable assurance required under section 131 of the *Financial Administration Act* that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

We noted that the Corporation has appropriate practices in place in the area of quality management, marketing and inventory management.

The Corporation has responded. *The Corporation agrees with our recommendations. Its responses follow each recommendation in the report.*

Special Examination Opinion

To the Board of Directors of the Freshwater Fish Marketing Corporation

1. Under section 131 of the *Financial Administration Act* (FAA), the Freshwater Fish Marketing Corporation (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. Section 138 of the FAA also requires the Corporation to have a special examination of these systems and practices carried out at least once every 10 years.

3. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination—from January 2009 to March 2010—there were no significant deficiencies in the Corporation's systems and practices.

4. We based our examination plan on our survey of the Corporation's systems and practices and a risk analysis. On 20 August 2009, we submitted the plan to the Board of Directors. The plan identified the systems and practices that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. Those are the systems and practices that we selected for examination.

5. The examination plan also included the criteria that we used to examine the Corporation's systems and practices. These criteria were selected for this examination in consultation with the Corporation. The criteria were based on our experience with performance auditing and our knowledge of the subject matter. The criteria and the systems and practices we examined are listed in **About the Special Examination** at the end of this report.

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 did not rely on any internal audits since none were carried out.

7. Our examination found significant deficiencies in the Corporation's systems and practices related to governance, strategic planning and risk management; and in operational areas, including processes to establish prices paid to fishers in order to remain self sufficient and meet its mandate, capital asset management and procurement, production efficiency, and human resources.

Significant deficiencies

8. **Corporate governance.** While we understand that the Corporation has focused on keeping its plant open by addressing the most serious issues raised by regulators and others, it has not successfully addressed its key strategic challenges. The Corporation has not been able to obtain approval from the Government of Canada (the Corporation's shareholder) of a viable plan that would enable the Corporation to continue to operate as a financially self-sustaining entity and fulfill its mandate. The Corporation has significant shortcomings in its governance practices: The Board is not focused on high risk issues; the current Board profile does not reflect the specific skills and experience required; the Audit Committee is not in compliance with the *Financial Administration Act*; the Corporation does not have internal audits conducted as required by the Act; and potential conflicts of interest on the part of Board members are not well managed.

9. **Strategic planning and risk management.** In addition to lacking a corporate plan that would be approved by the government and would address the financial issues, the Corporation has not put in place a risk management process to provide reasonable assurance that it will achieve its strategic and operational objectives, manage its resources economically and efficiently, and protect its assets. The Corporation does not have a current strategic plan to overcome its critical challenges. The last strategic plan was approved by the Board of Directors in 2007; since then much has changed in the Corporation's internal and external operating environment.

10. **Prices paid to fishers, and capital asset management and procurement.** The Corporation has not met its annually budgeted net income levels over the past five years and is struggling financially. It has significantly increased its debt levels in recent years to finance capital additions and meet working capital requirements, and is now approaching its approved borrowing limits. The Corporation's practices for setting prices paid to fishers have not provided for the forecasted amounts of capital reinvestment needed. Consequently the Corporation has not reinvested the necessary capital in its aging production facility to safeguard its assets. Without the reinvestment there is a significant risk that the Corporation will not be able to operate efficiently and continue to fulfill its mandate. In addition, the Corporation's systems and practices do not ensure that capital assets are procured in an economical and efficient manner. For example, there are insufficient contracting policies for large capital contracts and no established approach to ensure that all significant procurement risks are assessed and managed.

11. **Production efficiency.** In our 2005 Special Examination Report, we considered yield measurement practices to be a serious shortcoming. Five years later no substantive change has been made to adequately address this issue. Currently the Corporation does not have an effective method of monitoring yield and is not in a position to determine whether its operations meet reasonable efficiency targets in comparison to the industry. It also has not assessed its own performance over time.

12. **Human resources.** The Corporation does not have a human resource strategy for addressing its key challenges, including high levels of absenteeism and high employee turnover, which directly affect the day-to-day operations of the plant.

13. In our opinion, given the pervasiveness and significance of the deficiencies mentioned, and based on the criteria established for the examination, the Corporation does not have the reasonable assurance required under section 131 of the *Financial Administration Act* that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

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

Nancy Y. Cheng, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
25 March 2010

Overview of the Freshwater Fish Marketing Corporation

Background and mandate

15. The Freshwater Fish Marketing Corporation was established in 1969, by the *Freshwater Fish Marketing Act,* for the purpose of marketing and trading in fish, fish products, and fish by-products in and outside Canada. The Corporation is required to purchase fish legally caught and offered for sale in the freshwater region, which encompasses Alberta, Saskatchewan, Manitoba, part of northwestern Ontario, and the Northwest Territories. The four provinces and the territory each participate under an agreement signed with the Government of Canada, which is the Corporation's shareholder. The Corporation has the exclusive right to the interprovincial and export trade in fish within the freshwater region. Its mandate is to

- create an orderly market,
- promote international markets,
- increase trade in fish, and
- increase returns to fishers.

16. The Corporation is an agent of the Crown. It is named in Part I of Schedule III of the *Financial Administration Act* and reports to Parliament through the Minister of Fisheries and Oceans. The Corporation is required to conduct its operations on a self-sustaining basis without appropriations from Parliament. The Government of Canada may approve borrowing guarantees up to a legislative limit of $50 million. At the time of the examination, the approved borrowing limit was $43 million.

Organizational structure and operations

17. The Board of Directors, with the President and Chief Executive Officer, governs the Corporation. There are 11 positions on the Board and all members are appointed by the Minister with approval of the Governor in Council. Five of the Board members are appointed on recommendation of the participating provincial and territorial governments. The composition of the Board is intended to reflect the various fishers and communities served by the Corporation. A three-member Executive Committee assists the President; 53 full-time administrative employees deliver the corporate functions, including marketing, finance, and human resources.

18. The Corporation conducts sales out of a single office in Winnipeg. For important niche markets in Canada, Finland, France, Germany, Poland, Russia, Sweden, and the United States, it supplies high-quality pickerel, sauger, whitefish, northern pike, and other fish products.

19. The Corporation has more than 150 full-time equivalent production positions. The number of employees may increase during peak periods to reflect seasonal variation in the fish supply. Thirty contracted agents and five corporate agencies grade and purchase fish at more than 50 delivery points. Over 2,000 fishers deliver the product harvested from more than 265 lakes.

20. From 2006 to 2010, the Corporation's annual sales were between $55 million and $64 million (Exhibit 1). Each year, the Corporation purchases from fishers approximately 17 million kilograms of fish at prices that it sets. The fish is graded and purchased at lakeside, and then transported to the Corporation's plant in Winnipeg for processing into saleable products. The processing plant has been open since 1969.

21. The frozen fish products are stored at the plant or at cold storage locations privately owned by third parties. The Corporation markets the fish through its own sales force as well as brokers selling its products around the world. The fish is sold as whole fresh fish, whole frozen fish, or processed fish (fillets and deboned products).

Exhibit 1 Key financial indicators of the Corporation for the 2005–06 to 2009–10 fiscal years

	Fiscal year ended April 30 ($ millions)				
	2006	2007	2008	2009	2010
Sales	55	62	58	63	64
Payments to fishers	28	31	30	33	31
Net income (loss) after final payments to fishers	0	0	0	(1)	0
Retained earnings	3	3	4	3	3
Inventories—fish products	13	12	11	16	15
Capital assets—net book value	6	9	11	14	14
Loans payable	18	21	19	31	29

Source: Freshwater Fish Marketing Corporation, 2009–10 Annual Report

Critical challenges

22. The Corporation currently faces critical challenges in its internal and external operating environment. These need to be satisfactorily addressed if the Corporation is to fulfill its mandate in future. The main challenge for the Corporation is to meet the requirement that it remain self-sufficient. Other key challenges include the following:

- The Winnipeg processing plant is approximately 40 years old. The Corporation has indicated that a capital reinvestment of approximately $25 million is needed for the plant to meet both regulatory quality and customer requirements and make future improvements in efficiency.

- The Corporation faces difficulty meeting the requirement that it be financially self-sufficient without government appropriations and without increased government financial guarantees. It has not been able to make planned capital reinvestments.

- The Corporation's debt level has been rising. During the 2009–10 fiscal year, the debt load peaked at approximately $35 million. The borrowing limit fixed by law is $50 million but at the time of the examination, the approved limit was $43 million. Debt has grown by approximately $10 million since 2008. The increase raises interest payments, limits future borrowing capacity, and creates pressure on future cash flows to repay amounts already borrowed. The increased borrowings have been used to fund capital additions and meet ongoing working capital requirements.

- Foreign currency fluctuations create uncertainties and can have a significant impact on the Corporation. Approximately 70 percent of sales are in US currency, which has declined in value against the Canadian dollar in recent years. The result has been that the Corporation can no longer take advantage of a favourable exchange rate on this portion of its sales.

- Saskatchewan and the Northwest Territories recently announced their intention to withdraw from the agreement signed by each with the federal government as of April 2011. If this withdrawal occurs, it would reduce the number of provincial/territorial participants to three from the present five.

- The Corporation has been operating without an approved corporate plan since the 2008–09 fiscal year. Over the past two years, the Corporation has submitted several proposed corporate plans to the shareholder but has received approval for none.

- The President and Chief Executive Officer has also been the Acting Chair of the Board since the previous Chair's term expired in March 2010. The President leads a three-member Executive Committee. The combination of roles and the small team size have placed greater demands on the President and his ability to dedicate time to management functions. The situation also creates oversight challenges for the Corporation because separation of these two key positions is critical to good governance.
- The Corporation faces significant operational issues, such as high absenteeism and turnover rates. These can affect the efficiency of operations.

23. The breadth and depth of these strategic and ongoing challenges pose unprecedented hurdles for the Corporation.

Focus of the special examination

24. Our objective was to determine whether, during the period covered by the audit, systems and practices provided the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. A significant deficiency 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.

25. Under section 138 of the *Financial Administration Act* (FAA), federal Crown corporations are subject to a special examination at least once every 10 years. The statutory deadline for completing and reporting an examination of the Freshwater Fish Marketing Corporation is March 2015. However, as a result of our discussions with the Board and management and our internal assessment, we determined that we should conduct our special examination so as to report in 2010. We examined the Freshwater Fish Marketing Corporation's systems and practices in the areas of corporate governance; strategic planning and risk management, and prices paid to fishers; performance management; production efficiency; quality management; human resource management; capital asset management and procurement; marketing and sales planning; and inventory management.

26. Further details on the audit objectives, systems and practices, and criteria are provided in **About the Special Examination** at the end of the report.

Observations and Recommendations

27. We identified several significant deficiencies in corporate systems and practices of the Freshwater Fish Marketing Corporation. Because of their pervasiveness and significance, we believe that the Corporation does not have reasonable assurance to satisfy its statutory control objectives. The deficiencies involve fundamental shortcomings in both operational and non-operational practices. We believe that satisfactorily addressing the shortcomings would enable the Corporation to demonstrate that it is effectively fulfilling its mandate, and using its resources economically and efficiently.

Corporate governance

28. Corporate governance concerns the structures, systems, and practices for overseeing the direction and management of an organization, enabling it to carry out its mandate and achieve its objectives. Sound corporate governance practices are essential to meeting the objectives for Crown corporations outlined in Part X of the *Financial Administration Act*.

29. We examined whether the Freshwater Fish Marketing Corporation has systems and practices in place to ensure that the Corporation is able to effectively balance public policy objectives with its commercial objectives. We also examined the extent to which the Corporation has well-performing corporate governance practices related to Board stewardship, shareholder relations, and communications with the public.

30. We looked at the Corporation's systems and processes dealing with Board profiles and the functioning of the Board, including Board stewardship and oversight as well as the information received to support those functions. We interviewed senior management and Board members. We also reviewed documents and minutes of Board meetings and the recently formed Audit Committee.

31. We found that over the past two years, the Corporation has submitted several proposed corporate plans to the shareholder but has received approval for none. This means that the Corporation has not obtained approval from the Government of Canada of a viable plan that would enable the Corporation to continue to operate as a financially self-sustaining entity and fulfill its mandate. The Corporation has significant shortcomings in its governance practices: The Board is not focused on high risk issues; the current Board profile does not reflect the specific skills and experience required; the Audit Committee is not in compliance with the *Financial Administration Act*; the Corporation does not have internal audits conducted as required by the Act; and potential conflicts of interest on the part of Board members are not well managed.

Governance practices need to be strengthened

32. During our examination, we found that the Corporation has not successfully addressed its key strategic issues. In 2007, the Corporation reviewed its strategic plan, identified some operational risks, and developed strategies for addressing them. However, we found that the Corporation currently faces several critical challenges not identified in its strategic plan, and these affect its continued ability to be financially self-sustaining. The challenges include the Corporation's rising debt levels, aging physical assets, the announcement by the Northwest Territories and Saskatchewan of their intention to withdraw from the agreement each signed with the federal government, and foreign currency fluctuations (paragraphs 44 to 46). We found that the Board has not focused on high risk issues and has not provided the Corporation with clear guidance on dealing with these strategic challenges. The Corporation will need to manage the challenges if it is to successfully fulfill its mandate and objectives in future.

33. The primary concern relates to the future direction of the Corporation. It has been operating without an approved corporate plan since the 2008–09 fiscal year. Over the past two years, the Corporation has submitted several proposed corporate plans to the shareholder but has not been able to obtain approval for a viable plan that would enable it to continue to operate as a self-sustaining entity and fulfill its mandate. During the examination, we found that the Corporation, the Government of Canada, and the participating provinces held discussions about the Corporation's future. However, no plan was approved to address the serious financial issues faced by the Corporation, including the need to repay debt and make reinvestments in aging infrastructure.

34. In our 2005 Special Examination Report, we recommended that the Board update its profile to reflect the full range of skills, abilities, and experience needed from future Board members to address the challenges and risks currently faced by the Corporation. We particularly noted the need for an individual with financial expertise. We found that a Board profile has been posted on the Governor-in-Council website. However, the Corporation acknowledges that it has not updated the profile to reflect the specific skills and experience required of new appointees to the Board. We also found that an Audit Committee was created in 2009 and that it is chaired by an individual with financial expertise who was recruited and appointed by the President with the Board's approval. However, the Committee chair is not a member of the Board even though the *Financial Administration Act* requires that the Audit Committee be composed of directors of the Corporation. We understand the importance of having financial expertise available to the Board but the makeup of the committee does not comply with legislation.

35. Internal audit is an important element of corporate governance because it provides assurance to senior management and the Board that the Corporation is performing important financial, administrative, and operational tasks efficiently and effectively. The *Financial Administration Act* requires Crown corporations to conduct internal audits. At the time of the examination, the Corporation did not have an internal audit function and we found that the Board did not request internal audits to be conducted. Without internal audits, the Audit Committee and the Board of Directors lack important information that would help them have assurance about the relevance and reliability of financial reports, as well as about the Corporation's commitment to integrity, its compliance with regulations, and its management and control systems and practices. They also lack information that would help them take corrective action if necessary.

36. We also noted that there were no discussions with the shareholder about the question of Board members' independence. As of March 2010, 6 of the 11 Board members were active fishers receiving payments from the Corporation. Every year the Board approves the fish prices paid to fishers. Since fishers constitute the majority of the Board and payments to fishers could be significant to individual members, there is the possibility for conflicts of interest. We found that the Board's current policies do not address key areas of potential conflicts of interest for its members. In addition, the President and Chief Executive Officer has been the Acting Chair of the Board since the previous Chair's term expired in March 2010. The situation creates oversight challenges for the Corporation; the separation of these two key positions is critical to good governance. Collectively the Board needs to act in the best interests of the Corporation. Therefore it needs to have in place appropriate independence and conflict-of-interest policies and practices.

37. **Recommendation.** The Corporation should focus on achieving agreement with the shareholder about a viable way forward so that the Corporation can successfully fulfill its mandate in the future. The Corporation should have an approved corporate plan that addresses the serious financial issues it faces, including high debt levels, aging infrastructure, and the requirement to be self-sufficient, as well as the likelihood and potential impacts of the withdrawal of two participants as announced. Further, the Corporation should address the weaknesses in governance practices, including in the areas of Board members' profiles and competencies, internal audits, and potential conflicts of interest.

The Corporation's response. *Agreed. The Corporation has been working in collaboration with the federal government and the participating provinces to address the serious financial issues that challenge the Corporation. A detailed assessment and investment plan to upgrade the Winnipeg processing plant was recently completed and included in the revised corporate plan that was submitted for approval to the Government of Canada in September 2010. The Corporation has also included, in this revised corporate plan, a thorough analysis addressing the financial impact of the announced withdrawal by two of the signatories from the agreement signed by each with the federal government. As a first step in recognizing weaknesses in its governance practices, in April 2010, the Board completed a corporate governance review focusing on roles and accountabilities of Crown corporation boards and Board members. Ongoing education specific to the governance weaknesses identified in the report will be initiated and incorporated into Board practices. To meet the Financial Administration Act requirement of having a minimum of three Board members on the Audit Committee, a third Board member was added in November 2010. A third party provider that provides a cost-effective internal audit function will be engaged and the function will be established by 30 April 2011.*

Strategic planning and risk management need to be improved

38. Strategic planning sets out what an organization is, what it does, and why it does it, all with a focus on the future. The strategic planning process ought to allow the board of directors and management together to delineate an organization's future; to focus on delivering on the corporate mission, vision, and values; and to foster the conditions for innovation and renewal.

39. An appropriate risk management framework includes an approved risk management policy, a risk profile, a process to identify and assess potential risks, and a process for documenting measures taken to mitigate the risks.

40. We examined the extent to which the Freshwater Fish Marketing Corporation has clearly defined its strategic directions, goals, and objectives to achieve its legislative, commercial, and public policy mandate. We examined whether its strategic directions and goals have taken into account government priorities, identified risks, and the need to control and protect corporate assets and manage resources economically and efficiently. We also examined whether the Corporation has a risk focus embedded in planning and operations, and whether it has systems in place to purchase fish at a price that enables the Corporation to operate on a self-sufficiency basis.

41. We found a significant deficiency in the area of strategic planning and risk management: As part of its strategic planning process, the Corporation has not put in place a risk management process to provide reasonable assurance that it will achieve its strategic and operational objectives, manage its resources economically and efficiently, and protect its assets. The strategic planning process also is not closely linked with risk management processes. Another significant deficiency is that the Corporation has not provided for planned capital reinvestment amounts in its practices for setting prices paid to fishers. The Corporation has not been able to meet its planned levels of capital expenditures to allow for future improvements in efficiency (Exhibit 2).

Exhibit 2 The Corporation has not achieved planned levels of capital expenditures for the past three years

Fiscal year	Capital budget ($ millions)	Actual capital expenditures	Variance ($ millions)	Variance (%)
2009–10	5.1	2.9	(2.2)	(43)
2008–09	7.5	5.5	(2.0)	(27)
2007–08	6.2	3.8	(2.4)	(39)

Source: Freshwater Fish Marketing Corporation, annual reports, and corporate plans

42. Management has indicated that the Corporation has not spent its planned levels of capital expenditures for various reasons, including delayed forecasted capital expenditures to reduce interest and amortization expense in order to manage corporate earnings and total returns to fishers; delayed timing of capital expenditures due to the procurement cycle and final completion of capital projects; and postponed planned contingency expenditures.

43. We also noted that the Corporation has not been able to meet its net income targets (Exhibit 3). This puts the Corporation at risk of not being able to continue to operate as a self-sustaining entity and to fulfill its mandate.

Exhibit 3 The Corporation has not met its net income targets over the past five years

Fiscal year	Budget net income before final payments to fishers ($ millions)	Actual net income before final payments to fishers ($ millions)	Variance ($ millions)	Variance (%)
2009–10	4.8	1.5	(3.3)	(69)
2008–09	6.9	(0.7)	(7.6)	(110)
2007–08	2.8	2.3	(0.5)	(18)
2006–07	1.2	0.7	(0.5)	(42)
2005–06	2.2	0.8	(1.4)	(64)

Source: Freshwater Fish Marketing Corporation, annual reports, and corporate plans

44. In 2007, the Corporation reviewed its strategic plan, identified some operational risks, and developed strategies for addressing them. However, we found that the Corporation does not have a formal process to identify and assess all key risks that are critical to its future. We also found several cases in which the Corporation has not established a plan to address and mitigate the significant risks and issues it currently faces. For example, section 15(1) of the *Freshwater Fish Marketing Act* states that the Corporation shall conduct its operations on a self-sustaining financial basis without appropriations from Parliament. We found that the amounts paid to fishers over the years have prevented the Corporation from sufficiently funding its capital budgets to allow for capital asset replacement and resultant improvements in efficiency. To compensate, the Corporation has significantly increased its borrowings. It now is struggling to meet the requirement to be financially self-sufficient without government appropriations and without increased government financial guarantees. We found that the Corporation has not developed a self-sustainability strategy that would address the risks related to provisions for capital replacements and its increasing debt.

45. Approximately 70 percent of the Corporation's sales are in US dollars and are subject to foreign currency fluctuations. With the Canadian and US dollars trading at close to par in recent years, the Corporation no longer benefits from a favourable exchange rate on sales in US currency. The Corporation has adopted a hedging strategy to manage risks related to foreign currency fluctuations. Given the change in currency differential, production and efficiency gains become even more important. However, the Corporation has not yet been able to develop a strategy to compensate for the change through gains in efficiency or productivity.

46. The Northwest Territories and the province of Saskatchewan are two of the five participants in the agreement with the Government of Canada. They have informed the Corporation that in April 2011 they intend to withdraw from the agreement signed by each with the federal government. The two together accounted for approximately 20 percent of the Corporation's total fish supply in the 2008–09 fiscal year. We found that at the time of the examination, the Corporation had not yet assessed the likelihood and potential impacts of the withdrawal of the two participants as announced. It does not have a corporate strategy for mitigating the related risks.

47. In addition, we found that the Corporation has not performed a risk assessment examining the operational impact of potential plant disruptions or an environmental risk assessment, including potential risks of non-compliance with environmental regulations. Each year management reviews scenarios to address the fish surplus received during peak seasons, but the Corporation does not have formal contingency plans to counter the risks of operational disruption. In 2009, the Corporation began to develop an environmental policy but it remained in draft form during the examination period and had not been formally adopted and implemented.

48. The Corporation hired a private firm to assist with the implementation of International Financial Reporting Standards (IFRS). Based on the work plan prepared by the Corporation, we are of the view that the most significant IFRS areas have been identified.

49. **Recommendation.** The Corporation should conduct appropriate risk assessments and develop a strategic plan for addressing the risks so that it can achieve its objectives, including managing its resources economically and efficiently, and protecting its assets. The Corporation should obtain approval of this plan from the Board of Directors and seek endorsement from its shareholder in developing the corporate plan.

The Corporation's response. *Agreed. As mentioned in the report, the Corporation has recognized substantial risks and developed, in 2007, a strategic plan that it actively manages to address these risks. In October 2010, the Board of Directors participated in a strategic planning session that included a review and discussion of risks that are identified in the Corporation's strategic plan as well as new risks the Corporation faces. The Corporation agrees that a more sophisticated risk management program including the development of a* *full corporate risk profile and associated mitigation strategies is required and will be implemented over the next two years. The Corporation recognizes the need for capital asset replacement and its impact on the debt/equity ratio and prices paid to fishers. A detailed assessment and investment plan to upgrade the Winnipeg processing plant was recently completed and included in the revised corporate plan that was submitted for approval to the Government of Canada in September 2010. The Corporation has also included, in this revised corporate plan, a thorough analysis addressing the financial impact of the announced withdrawal by two of the signatories from the agreement signed by each with the federal government.*

The Corporation could further develop its performance measurement

50. Performance information allows a corporation to measure the extent to which it has achieved its expected results and the objectives of its mandate. Performance information supports transparency and accountability in federal institutions. It is of key importance for an institution's management and board, as well as for the government and Parliament.

51. We examined whether the Corporation has identified performance indicators to measure the achievement of its mandate and statutory objectives. In addition, we examined whether the Corporation has reports that provide complete, accurate, timely, and balanced information for decision making and accountability reporting.

52. We looked at systems and processes in place for performance measurement, including monitoring and reporting, and design of performance indicators. We reviewed documents used by the Freshwater Fish Marketing Corporation to develop performance targets and report on its performance, including documents directed to the Board of Directors for its information and approval, and documents used by managers and employees to guide and assess their work.

53. We found that the Corporation has put in place some qualitative and quantitative performance indicators to measure performance against current strategies and operational goals and objectives. However, the performance indicators are not always clear and measurable, and are not sufficiently monitored and used in ongoing management processes. The Corporation could improve its performance measurement systems and practices by setting performance indicators that are clear, concrete, expressed as targets with a direction and time frame, linked to staff objectives, and regularly measured and monitored.

Plant operations

54. Effective and efficient plant operations are critical to the Corporation, enabling it to process its fish products on a timely basis and at costs that allow successful marketing.

55. We examined the extent to which the Freshwater Fish Marketing Corporation has systems and practices to ensure that its plant operations are well organized, efficient, and economical. We reviewed the systems and practices used to forecast, plan, and execute plant operations, and to monitor their results. We observed operations on the shop floor, attended key planning and production meetings, interviewed managers and supervisors, and examined key documents and records.

56. We found that the Corporation has systems and practices to ensure that basic floor operations are well organized. The plant has been able to remain open and process the mix of fish received. However, we found a significant deficiency in the area of production efficiency: The Corporation does not have an effective method of monitoring yield, which is the measure of how efficiently operations are conducted. Therefore, the Corporation is not in a position to determine whether its operations meet reasonable efficiency targets in comparison to the industry. It also has not assessed its own performance over time.

57. The Corporation operates under challenging conditions. Overall we found that it has been reasonably successful at forecasting incoming fish deliveries and putting in place the labour required to process the fish. As explained earlier, however, issues such as the age of the plant, the need for capital reinvestment, high absenteeism rates, and employee turnover directly affect the efficiency of day-to-day operations.

Despite improvements, production yield monitoring remains inadequate

58. In our 2005 Special Examination Report, we recommended that the Corporation seek to achieve cost savings by accelerating plans to improve yield monitoring, production planning, shop floor tracking, maintenance systems, and supervision. Since then management implemented an equipment maintenance system and undertook several initiatives to increase yield; these included setting standards and periodically monitoring trimmers' performance, and monitoring the effectiveness of filleting machines. At the time of our examination we found that trimmers and filleting machines did not undergo regular monitoring because of a lack of trained personnel. While we recognize the value of the new standards, there has been no significant improvement in yield measurement and monitoring practices. It is therefore difficult for the Corporation to effectively demonstrate whether the initiatives it undertook have had any overall impact on yield.

59. Although measurement and monitoring practices are not what they need to be, management recognizes the importance of yield measurement. In its capital budget the Corporation had plans to implement a system of in-line scales for measuring yield on a real-time basis. According to management, implementation of the proposed yield system has been postponed because of a lack of funds. Without regular yield measurement indicators and benchmarks, it is difficult to assess and improve production efficiency.

60. **Recommendation.** The Corporation should set yield targets by species and regularly monitor the results. Even before it implements a new yield system, the Corporation should put interim controls in place to ensure that its current yield-monitoring tools are used regularly to determine production efficiency.

The Corporation's response. *Agreed. Given that the comparative industry benchmarks for processing freshwater fish are difficult to obtain and apply to plant operations, the Corporation utilizes an internal process involving scrape tests that measures excess meat removed by filleting machines during the filleting process and compares actual data to established targets. Trim tests are completed daily to monitor individual employees' trimming levels relative to established targets. As mentioned in the report, management has not been consistent in measuring these yields and will commit to performing and reviewing these tests on a consistent basis. The planned Winnipeg processing plant renovation includes expenditures for new processing equipment that will incorporate more sophisticated and expanded yield measurement systems. Since 2008, the Corporation has also used a process operating system that monitors labour efficiency against established targets.*

The Corporation has not had any major food safety or food quality issues

61. The Corporation operates a fish processing plant registered with the Canadian Food Inspection Agency. Accordingly, under the *Fish Inspection Regulations*, the Corporation is required to have a quality management program in place. Equally necessary are processes to ensure that the program is applied properly and has no deficiencies. Without these, product quality could fall, jeopardizing the solid reputation built by the Corporation over 40 years for product reliability, quality, and safety. Quality management weaknesses could also significantly affect revenues.

62. We examined whether the Freshwater Fish Marketing Corporation has systems and practices in place to ensure that plant operations are in compliance with regulations and produce high-quality products meeting quality standards and customer expectations.

63. We looked at the systems and practices the Corporation has in place to ensure that it adequately meets the requirements related to food safety and the effective production of high-quality, safe food.

64. Overall the Corporation's plant operations have been found to be in compliance with requirements. The plant's products meet food and safety standards, as well as customer expectations. The Corporation has an annually updated Quality Management Plan, based on food and safety standards and requirements. The Corporation ensures that the processes performed by plant employees and agents in the field comply with the plan. To ensure that quality standards are well understood, the Corporation conducts regional workshops for agents, field operations staff, and fishers. When the Canadian Food Inspection Agency audited the Corporation's plant in October 2009, it did not identify any contravention of regulations.

A human resource strategy needs to be developed and implemented

65. Human resource management is a core function of any Crown corporation. At the Freshwater Fish Marketing Corporation, a strategic and coherent approach to human resources is essential for managing plant employees, who individually and collectively contribute to the achievement of corporate objectives.

66. We examined whether the Freshwater Fish Marketing Corporation has systems and practices in place to ensure that human resources are managed in a manner that provides the Corporation with the human resource capacity and the work environment needed to achieve its goals and objectives.

67. We looked at the systems and practices that the Corporation has in place for acquiring and maintaining the necessary skills and ensuring that human resources are available and productive, for maintaining a suitable work environment, and for maintaining an infrastructure to support human resource management. We reviewed key corporate documents in these areas and interviewed management. We also reviewed key performance indicators and results related to human resources.

68. We found a significant deficiency in the area of human resource management: The Corporation has not developed an overall human resource strategy. Information about human resource initiatives appears in some planning documents of the Corporation. However, there is no plan outlining the Corporation's strategy for addressing its key human resource challenges that directly affect day-to-day operations. In addition, there are no corporate targets in place to assess and monitor the management of human resources in areas such as employee turnover, absenteeism, or health and safety. The Corporation therefore lacks reasonable assurance that it has the appropriate number of qualified people working in the right place and at the right time, and that they are operating efficiently so that the Corporation can fulfill its mandate.

69. We noted that the Freshwater Fish Marketing Corporation had a yearly absenteeism rate for the plant workforce of approximately 18 percent in 2009. Management has indicated that for the Corporation, absenteeism includes among others, sick leave as well as personal commitments. This has created staff planning issues for plant supervisors, who devote significant efforts to managing the personnel shortage. Recognizing that absenteeism is a concern, in 2009, the Corporation implemented a new program under which management monitors staff with high absenteeism rates. However, we found that the Corporation does not have any specific plan for determining how to strategically lower absenteeism rates to defined acceptable levels. In addition, the Corporation has not quantified the monetary costs of its absenteeism levels and it has not referred to external benchmarks to establish a target specific to its operations. Further, the absenteeism trend is not formally assessed and monitored. We also found that monthly human resource reports, including information on absenteeism, are discussed at management meetings but not at the Board level even though absenteeism is a significant internal challenge.

70. We found that the overall employee turnover rate was approximately 40 percent in 2009, including seasonal workers (which can make up more than 50 percent of the plant workforce during seasonal peak periods). The Corporation previously identified this as a critical issue needing to be addressed. Management has begun taking the steps needed; for example, it increased the minimum salary of plant employees under the latest labour contract signed in 2008, and it attempted to even out peak work periods in the plant by freezing the fish received and processing it later. However, we found that the Corporation has not documented its strategy for addressing employee turnover, has not established targets, and does not formally monitor turnover rate from year to year as an ongoing management function. In addition, the Corporation has not quantified the monetary costs related to employee turnover and its impacts on efficiency. The Corporation has taken steps in the right direction but much remains to be done in this area.

71. **Recommendation.** The Corporation should develop a human resource plan aligned with its overall corporate strategy. The Corporation should determine its human resource priorities by conducting a risk assessment, and should establish measurable targets for those priority areas. It should also regularly monitor its performance results.

The Corporation's response. *Agreed. A Human Resource Director has been added to the Corporation's executive management team, as recognition of the critical role that this function plays in ensuring the Corporation meets its goals. The Human Resource department is now fully staffed and positioned to implement components of an integrated human resource strategy, which includes attendance management, respectful workplace, management of employee turnover and health and safety. An operational and integrated human resource plan will be implemented over the next two years. Also, quarterly Board of Director meetings will include the presentation of human resource metrics beginning in February 2011.*

Capital asset management and procurement practices are weak

72. Given the operational importance and total monetary value of capital acquisitions at the Freshwater Fish Marketing Corporation, capital asset management is critical to the Corporation's success in meeting both regulatory quality and customer requirements, and also its success in providing for future opportunities to improve efficiency.

73. We examined the extent to which the Corporation has systems and practices in place for the purchase, maintenance, and modification of its plant and equipment to enable continuous and efficient operations that meet food safety and quality standards. We reviewed procedures in place for capital asset contracting and reviewed a sample of capital asset acquisition contracts for the 2009–10 fiscal year.

74. We found that the Corporation has systems and practices in place for the maintenance and modification of its plant and equipment to meet food safety and quality standards. However, we found a significant deficiency in the area of capital asset management and procurement: The Corporation does not have the appropriate systems and practices in place for the contracting and purchase of capital assets, and it does not have a reinvestment plan approved by the Government of Canada for its aging infrastructure. The plant infrastructure is approximately 40 years old. The Corporation realizes that much of the equipment has passed the end of its useful life and has to be replaced. Since the 2006–07 fiscal year, the Corporation has invested approximately $16 million to prevent major breakdown, delisting by the Canadian Food Inspection Agency, or cancellation of orders by important international customers. Management estimates an additional need of approximately $25 million in capital spending to bring the facility up to modern food plant requirements and provide for its efficient operation in the future. The Corporation believes it needs an investment of $15 million to $20 million from its shareholder, which has not been approved to date.

75. We found a lack of policies or procedures related to capital asset acquisitions and contracting, including the procurement process. For example, there is no contracting policy or delegation of signing authorities for procurement and contracting. In view of the significance of capital expenditures, the Corporation needs to address this area—for example, by conducting a risk assessment and developing a strategy related to capital procurement.

76. **Recommendation.** The Corporation should put in place a contracting policy based on government guidelines and adapted to the Corporation's needs, and should have controls for ensuring that the policy is followed.

The Corporation's response. *Agreed. The Corporation will tighten its existing procedures immediately and a formal procurement and contracting policy based on government guidelines will be implemented by December 2011.*

Marketing and inventory management

77. The Corporation maintains solid, stable positions in several well-established international markets but it is extremely dependent on the US market. The Corporation markets a mix of wild-caught fresh, frozen, whole, and processed fish products to both the retail and food service sectors in Canada, the United States and Europe. Future investments in new products and markets are critical if the business is to remain relevant and competitive.

78. We examined whether the Corporation has marketing plans and practices that are consistent with its mandate; supportive of the corporate mission, vision, objectives, and goals; responsive to market needs; and effectively operationalized.

79. We reviewed the marketing and sales planning processes in place. In addition, our audit work included a review of the

Corporation's process for assessing the need for any development of new markets. We also reviewed performance monitoring and reporting practices related to sales, costs, margins, and customer satisfaction.

80. We found that the Corporation has marketing plans and practices that are consistent with its mandate; supportive of the corporate mission, vision, objectives, and goals; responsive to market needs; and effectively operationalized.

The Corporation has acted effectively to find markets for its products

81. To obtain market knowledge, the Corporation maintains a network of customers, brokers, and distributors. With this knowledge the Corporation prepares species business plans, which highlight key issues to be addressed and opportunities for developing new markets. Each plan includes a sales forecast, marketing and pricing strategies for particular countries, and development of new markets and products. Sales forecasts are compared with expected deliveries, as determined by the field operations team. This makes it possible to identify potential gaps during the year and ensure that the supply can meet the demand. The preparation of marketing plans is a new initiative put in place by management in 2009.

82. To find new markets and develop new products, the sales team attends international food shows around the world. Team members meet potential clients at the shows. They also visit current clients and brokers to discuss market opportunities and obtain feedback on their satisfaction with the Corporation's products. We found that the Corporation has actively developed new products to increase market shares and has promoted those products by distributing marketing materials to customers.

83. We found that the Corporation last conducted a customer survey in 2006 and does not have any customer satisfaction performance targets. Since sales and marketing can be a fast-changing environment, we encourage the Corporation to conduct periodic customer surveys so that it can ensure that it is meeting customers' current needs and can see whether there are areas for improvement.

The Corporation adequately manages its supply of fish

84. Inherent to the Corporation's business is uncertainty about the quantity and type of fish that it will receive at any given time. Inventory management is therefore an important tool by which the Corporation can maintain the right mix of fish to meet demand.

The cost of maintaining inventory adds to the overall costs of the Corporation.

85. We examined the extent to which the Corporation has systems in place for promoting the delivery of an adequate supply of fish and monitoring its inventory so that it can sell in a timely manner.

86. We looked at systems and processes in place to enable and sustain supply and the inventory management system. We also relied on the conclusion of the attest audit of the Corporation's financial statements for inventory writedowns and costing of products.

87. We found that the Corporation has systems in place to promote the delivery of the required supply of fish and to monitor its inventory so that it can sell in a timely manner.

Conclusion

88. We examined the Freshwater Fish Marketing Corporation's systems and practices in nine areas. Our objective was to determine whether those systems and practices provide the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

89. We found significant deficiencies in the Corporation's systems and practices related to the following areas:

- corporate governance;
- strategic planning and risk management, and prices paid to fishers;
- capital asset management and procurement;
- production efficiency; and
- human resource management.

90. Overall, the Corporation has not been able to demonstrate that it has an approved plan for successfully managing its many challenges. Since managing these will take concerted effort, the Corporation needs to develop and implement a strategy to address the recommendations in this report so that it can deal with the most critical and riskier matters first. The focus needs to be on achieving agreement with the shareholder about a viable way forward so that the Corporation can successfully fulfill its mandate in the future. A first step is to obtain the government's approval of a corporate plan that addresses the serious financial issues faced by the Corporation, including high debt levels, aging infrastructure, and the requirement to be self-sufficient. Further, the Corporation needs to address weaknesses in governance practices, including in the areas of Board members' profiles and competencies, internal audits, and potential conflicts of interest.

91. Given the pervasiveness and significance of the deficiencies, and based on the criteria established for the examination, we concluded that the Corporation does not have the required 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 by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objective

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

Special examinations answer the question: Do the Corporation's systems and practices provide reasonable assurance that assets are safeguarded 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.

Key systems and practices examined and criteria

At the start of this special examination, we presented the Corporation's Board of Directors 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.

Corporate governance	
Key system and practice examined	**Criteria**
1. Governance	To maximize the Corporation's effectiveness and its ability to balance public policy objectives with its commercial objectives, the Corporation should have a well-performing corporate governance framework that meets the expectations of good practices in Board stewardship, shareholder relations, and communications with the public.
2. Strategic planning and risk management, and prices paid to fishers	The Corporation should have 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 should take into account government priorities, identified risks, and the need to control and protect the Corporation's assets and manage its resources economically and efficiently. The Corporation should have a focus on risk embedded in planning and in its operations. The Corporation should have systems in place to purchase fish at a price that enables the Corporation to operate on a self-sufficiency basis.
3. Performance measurement, monitoring, and reporting	The Corporation should have identified performance indicators to measure the achievement of its mandate and statutory objectives. It also should have reports that provide complete, accurate, timely, and balanced information for decision making and accountability reporting.
Plant Operations	
Key system and practice examined	**Criteria**
4. Production efficiency and cost-effective management of operations	The Corporation's plant operations should be well organized, efficient, and economical.
5. Quality management	The Corporation's plant operations should be in compliance with regulations, and should produce high-quality products that meet quality standards as well as customer expectations.
6. Human resource management	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.
7. Capital asset management and procurement	The Corporation should have systems and practices in place for the purchase, maintenance, and modification of its plant and equipment to enable continuous and efficient operations that meet food safety and quality standards.
Marketing and Inventory Management	
Key system and practice examined	**Criteria**
8. Marketing and sales planning	The Corporation should have marketing plans and practices that are consistent with the Corporation's mandate; supportive of the corporate mission, vision, objectives, and goals; responsive to market needs; and effectively operationalized.
9. Inventory management	The Corporation should have systems in place to promote the delivery of an adequate supply of fish, and to monitor its inventory in order to sell in a timely manner.

Period covered by the special examination

Audit work for this special examination was substantially completed on 25 March 2010. It covered the systems and practices that were in place between January 2009 and March 2010. 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.

Audit team

Assistant Auditor General: Nancy Y. Cheng
Principal: Michael A. Pickup
Audit Project Leader: Mathieu Le Sage
Audit Project Leader: Sophie Boudreau

Andréanne Élie
Derek Hansis
Éric Provencher
Meagan Russell-Laforest

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

Appendix List of recommendations

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

Recommendation	Response
Corporate governance	
37. The Corporation should focus on achieving agreement with the shareholder about a viable way forward so that the Corporation can successfully fulfill its mandate in the future. The Corporation should have an approved corporate plan that addresses the serious financial issues it faces, including high debt levels, aging infrastructure, and the requirement to be self-sufficient, as well as the likelihood and potential impacts of the withdrawal of two participants as announced. Further, the Corporation should address the weaknesses in governance practices, including in the areas of Board members' profiles and competencies, internal audits, and potential conflicts of interest. **(32-36)**	Agreed. The Corporation has been working in collaboration with the federal government and the participating provinces to address the serious financial issues that challenge the Corporation. A detailed assessment and investment plan to upgrade the Winnipeg processing plant was recently completed and included in the revised corporate plan that was submitted for approval to the Government of Canada in September 2010. The Corporation has also included, in this revised corporate plan, a thorough analysis addressing the financial impact of the announced withdrawal by two of the signatories from the agreement signed by each with the federal government. As a first step in recognizing weaknesses in its governance practices, in April 2010, the Board completed a corporate governance review focusing on roles and accountabilities of Crown corporation boards and Board members. Ongoing education specific to the governance weaknesses identified in the report will be initiated and incorporated into Board practices. To meet the *Financial Administration Act* requirement of having a minimum of three Board members on the Audit Committee, a third Board member was added in November 2010. A third party provider that provides a cost-effective internal audit function will be engaged and the function will be established by 30 April 2011.

Recommendation	Response
49. The Corporation should conduct appropriate risk assessments and develop a strategic plan for addressing the risks so that it can achieve its objectives, including managing its resources economically and efficiently, and protecting its assets. The Corporation should obtain approval of this plan from the Board of Directors and seek endorsement from its shareholder in developing the corporate plan. **(38-48)**	Agreed. As mentioned in the report, the Corporation has recognized substantial risks and developed, in 2007, a strategic plan that it actively manages to address these risks. In October 2010, the Board of Directors participated in a strategic planning session that included a review and discussion of risks that are identified in the Corporation's strategic plan as well as new risks the Corporation faces. The Corporation agrees that a more sophisticated risk management program including the development of a full corporate risk profile and associated mitigation strategies is required and will be implemented over the next two years. The Corporation recognizes the need for capital asset replacement and its impact on the debt/equity ratio and prices paid to fishers. A detailed assessment and investment plan to upgrade the Winnipeg processing plant was recently completed and included in the revised corporate plan that was submitted for approval to the Government of Canada in September 2010. The Corporation has also included, in this revised corporate plan, a thorough analysis addressing the financial impact of the announced withdrawal by two of the signatories from the agreement signed by each with the federal government.
Plant operations	
60. The Corporation should set yield targets by species and regularly monitor the results. Even before it implements a new yield system, the Corporation should put interim controls in place to ensure that its current yield-monitoring tools are used regularly to determine production efficiency. **(58-59)**	Agreed. Given that the comparative industry benchmarks for processing freshwater fish are difficult to obtain and apply to plant operations, the Corporation utilizes an internal process involving scrape tests that measures excess meat removed by filleting machines during the filleting process and compares actual data to established targets. Trim tests are completed daily to monitor individual employees' trimming levels relative to established targets. As mentioned in the report, management has not been consistent in measuring these yields and will commit to performing and reviewing these tests on a consistent basis. The planned Winnipeg processing plant renovation includes expenditures for new processing equipment that will incorporate more sophisticated and expanded yield measurement systems. Since 2008, the Corporation has also used a process operating system that monitors labour efficiency against established targets.

Recommendation	Response
71. The Corporation should develop a human resource plan aligned with its overall corporate strategy. The Corporation should determine its human resource priorities by conducting a risk assessment, and should establish measurable targets for those priority areas. It should also regularly monitor its performance results. **(65-70)**	Agreed. A Human Resource Director has been added to the Corporation's executive management team, as recognition of the critical role that this function plays in ensuring the Corporation meets its goals. The Human Resource department is now fully staffed and positioned to implement components of an integrated human resource strategy, which includes attendance management, respectful workplace, management of employee turnover and health and safety. An operational and integrated human resource plan will be implemented over the next two years. Also, quarterly Board of Director meetings will include the presentation of human resource metrics beginning in February 2011.
76. The Corporation should put in place a contracting policy based on government guidelines and adapted to the Corporation's needs, and should have controls for ensuring that the policy is followed. **(72-75)**	Agreed. The Corporation will tighten its existing procedures immediately and a formal procurement and contracting policy based on government guidelines will be implemented by December 2011.