

**FRESHWATER FISH MARKETING
CORPORATION**

SPECIAL EXAMINATION REPORT

**PRESENTED TO THE BOARD OF
DIRECTORS ON 9 MARCH 2005**



3 March 2005

To the Board of Directors of
Freshwater Fish Marketing Corporation

We have completed the special examination of the Freshwater Fish Marketing Corporation in accordance with the plan presented to the Board of Directors on 25 November 2004. As required by section 139 of the *Financial Administration Act* (FAA), we are pleased to provide the final report on the examination to the Board of Directors.

We will be pleased to respond to any comments or questions you may have about our report at your meeting on 9 March 2005.

I would like to take this opportunity to express my appreciation to the Board members, management, and staff of the Corporation for their excellent cooperation and assistance during the examination.

Yours sincerely,

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

Douglas G. Timmins, CA
Assistant Auditor General

Attach.

FRESHWATER FISH MARKETING CORPORATION

SPECIAL EXAMINATION REPORT

TABLE OF CONTENTS

<i>SPECIAL EXAMINATION OPINION</i>	1
OVERVIEW OF FRESHWATER FISH MARKETING CORPORATION	2
Background	2
Legislative Mandate	3
Strategic Direction, Mission, and Objectives	3
Business and Operating Environment	3
Organizational structure and operations	3
Stakeholders	4
Fish supply	4
Marketing of fish.....	5
The Corporation faces significant challenges	5
FINDINGS AND RECOMMENDATIONS	6
Governance	6
The structure of the Corporation’s Board is unique.....	6
Management is responsive to Board needs.....	7
Governance framework needs to be modernized.....	7
Transitioning.....	8
Marketing	9
The Corporation uses modern marketing tools and techniques	9
Growing inventory continues to be of concern.....	10
Plant Operations	10
Operations adjusted for volume fluctuations	10
Management and supervisors are knowledgeable.....	10
Opportunities for annual cost savings.....	11

Pooling and Returns to Fishers.....	12
Pricing and payment process	12
Board policy for initial and final payments is not followed and needs updating.....	12
Quality.....	13
Quality management program in place	13
Practices and incentives promote quality.....	13
Stakeholder Relations	14
Many vehicles are used to communicate with stakeholders	14
Major stakeholder groups are reached	15
Safeguarding Corporate Assets	15
Assets are safeguarded and protected	15
Internal Audit.....	16
APPENDIX.....	17

SPECIAL EXAMINATION OPINION

To: The Board of Directors of the Freshwater Fish Marketing Corporation

1. Under Part X of the *Financial Administration Act* (FAA), the Freshwater Fish Marketing Corporation is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.
2. The FAA also requires the Corporation to have a special examination of these systems and practices carried out at least once every five years.
3. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination, from September 2004 to January 2005, there were no significant deficiencies in the systems and practices we examined.
4. We based our examination plan on a survey of the Corporation's systems and practices, which included a risk analysis. We submitted the plan to the Board of Directors on 25 November 2004. The plan identified the systems and practices that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. Those are the systems and practices that we selected for examination.
5. The plan included the criteria for the special examination that we selected specifically for this examination in consultation with the Corporation. The criteria were based on our experience in performance auditing. Our choice of criteria was also influenced by legislative and regulatory requirements, professional literature and standards, and practices followed by the Corporation and other organizations. The systems and practices we examined and the criteria we used are listed in the Appendix to 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. We did not rely on the internal audit reports issued during the last fiscal year, as they focused on specific issues rather than systems and practices.
7. In our opinion, based on the criteria established for the examination there is reasonable assurance that there were no significant deficiencies in the systems and practices we examined.
8. The rest of this report provides an overview of the Corporation and more detailed information on our examination findings and recommendations.



Douglas G. Timmins, CA
Assistant Auditor General
Ottawa, Canada
1 February 2005

OVERVIEW OF FRESHWATER FISH MARKETING CORPORATION

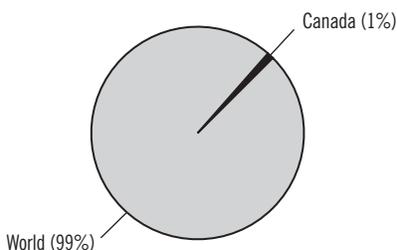
Background

The Freshwater Fish Marketing Corporation is a self-sustaining federal Crown corporation that purchases fish caught commercially in Manitoba, Saskatchewan, Alberta, Northwest Territories, and part of northwestern Ontario. The Corporation then markets the fish as fresh or frozen depending on market conditions. The Corporation does not receive any federal or provincial subsidies. It operates much like a producer's co-operative, purchasing fish from fishers at an initial price and then distributing any profits to fishers in the form of a final payment.

The Corporation purchases fish from 2,500 to 3,000 fishers. Although the fish are caught in over 400 lakes in the provinces and territories noted above, about 66 percent come from Manitoba lakes; the Corporation's main processing facility is in Winnipeg, Manitoba. Very small processing facilities are located in Hay River, NWT, and the Corporation has entertained proposals for a processing plant in Saskatchewan.

The Freshwater Fish Marketing Corporation is a small company (annual sales of \$60 million to \$65 million) in a \$200-billion-dollar global seafood industry. Canada represents only one percent of this industry (see Exhibit 1).

Exhibit 1 World Seafood Producers



Source: Freshwater Fish Market Corporation

Eighty percent of the Corporation's revenues come from export markets: 67 percent from the United States and the balance from Europe, primarily France (6 percent) and Finland (4 percent).

As a federal Crown corporation, Freshwater Fish Marketing Corporation reports to Parliament on its activities through the Minister of Fisheries and Oceans.

Canada has no equity in the Corporation; the government's involvement has essentially been limited to reporting requirements and the appointment of Board members.

Legislative Mandate

The 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 extends through Alberta, Saskatchewan, Manitoba, parts of northwestern Ontario, and the Northwest Territories.

The Corporation is required to operate on a self-sustaining basis without appropriations from Parliament. Under the Act, its total borrowings may not exceed \$30 million.

Its Act gives the Corporation the exclusive right to trade in freshwater fish in interprovincial and export markets, with the objectives of

- orderly marketing of fish;
- increased returns to fishers;
- promotion of international markets for fish; and
- increased interprovincial and export trade in fish.

Strategic Direction, Mission, and Objectives

In July 2000, the Board of Directors approved a strategic plan developed by senior management with the Board's input. The plan was presented to the Minister of Fisheries and Oceans in August 2000. It specifically considered the Corporation's strengths, weaknesses, opportunities, and threats. The strategic plan included a statement of the Corporation's core values and a mission statement with strategic goals and objectives. The Corporation has also identified some performance measures and has begun to report its performance against them in its annual report.

In the markets it serves, the Corporation's mission is "to be the leading marketer of freshwater fish products, respected and recognized for high-quality, dependable supply, excellent customer value and increasing returns to fishers." Sustaining market leadership, generating increasing returns to fishers, and earning respect and recognition are the pillars of the Corporation's mission and drive its goals and objectives.

The Corporation has documented its strategic directions in a pamphlet for stakeholders.

Business and Operating Environment

Organizational structure and operations

The Corporation has a core management team comprising a President and Chief Executive Officer, a Chief Financial Officer, a Vice-President of Operations, and a Vice-President of Sales and Marketing. It employs 48 full-time staff and up to 350 seasonal employees. The Corporation purchases on average between 20 million and 22 million kilograms of fish annually from commercial fishers, who deliver their fish to 72 lakeside

receiving stations operated by 32 contracted agents and 3 agencies of the Corporation. The agencies grade and purchase the fish, which are then transported to the Corporation's central processing plant in Winnipeg and processed into saleable products. The frozen products are stored at the plant or at privately owned cold storage facilities. The Corporation markets the fish through its own sales force and through brokers who sell its products around the world. The fish are sold as whole fresh, whole frozen, or processed (filleted and minced). The Corporation purchases fish at initial prices established by the Board on the basis of operational forecasts by the Corporation. Any profits are distributed to fishers as final payments, which the Board approves after the end of the year.

Stakeholders

The primary stakeholders are the commercial fishers in the Freshwater Fish Marketing Corporation's mandated region who deliver fish to the Corporation. About 75 percent of fishers who responded to the March 2004 Fisher Profile Survey identified their ethnic origins as First Nations or Métis.

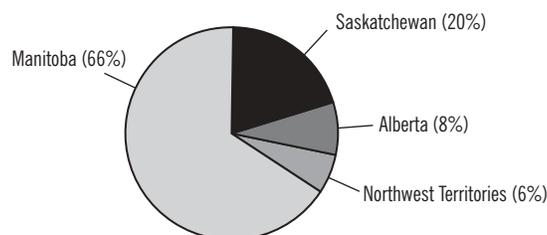
Stakeholders also include the agents who purchase the fish directly from fishers at the lakeside receiving stations; and the federal, provincial, and Northwest Territories governments, which have a vested interest in sustaining fish habitat in the lakes. Toward that end, the provinces and territories establish quotas limiting the catch. The quota structure can be complex, varying significantly within a province and among the provinces and territories.

Fish supply

The FFMC region covers some six million square kilometres. Peak fish production occurs during the summer months, with the largest volume of fish caught in Manitoba. Exhibit 2 roughly indicates deliveries by geographic area.

Exhibit 2

Delivered weight of fish by region



Source: Freshwater Fish Market Corporation

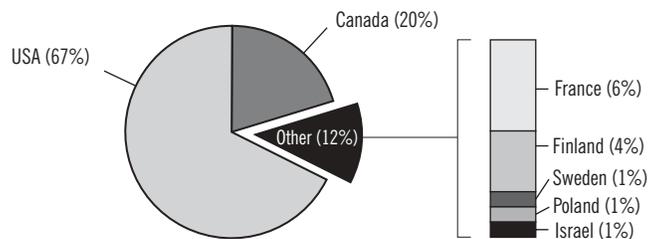
The supply of fish has averaged 21.8 million kilograms over the five years ending in 2004, an increase of 24 percent over the previous five years. In fiscal year 2004 the Corporation purchased 20.7 million kilograms of fish, comprising primarily whitefish

(32 percent), pickerel or walleye (27 percent), mullet (18 percent), and northern pike (11 percent).

Marketing of fish

The principal market for fish is the United States. Major cities such as Minneapolis, New York, Detroit, Chicago, and Los Angeles provide the main markets for the Corporation's fresh and frozen fish products. The breakdown of sales by geographic area is shown in Exhibit 3.

Exhibit 3 Freshwater Fish Marketing Corporation—
Revenue percentage by market



Source: Freshwater Fish Market Corporation

The Corporation faces significant challenges

During the past year, the Corporation's revenue from its primary market, the United States, decreased by about six million dollars due to the rapid rise of the Canadian dollar. This contributed directly to its first loss in over 30 years. While no one can accurately forecast changes in exchange rates, many believe the Canadian dollar will remain strong against the U.S. dollar for some time to come. In addition, in the past several years the Corporation has had to increase borrowings to finance its rising inventories until they can be sold. The Corporation also faces new competition in some of its most profitable markets. If these developments are not managed well they could threaten the Corporation's ability to achieve its primary mandate of increasing returns to fishers.

The Corporation has tried to address these developments. For example, it initiated a currency hedging program in order to reduce the impact of the stronger Canadian dollar, lowered initial purchase prices to improve profitability, took cost containment measures to reduce certain operating costs, and introduced specific marketing initiatives to protect key markets and develop new ones. The success of some of these initiatives, such as the development of new markets, will take time to assess.

FINDINGS AND RECOMMENDATIONS

We examined the Corporation's systems and practices in the areas of

- governance;
- marketing;
- plant operations;
- pooling and returns to fishers;
- quality;
- stakeholder relations;
- safeguarding of corporate assets; and
- internal audit.

These areas were discussed with the Board of Directors at the planning stage of the examination, and we consider them essential to the achievement of the Corporation's objectives.

Governance

Corporate governance refers to the framework of processes, practices, systems, and structures for overseeing the direction and management of an organization so that it can carry out its mandate effectively and achieve its objectives. We expected that the Corporation would have a governance framework consistent with good corporate governance practices and that the Board of Directors would receive appropriate, timely information.

The structure of the Corporation's Board is unique

The Board of Directors of the Freshwater Fish Marketing Corporation consists of a Chairman, a President, a director from each of the participating provinces and the Northwest Territories (NWT), and four additional directors. The Chairman and the President are appointed by the Governor in Council; all the others are appointed by the Minister of Fisheries and Oceans with the approval of the Governor in Council. Directors representing the provinces and the NWT are appointed by the Minister of Fisheries and Oceans on the recommendation of the respective province or territory. This federal/provincial representation on the Board is unique among Crown corporations.

As the Corporation's annual report notes, the Board believes that its composition reflects the geographical scope, the interests, and the well-being of its multicultural stakeholders. Consistent with its view that a majority of its members should be active fishers representing the various regions, 6 of the 11 directors are fishers. We agree that having fishers represented on the Board is especially important for the Freshwater Fish

Marketing Corporation, given that it exists almost solely to benefit fishers and that it receives no government subsidies or annual appropriations.

Management is responsive to Board needs

The Board of Directors normally meets between four and six times in a fiscal year. The meetings are substantive and typically last two days.

Based on our review of Board minutes and our interviews with selected Board members and senior management, they share a good working relationship. The Board is satisfied that management provides it with appropriate and timely information and presentations on operating results, relevant issues, and progress on strategic initiatives. In addition, Board members feel that management is responsive to their inquiries and that they provide meaningful input on strategic initiatives and decisions.

Governance framework needs to be modernized

Recent developments in both the private and public sectors have significantly raised the public's expectations of boards of directors. In order to meet these increased expectations, modern boards need to be equipped to deal with the specific challenges facing their organization. For example, with the strong Canadian dollar, returning the Corporation to the profitability levels of past years and improving returns to fishers will be a challenging task. The Corporation's well-being will depend heavily on key factors such as sound financial management, successful marketing initiatives, protection of the Corporation's established markets, improvements in cost reduction and plant productivity, and the management's continued creativity and resourcefulness.

Boards of directors are expected to have the right balance of skills, capabilities, and experience to understand the ongoing challenges and opportunities facing their business. Board members are expected to receive ongoing professional development and training as needed to ensure that they continue to carry out their responsibilities effectively and keep abreast of new developments in their business and in corporate governance.

It is important that boards establish audit committees capable of fulfilling the significant responsibilities typically assigned to them as part of overseeing financial management and control, risk management, audit, and reporting of corporate performance.

We found that the Corporation is not keeping up with current good practices in these areas.

We believe it is important that the Corporation's Board reconsider its views on what constitutes an ideal board profile. Presently, the Board depends predominantly on the skills and capabilities of the members who are fishers. We appreciate the Corporation's view that the majority of Board members should be fishers. Nevertheless, we believe it needs to complement this skill set with other capabilities to better oversee management's responses to the most urgent challenges currently facing the Corporation—financing its operations and marketing its products. This means ensuring that the Board, collectively, has appropriate financial and marketing expertise.

We recognize that it may be difficult to achieve this balance on a board that also balances provincial and federal representation. Fishers may be reluctant to change a board structure that has served the Corporation well. However, we believe that change is essential to provide the fisher community with continuing confidence that the Board meets contemporary “good practices” standards and is well-equipped to address the Corporation’s present and future challenges. The government’s 2001 guide, Creating a Director Profile, could be used as a basis for developing a revised “ideal board profile.”

Having one or more members with financial expertise would also help strengthen the Board’s Audit Committee, which currently includes the complete Board—far short of best practices. Modern audit committees generally comprise three to five independent directors with financial expertise. While we recognize that this model is not practical for the Corporation’s Board, a small Audit Committee of the Board’s most financially astute members would be significantly more effective. With an Audit Committee that neither meets nor functions independently of the whole Board and that lacks independent directors with financial expertise, the Board does not meet the expectations set out in the Treasury Board’s Guidelines for Audit Committees (2003) and in section 148 of the *Financial Administration Act*.

It may be a challenge to identify potential members with the desired skills and experience who can also appreciate and work within the traditional culture of this Board. To assist the Minister with future appointments, the Board should actively search out such individuals and create an acceptable pool of candidates.

Transitioning

We recognize that creating a new Board profile and changing the composition of the Board will take time. We are not advocating a complete overhaul of the Board but rather a strengthening of its core capabilities while remaining faithful to the principle that a majority of Board members should be fishers. We suggest adding a member to the Board who has financial expertise as the first step in moving to a new Board profile.

Recommendations

- The Board should update its current profile to reflect the full range of skills, abilities, and experience needed to address the challenges and risks currently faced by the Corporation while maintaining the traditional majority of fisher representatives.
- The Board should request that the Minister of Fisheries and Oceans take its updated profile into consideration at the next opportunity to appoint a member to the Board. In particular, the Board should emphasize the need for an individual with financial expertise.
- The Board should constitute an Audit Committee comprising independent directors with some financial expertise to carry out the responsibilities expected of contemporary audit committees.

Marketing

In an organization that has so much uncertainty over how much product it will receive at any given time, marketing is a critical tool for maximizing returns to fishers while ensuring the orderly sale of the product.

We expected the Corporation to use appropriate tools and techniques for acquiring timely market intelligence. This would enable it to protect its existing markets and develop others and also to keep abreast of changes in the regulatory environment that could impact its export sales.

The Corporation uses modern marketing tools and techniques

The Corporation's marketing group is very knowledgeable about the different markets for fresh and frozen fish products. Our discussions with management, examination of documents, and other tests and procedures we conducted indicated that the Corporation's systems and practices are consistent with what is expected of a well-run marketing department in the fishery industry.

Although the Corporation does not prepare a formal marketing plan, its annual corporate plan sets out the activities, strategies, and initiatives planned for the coming year. A formal marketing plan would establish a comprehensive set of goals, objectives, and milestones for accomplishing each initiative and existing lines of business. Such a plan would provide a framework for assessing the results of marketing activities. Management, however, does not believe that a formal plan is practical given the unpredictable variation in fish supply.

The Corporation prepares a detailed sales budget for each year, based on the previous year's sales, an assessment of current economic and market trends, and input from brokers and customers. It analyzes fish flow to ensure that the fish supply is sufficient for anticipated sales throughout the year and that inventory levels are properly managed.

Through marketing research, consideration of economic conditions and market trends, dialogue with its customers, and other means, the Corporation has identified potential opportunities for profit. The most promising opportunities become strategic initiatives with specific goals and objectives. Where appropriate, the Corporation has developed these opportunities further by doing additional research and sensory analysis, hosting events for potential customers, and using financial incentives. We observed regular reporting to senior management and the Board on the status of the marketing initiatives underway.

We noted that the Corporation does not analyze profitability by customer; doing this type of analysis could help it determine whether it is pricing its products appropriately.

The Corporation has maintained a relatively stable and reliable network of customers, brokers, and distributors, which enables it to obtain market knowledge that normally it could not get with its limited resources. These close relationships also facilitate a more open dialogue about customer satisfaction with the Corporation's products and service. While it does not formally document feedback from customers, brokers, and distributors,

the Corporation does hire independent consultants to survey its customers every three years. We found that it had taken steps to address some of the concerns raised in the most recent survey.

The Corporation is benchmarking its products against seafood products sold in the wholesale market, but it does not benchmark its overall sales performance against that of competitors.

Growing inventory continues to be of concern

The expense of maintaining the growing inventories of certain species of fish puts additional financial pressures on the Corporation. Our discussions with senior management indicate that it has identified strategic initiatives to address this concern. We note that senior management and the Board receive regular reports on inventory and the initiatives undertaken to address specific concerns about inventory. Nevertheless, marketing is ultimately about selling a product at a profit, and the Board needs to continue monitoring inventory levels and evaluate whether strategic initiatives are achieving their intended objectives.

Plant Operations

Effective and efficient plant operations are critical to the Corporation's ability to market its products successfully. We expected to find well organized and efficient plant operations that produce products of good quality while protecting the health and safety of employees.

Operations adjusted for volume fluctuations

Our examination focused on the management systems and manufacturing processes, using a combination of interviews, data analysis, and shop floor observations.

At the Winnipeg plant, the volume of fish received varies significantly throughout the year—about four times higher in peak weeks than between seasons, although the ratio of weight received to hours of labour changed very little over the course of last year. This indicates that the weekly forecasts, weekly labour planning sessions, and daily meetings instituted by management are resulting in good planning and use of labour resources.

Plant costs as a percentage of sales have been constant for the most part over the last 15 years and remain below historical highs, although the trend over the last 3 years has been slightly upward. However, the Corporation has issued tenders for freight services and we noted that costs of inbound freight have shown a downward trend.

Management and supervisors are knowledgeable

Plant managers and supervisors demonstrate a good knowledge of their business and equipment. Our observations of plant operations and studies of supervision showed a pace of work and level of active supervision that was within industry norms. We noted

that employees were following health and safety guidelines such as using appropriate footwear and hearing protection.

Employees we interviewed said that cleanliness and safety training were part of the orientation for new employees. The plant layout is essentially sound. Staff in engineering and maintenance have been creative and resourceful in developing processes and equipment and in developing plant facilities to deal with contingencies without the need for significant capital spending.

Opportunities for annual cost savings

The management team recognizes that in order to meet their mandate of increasing returns to fishers, they must make improvements in plant operations. They have identified some key areas—shop floor tracking, yield monitoring, and maintenance—with the potential for savings.

The Corporation has kept its costs under control but has not been able to increase productivity significantly over the long term. Below we summarize opportunities we identified for the Corporation to achieve efficiencies and annual cost savings.

Yield monitoring. Yield is an important measurement for controlling and reducing costs in fish processing. The Corporation has installed a new scale system to help improve its analysis of yield, but it has yet to incorporate the use of the system and the reporting of results into daily meetings and supervisory routines so that continuous improvement can begin.

Production planning. Production planning is a challenge for the Corporation, given that it cannot predict the volume or species of fish it will receive. It needs to improve co-ordination between sales and production and to clarify the system for tracking orders and filling them.

Shop floor tracking. The Corporation needs to improve the scanning of its products to ensure that production is properly tracked, weight information for yield is improved, and efficiency reports are accurate.

Maintenance systems. The rudimentary maintenance systems can be improved significantly. The Corporation is currently recruiting to fill the position of Facility Manager, which should help in establishing formal maintenance systems.

Supervision. Supervision is an area where role definition, systems, and training can significantly improve plant performance. The basic elements of a system for forecasting, scheduling, and measuring results are in place. However, supervisors can achieve much better results if they learn to set targets, follow up on results, and focus on problem solving to identify needed improvements.

Recommendation

The Corporation should accelerate plans to improve yield monitoring, production planning, shop floor tracking, maintenance systems, and supervision in order to achieve cost savings.

Pooling and Returns to Fishers

We expected that the Corporation would have a pricing model in place to achieve an adequate supply of product while providing predictable returns to fishers and overall profitability for the Corporation.

Pricing and payment process

We examined the systems and practices for establishing initial prices and for calculating final payments to fishers; we had extensive discussions with management about the processes it follows.

The Corporation's financial and production costing systems are adequate. A complex forecasting model is used to develop a basis for establishing initial prices. The model incorporates reasonable estimates and assumptions developed by management and communicated to the Board of Directors. The basis used for allocating revenues and expenses to each product in the calculation of final payments is also appropriate. Initial prices, negative pool reallocations, and final payment calculations are all approved by the Board. Management has the authority to adjust initial prices throughout the year, as dictated by changes in circumstance such as unanticipated demand for certain species and/or sizes of fish. Our discussion with agents indicated that they understand the Corporation's policy on fish pricing and species pooling. The policy is explained in the Corporation's annual report.

Board policy for initial and final payments is not followed and needs updating

The Corporation established a policy on fish pricing and species pooling in 1983 under section 23 of the *Freshwater Fish Marketing Act*. The policy describes how initial and final payments to fishers are to be calculated, based on a separate pool for each species. Among other things, the Corporation's policy states that

- initial payments cannot total more than 80 percent of the projected total amount available to fishers;
- the Board must determine the disposition of any negative pools (overpayments) before making any final payments to fishers each year; and
- final payment shall not be paid until 90 percent (based on round equivalent weight) of the fish delivered of that species in that year has been sold.

The Corporation does not follow its policy. We reviewed the initial and the final payments over the past 10 years and found that, on average, the total value of initial payments has been closer to 90 percent than 80 percent of the total available to fishers—and 80

percent is the limit. We also noted that final payments were made every year for species with positive pools, regardless of the amount of delivered fish sold in that year. These decisions, while not consistent with the Board's policy, allowed fishers to receive their payments earlier than they otherwise would have.

Recommendation

The Corporation should either follow its policy as approved or update the policy as appropriate and ensure that the updated policy is followed.

Quality

Quality is of utmost importance to any corporation selling fish products. The Corporation has identified quality as one of the attributes that will help it sustain market leadership. Accordingly, we expected that the Corporation would promote practices that maintain or enhance product quality.

Quality management program in place

As a federally registered fish-processing plant, the Corporation is legally required to have a quality management program (QMP) in place that is accepted by the Canadian Food Inspection Agency (CFIA). The Corporation's QMP is based on principles of Hazard Analysis Critical Control Points, the internationally recommended approach to ensuring food safety.

We examined the QMP, tested selected aspects of it, and found it to be functioning well. Based on our discussion with CFIA inspectors and our review of the CFIA's compliance verification reports, no significant quality issues have been noted and the Corporation has always provided the CFIA with a timely corrective action plan for dealing with its recommendations. CFIA inspectors stated that the Corporation is very responsive to their recommendations, always meeting and often exceeding requirements. We noted that the most critical recommendations are communicated to senior management of the Corporation and that the head of quality control reports directly to the President.

We also found that in the past few years there have been few customer complaints about the quality of the Corporation's fish and fish products.

Practices and incentives promote quality

The Corporation's quality management program includes appropriate standards for quality and grading, which are communicated regularly to agents and fishers. Agents are responsible for receiving the fish from fishers and for grading, packing, and transporting the fish to the central processing plant in Winnipeg. Based on our discussion with agents, they have a good understanding of the Corporation's quality and grading standards and they said the fishers are aware of the importance of fish quality. Moreover, the quality of incoming fish is properly monitored through inspections at the central processing plant. Agents suffer financial penalties for any fish that do not meet the quality and grading standards. We reviewed the trend in penalties to agents and noted that the quality of incoming fish has been very high.

Stakeholder Relations

The Corporation's primary stakeholders are commercial fishers in its mandated regions. Other significant stakeholders include agents that purchase the fish directly from fishers at the lakeside receiving stations as well as the federal, provincial, and Northwest Territories governments.

One of the Corporation's goals is to establish open and accessible communication links with stakeholders. We expected to see an effective communication program that keeps the Corporation's various stakeholders informed about its operations and promotes an understanding of, and respect for, its mandate.

To assess the state of stakeholder relations we interviewed management, federal and provincial officials, agents, and others. We also examined recent communications, studies conducted on behalf of the Corporation, and other documents. We found that stakeholders are generally satisfied with the Corporation's communication practices, and many hold the Corporation in high regard.

Many vehicles are used to communicate with stakeholders

The Corporation uses a broad array of communication vehicles, including direct mailings and information bulletins on important topics such as the impact of the exchange rate on the fish prices the Corporation can pay to commercial fishers; pamphlets reflecting on the fishers' markets and tips on quality; the results of the 2004 Fisher Profile Survey; and the President's recent communication about the lack of a final payment in the fall of 2004. The Corporation also uses various other initiatives to keep its stakeholders informed about its operations, including

- quarterly reports that provide summary financial results, overall performance highlights, and highlights by province;
- maintenance of a Web site with information about the Corporation's annual and quarterly reports;
- management meetings with employees;
- frequent meetings between Field Operations managers and provincial resource officers; and
- attendance at fisher association meetings.

After the 2004 Fisher Profile Survey identified communications as a perceived weakness, the Corporation re-emphasized to its Field Operations managers the importance of communications; it also developed a slide presentation to ensure that a consistent message was provided across the regions. We noted that in one case, the Corporation provided the fishers with an opportunity to formally evaluate its presentation to them. We encourage this practice as a means of obtaining suggestions on further improvements.

One way the Corporation could improve communications would be to adopt a practice followed by other Crown corporations and post on its Web site its audited annual financial statements and the summary corporate plan that it tables annually in Parliament.

Major stakeholder groups are reached

The frequent attendance of Field Operations managers at meetings of fisher associations provides an opportunity for the Corporation to clearly articulate its role, explain its operations, and discuss the concerns of commercial fishers and agents directly with them. We noted that senior management and board members also attended some of these meetings.

We observed that the Corporation also communicates regularly with federal and provincial representatives to update them on the status of its operations.

Although some stakeholders believe that single-desk marketing is not in their best interests, the Fisher Profile Survey confirmed that the majority of fishers support it. The Corporation has established a process for the approval of licences that allow for exceptions to its exclusive right to interprovincial and export trade in freshwater fish. The Board periodically reviews applications for these licences. The Corporation's current information indicates that these licences are inactive for the most part. The Corporation is aware that some of the licensees are not complying with the reporting requirements set out in their licences. The Corporation needs to follow up on these cases to ensure that it gets the information needed to monitor compliance with the licence terms.

Safeguarding Corporate Assets

The Corporation is responsible for safeguarding its key corporate assets, including protecting its revenues and assets from unnecessary loss, protecting the health and safety of its employees, protecting its rights as the "single desk" seller of freshwater fish caught in the designated regions, and protecting its reputation as a supplier of freshwater fish products of the highest quality. We expected that appropriate systems and practices would be in place to accomplish this objective.

Assets are safeguarded and protected

As an integral part of our work we examined the systems and practices used by the Corporation to safeguard its assets. Our audit procedures included enquiry of senior management, review of documentation, observation of plant operations, testing of the Corporation's Quality Management Program and other procedures.

The most significant systems and practices established by the Corporation to safeguard its assets include the following:

- a hedging program designed to mitigate the impact of exchange rate fluctuations on returns to fishers

- comprehensive insurance protection for its plant and its fish products stored outside of the plant in privately-owned cold storage facilities
- an effective Quality Management Program, including training
- a well-designed plant layout and safety features that promote the health and safety of employees
- a creative and resourceful staff who “make do” whenever possible

We also found that senior management sets a positive “tone from the top” with regard to the use of corporate funds. Staff work in modest surroundings and are prudent in their spending.

Internal Audit

We expected the Corporation to have a plan in place to conduct internal audits of its operations, in accordance with the requirements set out in the *Financial Administration Act*.

We found that the Corporation undertook some internal audits recently and plans to conduct internal audits of its banking and information systems in the near future. These plans were discussed with the Board.

We encourage the Corporation to keep its internal audit plans updated and to map out a longer-term strategy for conducting internal audits. These plans need to be risk-based, with established timelines, and be reviewed and approved by the Audit Committee.

APPENDIX

Projects, Systems, and Practices Examined and Related Criteria

Project	Systems and Practices	Criteria
Governance	<ul style="list-style-type: none"> • Quarterly meetings with the Board of Directors and regular reports and presentations by senior management to the Board of Directors • Board of Director's approval of key policies • Periodic reporting to the stakeholders and to the Department of Fisheries and Oceans 	<ul style="list-style-type: none"> • The Corporation has a Corporate Governance framework that is consistent with good practices and helps ensure that the Corporation fulfills its mandate in an appropriate manner. • The Board of Directors is provided with timely and appropriate information to approve corporate strategies and direction, monitor strategic risks and assess corporate performance.
Marketing	<ul style="list-style-type: none"> • Sales and Marketing department developing and implementing product loyalty programs, marketing strategies and sales logistics • Participation at trade shows, industry associations and committees • Bi-weekly senior management meeting to discuss results of operation and marketing issues • Quarterly meetings with Board of Directors regarding sales and marketing issues (strengths, weaknesses, opportunities and threats) • Gross margin analysis by species 	<ul style="list-style-type: none"> • The Corporation's marketing research activities provide timely market intelligence designed to protect its existing markets while identifying other opportunities that have the potential to be exploited profitably. • The Corporation is aware of trade- related developments that could jeopardize its markets and takes appropriate actions to comply with foreign government import regulations impacting its products.
Plant Operations	<ul style="list-style-type: none"> • Production scheduling using weekly forecasts and daily shipments • Comprehensive Quality Management Program • Human Resource Management practices for appropriate staffing levels, training, health and safety, recognition and retention • Production costing systems • Bi-weekly senior management meetings to discuss operating results and financial position • Labour efficiency reporting and CEO monthly review 	<ul style="list-style-type: none"> • Plant operations are well-organized and efficient while protecting the health and safety of employees and producing quality products that meet quality standards and customer expectations.

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Pooling and Returns to Fishers	<ul style="list-style-type: none"> • Forecast of production and sales, including the development of a budget for establishing initial prices by species • Management presentation to the Board of Directors for approval of initial prices • Communications with fishers and agents on prices • Quarterly reviews and discussions with the Board of Directors on operating results, financial position and levels of inventory • Communication between the Sales and Marketing department and Production Scheduling • Inventory management system identifying nature and ageing of product 	<ul style="list-style-type: none"> • Initial prices to fishers are established based on management judgement and analysis indicating that they are expected to: promote delivery of an adequate supply of products to meet anticipated market demands; provide a predictable return to fishers; and result in overall profitability for the Corporation.
Quality	<ul style="list-style-type: none"> • Inventory management system to identify, store and safeguard, ship and report inventories. • Comprehensive Quality Management Program • Quality newsletters/workshops/information package provided to agents • Systems in place to ensure training, communications with and monitoring of agents' performance 	<ul style="list-style-type: none"> • The Corporation takes appropriate actions to protect its assets from unnecessary loss. • The Corporation actively promotes internally and with agents practices that maintain or enhance product quality.
Stakeholder Relations	<ul style="list-style-type: none"> • Communications with stakeholders to keep them aware of the status of the Corporation and its operations • Quarterly meetings with the Board of Directors • Meetings with Fishermen Associations • Communications with fishers and agents regarding the benefits of single desk mandate • Meetings and discussions with the Board of Directors regarding regional processing proposals and dealer export licences • Periodic survey of fishers • Data transfer system, providing provincial authorities with product received and originating lakes • Liaison with provincial fishery officials on quotas, quota systems and fishers' associations 	<ul style="list-style-type: none"> • The Corporation has established an effective communications program with fishers. • Publicly available information fairly and reliably reflects the actual performance of the Corporation. • The Corporation actively promotes understanding of, and respect for, its mandate, taking such actions as appropriate to protect its rights and uphold its obligations to the fishers it serves. • The Corporation communicates with provincial officials on fish stocks and marketing plans to ensure its strategies and practices are sustainable and respect provincial resource regulations.

Project	Systems and Practices	Criteria
Safeguarding of Assets	<ul style="list-style-type: none"> • Corporate planning process, including production and sales forecast and operating and capital budgets and borrowing plans • Financial reporting system identifying financial position (cash, receivable, inventory and loan balances) on a timely basis • Inventory management systems • Credit and collection policies and practices • Bi-weekly senior management meetings to discuss operating results and financial position • Hedging strategy approved by the Board of Directors and implemented • Quarterly reviews and discussions with the Board of Directors on operating results and financial position • Forecasting model for initial prices • Product price changes 	<ul style="list-style-type: none"> • The Corporation monitors its financial position regularly and takes appropriate actions to maintain the liquidity necessary to finance operations while complying with approved borrowing limits. • The Corporation takes appropriate actions to protect its revenues and assets from unnecessary loss.