



**Enterprise Cape Breton
Corporation**

Special Examination Report—2009



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

14 September 2009

To the Board of Directors of
Enterprise Cape Breton Corporation

We have completed the special examination of Enterprise Cape Breton Corporation in accordance with the plan presented to the Audit Committee of the Board of Directors on 27 February 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.

We will be pleased to respond to any comments or questions you may have concerning our report at your meeting on 22 September 2009.

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,

A handwritten signature in black ink, appearing to read "JO O'Brien".

John O'Brien
Principal
Halifax Regional Office

Attach.

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Enterprise Cape Breton Corporation Special Examination Report—2009

Main Points

What we examined

Enterprise Cape Breton Corporation (ECBC) is a Crown corporation that promotes and coordinates economic development throughout Cape Breton Island and a portion of mainland Nova Scotia in and around the Town of Mulgrave. The Corporation has broad powers to make loans, provide grants and contributions, and make investments. It has a growing portfolio of properties and buildings that are a means to support economic development—for example, through transfers to others as an incentive for investment or through sale for income to reinvest in programs. In addition to its own programs, Enterprise Cape Breton Corporation delivers programs on behalf of the Atlantic Canada Opportunities Agency (ACOA). The Corporation has working relationships and partnerships with governments at all levels as well as with community, business, and other organizations to support and implement various economic development initiatives.

We examined whether Enterprise Cape Breton Corporation's 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. We focused on the areas of governance, strategic and operational planning, performance measurement and reporting, project management, and property management and development. Our examination covered the period from December 2008 to March 2009.

Why it's important

The area served by the Corporation is economically depressed, with an unemployment rate higher than the provincial and national averages and significant out-migration in recent years. The role of the Corporation is to respond to these economic conditions by promoting and assisting the financing and development of industry in order to provide employment outside the coal-producing industry and broaden the economic base of Cape Breton Island.

What we found

We found no significant deficiencies in the Corporation's systems and practices. We noted some good practices as well as opportunities for improvement.

- The Board of Directors has active committees with clear mandates; it added a Human Resources Committee in 2008. The Board regularly receives and reviews information from management that it uses for oversight. The Corporation has not yet finalized the Board charter or considered whether Board committee responsibilities need to be updated to reflect the charter. It also has yet to complete the updating of the Board competency profile. The Board of Directors is examining further options to assess its performance on a regular basis.
- Senior management and the Board of Directors are engaged throughout the strategic planning process. The resulting corporate plan sets out targets and expectations that are consistent with the Corporation’s mandate, mission, and objectives. The Corporation has established a risk management framework that identifies potential risks and the Corporation’s response to those risks. However, it could improve its approach to risk management by assigning to specific managers the responsibility for implementing measures designed to mitigate risk and by reporting regularly to senior management and the Board on how well those measures are working.
- The Corporation has a performance management framework that indicates how program activities are intended to contribute to the Corporation’s strategic outcome (“a competitive and sustainable Cape Breton economy”) and its mandate and mission. The framework was recently revised to strengthen certain areas. However, performance measurement could be improved by ensuring that expected outcomes are clear and that performance indicators and targets demonstrate the results to be achieved. Reporting on performance could be improved by providing additional information in certain areas—for example, by explaining what it means by key terms such as “long-term” and “sustainable” results.
- The Corporation has systems and practices that ensure due diligence in approving and monitoring economic development projects for which it provides funding.
- Enterprise Cape Breton Corporation has systems and practices in place to manage its real property holdings. However, it needs to renew the expired memorandum of understanding with Cape Breton Development Corporation governing property transfers. It also needs to strengthen its property management framework by incorporating criteria to identify properties that could support its

economic development mandate and to assess whether its properties continue to be useful for delivering its programs.

The Corporation has responded. *Enterprise Cape Breton Corporation agrees with our recommendations. Its detailed responses follow each recommendation throughout the report.*

Special Examination Opinion

To the Board of Directors of Enterprise Cape Breton Corporation

1. Under section 131 of the *Financial Administration Act* (FAA), Enterprise Cape Breton 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 December 2008 to March 2009—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 27 February 2009, we submitted the plan to the Audit Committee of 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 relied on the work of Internal Audit in the areas of project management and property management and development.

7. In our opinion, based on the criteria established for the examination, there is reasonable assurance that during the period covered by the examination there were no significant deficiencies in the Corporation's systems and practices.

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



Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
29 June 2009

Overview of Enterprise Cape Breton Corporation

9. Enterprise Cape Breton Corporation's fundamental public policy purpose is to develop and broaden the base of the Cape Breton Island economy. The objects of the Corporation, as provided in its governing legislation, the *Enterprise Cape Breton Corporation Act*, are to

promote and assist, either alone or in conjunction with any person or the Government of Canada or of Nova Scotia or any agency of either of those governments, the financing and development of industry on Cape Breton Island to provide employment outside the coal producing industry and to broaden the base of the economy of Cape Breton Island.

10. Enterprise Cape Breton Corporation promotes and coordinates economic development throughout Cape Breton Island and a portion of mainland Nova Scotia in and around the Town of Mulgrave. In addition to its own programs, the Corporation delivers programs on behalf of the Atlantic Canada Opportunities Agency (ACOA) on Cape Breton Island. The Corporation has developed working relationships and partnerships with governments at all levels as well as with community, business, and other organizations to support and implement various economic development initiatives.

11. The *Enterprise Cape Breton Corporation Act* provides the Corporation with a broad range of powers, including the authority to

- lend money, either with or without security or interest;
- make grants;
- invest in, hold, sell or otherwise dispose of shares or securities; and
- with approval from the Governor in Council, guarantee repayment of monies borrowed and the payment of interest thereon.

These powers may be exercised where a company or person is carrying on or proposing to carry on a business or enterprise that the Corporation considers is likely to make a substantial contribution to the industrial development of Cape Breton Island. The Corporation may also

- purchase, lease or otherwise acquire any lands or interests therein on Cape Breton Island and manage, improve, develop or otherwise deal with or administer these lands or interests therein;
- sell or otherwise dispose of any lands or interests therein;

- take or hold mortgages, liens or charges to secure payment for any lands sold or disposed of and sell or otherwise dispose of those mortgages, liens or charges;
- advertise industrial opportunities on Cape Breton Island, publish and distribute brochures and similar material, and make contributions to the effective promotion of the industrial and economic development of the Island; and
- do other things deemed incidental or conducive to the attainment of its objects.

12. In the 2006–07 fiscal year, the Treasury Board of Canada requested a review of the Corporation’s mandate. The review was completed in late 2008 and the results have been presented to the minister responsible for the Corporation. At the time of completion of our fieldwork, the results of the review were not public.

13. **Operating environment.** The Cape Breton Island economy faces challenges as it transitions from an industrial-based to a more product- and service-oriented economy. Some of these challenges include out-migration, an aging labour force, distance from markets, a small export base, and seasonal employment. Some statistics that show challenges in the Corporation’s operating environment are the following:

- At the end of March 2009, Cape Breton Island’s 3-month moving average unemployment rate was 17.2 percent versus 8.9 percent for Nova Scotia and 8.0 percent for the country.
- Between the 1996 and 2006 census periods, Cape Breton Island lost 10 percent of its population.
- The 2006 Census reported that Nova Scotia has one of the oldest populations in Canada with a median age of 41.8 years, while the median age for Cape Breton Island counties ranged from 44.3 to 46.6 years.
- Between 2001 and 2006, the population under 25 declined by 6.5 percent for Nova Scotia and 11.9 percent for Cape Breton Island. In addition, the population aged 25 to 44 declined by 16.2 percent for Cape Breton Island versus 9.6 percent for all of Nova Scotia.

14. **Corporate Strategy.** As described in its 2009–10 to 2013–14 Corporate Plan Summary, Enterprise Cape Breton Corporation’s economic development strategy focuses on the following six areas of activity:

- **Policy and Advocacy** works to ensure that Cape Breton Island interests, priorities, and concerns are considered by stakeholders and all levels of government, in policy development, program access, and the allocation of financial resources.
- **Community Economic Development** involves investment in communities to strengthen and enhance their social and economic foundations and to make them attractive as places in which to live and invest.
- **Commercial Development** uses a range of tools such as advocacy, guidance, expertise, and financial incentives, to encourage existing business owners or potential entrepreneurs to establish, expand or modernize a business; seek new markets; establish new product lines or services; improve efficiency; and develop human resources.
- **Property Development and Management** involves acquiring, managing, selling, and disposing of real property to support the delivery of the Corporation's commercial and community economic development programs.
- **Internal Services** provide support services including finance and administration, human resources, communications, access to information, Internal Audit, and information technology.
- **Regional Service Delivery** mainly involves the delivery of ACOA's programs on Cape Breton Island. The objective is to deliver programs and services, on behalf of the Government of Canada, in an effort to increase the opportunity for a coordinated approach to economic development on Cape Breton Island.

15. Significant activities. Since the 2005–06 fiscal year, the Corporation has received an annual parliamentary appropriation of less than \$10 million and generated annual revenues between \$653 thousand and \$3.2 million to fund its programs and administration. In the 2008–09 fiscal year, the Corporation's parliamentary appropriation was \$8.7 million. At 31 March 2009, the Corporation had 46 employees and a net loan and investment portfolio of \$18.6 million.

16. Another Crown corporation, the Cape Breton Development Corporation (CBDC), formerly operated coal mines on Cape Breton Island. In response to the closure of the last of CBDC's coal mining operations, the Government of Canada created the Cape Breton Growth Fund Corporation (the Growth Fund) in 2000 as a wholly-owned subsidiary of Enterprise Cape Breton Corporation

(ECBC). ECBC is responsible for managing projects approved by the Growth Fund and disbursing the remaining Growth Fund funds. Although the Growth Fund was legally established as a subsidiary, it was directed to act as a parent Crown corporation until 6 June 2007. Consequently, the Board of Directors of Enterprise Cape Breton Corporation has had responsibility for the Growth Fund activities only since that date.

17. The Growth Fund received a total of \$91 million from the federal (\$79 million) and provincial (\$12 million) governments. It provided assistance to projects larger than those typically supported by the Corporation. The Growth Fund was set up as a transitional corporation and was intended to wind up when the majority of its funding was committed to projects. On 1 April 2008, it was dissolved and the balance of its assets and liabilities (including project commitments) and about \$21 million in undisbursed Growth Fund funds were transferred to Enterprise Cape Breton Corporation. The Corporation expects to disburse these funds over the 2008–09 to 2010–11 period.

18. The Corporation also has two wholly-owned subsidiaries; DARR (Cape Breton) Limited (DARR) and Cape Breton Casting Inc. (CBCI). DARR owns and manages all of the Corporation's real property holdings, and its directors are appointed by the ECBC Board of Directors. Under a memorandum of understanding entered into in 2003 with the Cape Breton Development Corporation, significant property holdings have been transferred to DARR. The memorandum of understanding expired on 31 March 2008 and the Corporation is seeking to renew it. The Growth Fund acquired CBCI on 3 March 2006 by exercising its security rights on outstanding loans. The shares of CBCI were transferred to ECBC upon dissolution of the Growth Fund. CBCI is now inactive.

19. The Corporation delivers Atlantic Canada Opportunity Agency (ACOA) programs on Cape Breton Island under a memorandum of understanding. The current memorandum is in effect until 2010. From 2004 to 2008, the dollar value of projects administered on behalf of ACOA varied between \$16 million and \$34 million. Future funding from ACOA is expected to be about \$14 million annually.

Focus of the special examination

20. We examined whether Enterprise Cape Breton 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 areas of governance, strategic and operational planning, performance measurement and reporting, project management, and property development and management.

21. Further details on the audit objective, scope, criteria, and approach are provided in **About the Special Examination** at the end of the report.

Observations and recommendations

Governance

22. Corporate governance is a framework of structures, systems, and practices for overseeing how an organization is managed so that it can carry out its mandate and achieve its objectives. Sound practices in corporate governance are essential to meeting the objectives outlined in Part X of the *Financial Administration Act* as it relates to Crown corporations. We expected Enterprise Cape Breton Corporation (ECBC) to have a well-performing corporate governance framework that meets the expectations of best practices in Board stewardship, shareholder relations, and communication with the public.

23. We found that the Corporation has a governance framework and practices to meet its corporate governance responsibilities, although we noted some opportunities for improvement.

24. The Board of Directors of the Corporation is composed of the Chair, the Chief Executive Officer, and five independent directors. The five independent directors were first appointed in early 2007 and the Chief Executive Officer was appointed in June 2008. As required by the *Enterprise Cape Breton Corporation Act*, the Chair is also the President of the Atlantic Canada Opportunities Agency (ACOA). All members of the Board are appointed by the Governor in Council. The Board has two committees—an Audit Committee and a Human Resources Committee that was newly formed in 2008.

25. The Board of Directors and its committees meet regularly and address matters to meet their governance and oversight responsibilities. Board meetings focus on matters such as review and approval of policy, re-organization of the management structure, strategic planning, and major economic development projects. In addition to the regularly scheduled meetings, the Board holds meetings that focus on specific issues.

The Board charter and competency profiles are under development

26. The Board of Directors has been improving its governance practices. A draft Board charter designed to formalize the Board's governance practices and set out its oversight responsibilities has been under development since January 2008. From February 2007 to June 2008, ECBC had an interim Chief Executive Officer. A permanent Chief Executive Officer was appointed in June 2008. These leadership changes contributed to delays in completing the update of corporate governance. Certain areas of the draft charter, such as the description of the Board's relationship with the responsible minister, the Chair, and senior management, have yet to be finalized.

27. Each committee is governed by a charter that has been approved by the Board of Directors. The draft Board charter and the approved Audit Committee charter set out authority to access independent expertise to assist the Board or Committee. The Audit Committee charter focuses on financial reporting matters, although in practice, the Committee has been involved in other areas such as oversight of risk management. The revised Board charter could also have an impact on the roles and responsibilities assigned to the Board committees.

28. In the fall of 2008, the Board reviewed its Board competency profile, originally prepared in 2001. An update is expected to be finalized in conjunction with completion of the Board charter. The draft Board competency profile does not reflect the need for real property management skills although this has become an increasingly important part of the Corporation's activities.

Board self-assessment is under consideration

29. The Board last carried out a comprehensive assessment of its performance in 2002 when it assessed its compliance with the Treasury Board of Canada Guidelines for Corporate Governance in Crown Corporations and Other Public Enterprises. The Corporation also developed a corporate governance self-assessment tool that it uses to report annually on the Board's governance activities in its annual report. The annual self-assessments are carried out by the Corporation's staff and reviewed by the Board as a whole. At the time of our examination, the Board was examining further options to assess its performance on a regular basis.

30. The Audit Committee regularly carried out self-assessments on its performance—in 2005, 2008, and in early 2009. The Committee rated its performance against 30 attributes grouped into four areas—risk management, financial reporting and compliance, internal control

environment, and corporate governance. In its most recent review, the Committee rated its performance as strong in each area.

31. Recommendation. The Board of Directors of Enterprise Cape Breton Corporation should finalize the Board charter, complete the update of the Board competency profile, and consider updating committee responsibilities to reflect the final Board charter. The Board should also complete its examination of assessment options and regularly assess its own performance.

The Corporation's response. The Corporation agrees with this recommendation. All of the above items are on the agenda as part of a special Board of Directors' meeting focused on governance, to be held in July 2009.

The Board of Directors is involved in strategic planning and oversight

32. During 2008, the Corporation started a new strategic planning process that focused on challenges, and proposed goals and objectives. Board members provided input into planning at an early stage.

33. The Board of Directors receives regular, timely reports from management and each of its committees to help it with making decisions and holding management accountable. Management reports to the Board focus on topics such as recommended changes in policies, strategic planning, major economic development projects, and significant property transactions. As part of its review of the Corporation's annual report, the Board receives performance information related to progress in implementing the strategies and achieving the targets and goals set out in the corporate plan.

Strategic and operational planning

34. Strategic planning guides what an organization is, what it does, and why it does it, with an eye to the future. It includes assessing and adjusting the organization's direction in response to a changing environment. We expected that Enterprise Cape Breton Corporation would have clearly defined strategic directions and specific and measurable goals and objectives to achieve its legislative and public policy mandate. We also expected its strategic direction and goals would take into account government priorities, identified risks, and the need to control and protect its assets and manage its resources economically and efficiently.

35. The Corporation's strategic and operational planning processes are appropriate to support its activities. The Corporation's approach to

risk management has improved since our last special examination in 2004, although we continue to note opportunities for improvement.

A strategic planning process is in place

36. The Corporation's planning approach included reviewing reports on an environmental scan and studies of the Cape Breton Island economy, early in the process. At a two-day meeting focused on planning, senior managers reviewed those reports and considered corporate values, strengths, weaknesses, opportunities, and threats. Management drafted a corporate plan that was discussed with the Board of Directors throughout the corporate planning process.

37. The targets and expectations set out in the Corporation's 2009–10 to 2013–14 Corporate Plan Summary are consistent with its mandate, mission, and objectives. For each of the Corporation's critical business initiatives, the corporate plan summary has a narrative that describes the implementation strategy, expected results, performance indicators, and related targets. The expected results and related targets are clear and measurable, although some are focused on activities rather than outcomes. The implementation of the strategies and achievement of the targets are assigned to each senior manager through an accountability accord.

38. In our 2004 special examination, we reported that the Corporation needed to develop a risk management policy and a risk management framework. Since then, Enterprise Cape Breton Corporation has developed a risk management framework that identified and assessed potential risks. The framework also takes into consideration the extent to which the Corporation is willing to accept each risk and the measures in place to mitigate the risk. The Corporation's regular updates of the framework are reviewed by the Audit Committee. The risk management framework could be strengthened by assigning responsibility for implementation of mitigation measures to specific managers, ensuring operational plans reflect all the mitigation measures, and by providing regular reports to senior management and the Board of Directors on the effectiveness of the mitigation measures.

39. Recommendation. Enterprise Cape Breton Corporation should ensure that the responsibility for measures designed to mitigate risk is assigned to specific managers and that the effectiveness of those measures is regularly reviewed and reported.

The Corporation's response. *The Corporation agrees with this recommendation. The mitigating measures identified in Enterprise Cape Breton Corporation's Risk Management Framework are being incorporated in the applicable unit operational plans for each area of responsibility. Senior management will regularly review and provide updates at each management committee meeting, and risk management will continue to be a standard agenda item at each Audit Committee meeting.*

40. The Corporation has an operational planning process that aligns these plans with the strategic direction in the corporate plan. At the time of our examination, the operational plans for the 2009–10 fiscal year had not been finalized because the Corporation's 2009–10 to 2013–14 Corporate Plan was approved only in March 2009. However, the 2008–09 operational plans and the budgets for individual operating units were linked to the Corporation's corporate plan and overall budgets and had clear, measurable goals and targets.

Performance measurement and reporting

41. Enterprise Cape Breton Corporation (ECBC) has a broad mandate to promote and assist in the economic development of Cape Breton Island. The measurement and reporting of its success in achieving this mandate is essential for establishing its ongoing relevance, supporting budget requests, determining the success of its programming, and adapting its programs to the needs of the community.

42. We expected the Corporation to have identified performance indicators to measure the achievement of its mandate and statutory objectives. We also expected that the Corporation's reports would provide complete, accurate, timely, and balanced information for decision making and accountability reporting.

The performance management framework links strategic activities to the mandate

43. The Corporation has a performance management framework that includes performance indicators to measure results for its strategic outcome and program activities. Its strategic outcome is "a competitive and sustainable Cape Breton economy" and its six program activities are described in paragraph 14. Our 2004 special examination reported that the Corporation's performance management framework did not clearly link performance measures and targets to its mandate and priorities.

44. The Corporation updated its performance management framework in the 2008–2009 fiscal year in response to the implementation of the Treasury Board Policy on Management,

Resources and Results Structure (MRRS). The MRRS is intended to provide the federal government with an expenditure management framework that establishes a common government-wide approach to the collection, management, and public reporting of financial and non-financial performance information. The Corporation's updated performance management framework shows how program activities contribute to the Corporation's strategic outcome, mandate, and mission. We noted that the Corporation has improved its performance measurement and reporting practices. ECBC's performance management framework including the MRRS was reviewed and approved by the Treasury Board of Canada. Further improvements could be made to the Corporation's performance measurement and reporting practices by ensuring that expected results are outcome-oriented, by strengthening indicators for its strategic outcome and program activities, and by enhancing reporting.

Additional indicators are needed to show outcomes achieved

45. The Corporation's performance indicators are logically linked to its mandate and mission. However, there are opportunities to improve some of the expected results and their indicators to better show the outcomes achieved. For example, one of the expected results of the Corporation's Property Development and Management program activity is the "acquisition of real property that will be redeployed for economic development purposes." This expected result describes the activity rather than the outcome to be achieved.

46. In our 2004 special examination report, we noted that the Corporation had no measures or targets for its service provider role. Since then, the Corporation has established the expected result for the Regional Service Delivery program activity as "efficient and effective delivery of ACOA programs on Cape Breton." This expected result is also a description of the activity, not the outcome to be achieved. The performance indicator for this program activity is "client satisfaction in relation to services provided." There is no explanation of how client satisfaction would be measured nor how that satisfaction, if expressed, is evidence of efficient and effective service delivery. Finally, the terms "long-term" and "sustainable" are used to describe certain of the Corporation's expected results. However, the Corporation does not define these terms. If it did, it could better measure them as having been achieved.

47. The Corporation has a process to establish measurable targets for performance indicators, and systems and practices to collect, produce, and disseminate information. The Corporation produces quarterly

management reports with performance information that is regularly reported to senior management.

48. In its 2005–06 to 2007–08 annual reports, the Corporation reported on its performance in relation to its strategic activities by including information such as job creation, leveraging of other assistance, export sales, and investment. Internal Audit annually reviews selected performance information included in the annual reports. The information reported was aligned with corporate plans and the mandate, mission, and objectives of the Corporation. However, the annual reports had limited information on areas where performance was weak and limited explanations of the variance between planned and actual results.

49. Except for the reporting of estimated jobs created, the information in the annual reports was clearly presented and explained. The reporting of estimated jobs created could have been made clearer by explaining that the information reported was based on estimates of the number of jobs expected to be created. The Corporation indicated in its updated performance management framework that it will no longer report estimates of jobs to be created but instead will report examples of actual job creation through case studies.

50. **Recommendation.** Enterprise Cape Breton Corporation should strengthen expected results to ensure expected outcomes are clear. As well, the Corporation should ensure that its performance indicators and targets demonstrate the results to be achieved for its strategic outcome and program activities. It should also improve its reporting by providing additional information in its annual report on areas where performance has not met expectations and by defining key terms such as “long-term” and “sustainable.”

The Corporation’s response. The Corporation agrees with this recommendation. Enterprise Cape Breton Corporation received Treasury Board approval for its performance measurement framework in May 2009. Substantive work and consultation has been conducted in developing the framework and ECBC recognizes that this document could be improved and strengthened over the coming years. In the Annual Report 2009, the Corporation has reported on areas where performance had not met expectations.

Project management

51. A core business activity of Enterprise Cape Breton Corporation is providing financial assistance to businesses, communities, and organizations on Cape Breton Island and in and around the Town of Mulgrave. It does this through grants, contributions, and loans or

investments to support commercial and non-commercial projects. We expected the Corporation to have systems and practices that ensure due diligence in the review and approval of projects, and to monitor projects to ensure funding was managed responsibly.

52. We found that the Corporation has systems and practices in place to ensure due diligence in approving projects and for subsequent monitoring.

53. In addition to the delivery of its own programs, Enterprise Cape Breton Corporation is responsible for the delivery of Atlantic Canada Opportunities Agency (ACOA) programs on Cape Breton Island. The Corporation is finalizing the renegotiation of its memorandum of understanding with ACOA. The draft agreement provides additional clarification on the accountability of the Corporation for delivery of ACOA's programs and revises the amount provided for administrative expenses.

The Corporation uses due diligence in approving projects

54. In order to assess the systems and practices used by the Corporation to ensure due diligence in reviewing and approving projects, we audited a sample of projects approved during the 2008–09 fiscal year. We selected a sample of 18 Enterprise Cape Breton Corporation and Growth Fund projects representing about 74 percent of the \$14.5 million of assistance approved by the Corporation in the 2008–09 fiscal year. In addition, we examined 20 projects administered on behalf ACOA, representing about 49 percent of the \$12.7 million of ACOA assistance approved by the Corporation during the year. Our sample was designed to ensure that we selected projects of all sizes.

55. The Corporation's policies and procedures are consistent with the Treasury Board Policy on Transfer Payments and ensure that applications are reviewed and approved. We found that adequate documentation is maintained to reflect all the major factors supporting decisions to approve assistance. We also found that project documentation shows how funding results in net economic benefits for Cape Breton Island. Project approvals follow the Corporation's delegation of authority, including having the Board of Directors approve large projects.

56. We noted two large projects where improvements could be made in the clarity of the description of eligible project costs and expected project results. In the first instance, the eligible costs and expected

results in the contribution agreement with the client were unclear. The majority of the eligible costs are described as “consultants” and the deliverable is a report that describes how the project plays a role in implementing a strategic plan. The project’s internal approval documents contain more detailed information on project deliverables and we observed that the project did achieve them. In the second instance, a project was announced before all the analysis normally required by corporate policy was clearly documented, including an analysis of expected project costs and results. Management informed us that this was not a normal circumstance because the project is designed to facilitate strategic change to encourage new investment in Cape Breton. The Board of Directors reviewed and approved this project prior to the announcement. The eligible costs and expected results are unclear in the draft letter of offer we reviewed. Clearly defined eligible costs and deliverables in contribution agreements are important to hold clients accountable for results.

Approved projects and the loan and equity investment portfolio are monitored

57. We selected a second sample of 30 projects to assess the Corporation’s monitoring of project benefits, including 8 projects where we relied on the work of Internal Audit. The Corporation regularly monitors benefits after projects are implemented. However, the ACOA information system used by the Corporation has a limited ability to summarize benefits from individual projects to provide information on overall outcomes achieved. ACOA is developing a new information system and the Corporation’s management has provided input to ACOA on its needs.

58. The Corporation has systems and practices in place to ensure that loan and equity investment portfolios and related impairments are managed with due diligence. Loans and equity investments are recorded, classified, and reported on a timely basis. The Corporation carries out an annual risk assessment and regularly monitors the performance of its loans and investment accounts. Delinquent accounts are monitored by management on a monthly basis. The results are regularly reported to a management committee. The Audit Committee and the Board of Directors review and approve all impairments to loans and investments.

Property development and management

59. Property management has become increasingly important to the operations of Enterprise Cape Breton Corporation and has been identified as a strategic priority for the Corporation. Property and buildings are means that the Corporation uses to promote or support

economic development projects—for example, through transfers to clients as an incentive for investment or through property sales to reinvest the income in programs. The Corporation has acquired significantly more property since our last special examination in 2004. As of February 2009, the Corporation owned 123 properties consisting of former industrial sites, forest lands, residential municipal lots, and lots in commercial areas.

60. We expected the Corporation to have systems and practices to ensure real property was managed in a sustainable and financially responsible manner, throughout its life cycle, to support the cost-effective and efficient delivery of its programs.

61. In our 2004 special examination, we noted that the Corporation did not have a real property management framework or an information system to capture details on each property. The Corporation has made improvements in its property management practices since our last special examination. In 2005, the Corporation developed a real property management framework that defined the processes and authorities for acquiring, managing, transferring, and disposing of real property. The Corporation also has an information system to manage its properties. Internal Audit completed a review of the framework in February 2008. The review recommended that the delegation of authorities be aligned with those of ECBC and that the framework be updated and maintained. In recognition of the increasing importance of property-related activities, the Property Development and Management unit was created in July 2008. The unit has updated the real property management framework and is completing a review of its properties to determine if potential risks to human health and the environment exist.

62. Enterprise Cape Breton Corporation has policies, procedures, systems, and practices in place to manage its property acquisitions, holdings, and disposals, although we noted opportunities for improvement.

Memorandum of understanding governing property transfers has expired

63. All land recently acquired by the Corporation was transferred for a nominal amount from another parent Crown corporation, the Cape Breton Development Corporation (CBDC). Substantially all of those transfers were governed by a memorandum of understanding, originally signed in 2003 and extended in 2006, between the two corporations. The memorandum of understanding set out the roles and contributions of each corporation. However, the memorandum of

understanding expired in March 2008 and CBDC still has property holdings that the Corporation is interested in acquiring. The Corporation has sought renewal of the memorandum of understanding but a new agreement has not been finalized while CBDC completes its land divestiture strategy.

64. Recommendation. The memorandum of understanding with Cape Breton Development Corporation should be renewed to support transfers of property.

The Corporation's response. The Corporation agrees with this recommendation. Meetings between the respective chief executive officers have occurred and a draft memorandum of understanding has been exchanged between the two corporations. Negotiations continue and when the agreement is satisfactory to both corporations, the memorandum of understanding will be signed.

Criteria to identify properties with economic development potential are needed

65. In 2006, the Corporation acquired 56 parcels of property from CBDC in a single transfer. At the time of our examination, an offer to purchase was being considered for one of these properties and interest had been shown in others. However, none of these properties has yet been used for economic development (see paragraph 59). The memorandum of understanding with CBDC was also the basis for acquiring other parcels of land that were used for economic development purposes such as call centers and wind-energy projects.

66. One of the objectives of the expired memorandum of understanding between the Corporation and CBDC was to develop a decision-making framework to assess the economic development potential of CBDC's land holdings. This framework was intended to help set priorities for the lands to be transferred to the Corporation and to establish priorities for the clean up of contaminated lands by CBDC. The framework to govern the transfers between the two corporations was not developed. In addition, ECBC's existing property management framework does not have criteria to assess the economic development potential of properties and to guide the Corporation in acquiring, retaining, and disposing of real property. The Corporation has yet to carry out systematic reviews of its real property holdings to determine if they remain useful for the delivery of its programs.

67. Recommendation. Enterprise Cape Breton Corporation should strengthen its property management framework by developing criteria

to assist in identifying properties with economic development potential and to assess the ongoing usefulness of its properties for the delivery of its programs.

***The Corporation's response.** The Corporation agrees with this recommendation. The Corporation will establish criteria to help categorize its property inventory and, in particular, to identify and prioritize the expected economic development potential. The criteria established will be added to the existing property management framework to strengthen procedures and link real property acquisitions to economic development potential.*

Improvements to the property management system are underway

68. Prior to the significant property transfer from CBDC in 2006, the Corporation and CBDC staff jointly reviewed available environmental reports to assess environmental issues associated with the properties. However, the Corporation did not fully document the assessments. As a result of reviews carried out in 2008 by the newly created Property Development and Management unit, a small number of properties transferred in 2006 have been identified as having potential environmental risks. The Corporation is carrying out further reviews to determine the nature and extent of these environmental risks.

69. The Corporation has also identified the need to improve its information system for managing property. The system in use records property information but provides limited capability for analysis, management, and reporting. An electronic property management system, currently under development, is expected to be completed by March 2010. This system is expected to permit better access to detailed data and increase the speed of retrieval, manipulation, storage, and reporting of property information.

Conclusion

70. During the period under examination, we found no significant deficiencies in Enterprise Cape Breton Corporation's systems and practices that 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.

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?

Criteria and key systems and practices examined

At the start of this special examination, we presented Enterprise Cape Breton Corporation's Audit Committee with an examination plan that identified the key 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 examination. Our audit approach included

- analyzing various documents, reports, and data;
- reviewing samples of economic development assistance project files;
- meeting with representatives of the Corporation; and
- visiting the Corporation's real property holdings.

Our examination approach also included a follow-up of observations and recommendations made in our 2004 special examination.

Key Systems and Practices	Criteria
<ul style="list-style-type: none"> • Board charter • Board committee structure and terms of reference • Board competency profile • Board composition • Board self-assessments • Strategic direction, oversight, and follow-up • Information provided to the Board • Oversight of memoranda of understanding with the Atlantic Canada Opportunities Agency (ACOA) and Cape Breton Development Corporation (CBDC) 	<p>To maximize the Corporation's effectiveness and to achieve its public policy objectives, the Corporation has a well-performing corporate governance framework that meets the expectations of best practices in Board stewardship, shareholder relations, and communication with the public.</p>
<ul style="list-style-type: none"> • Corporate planning process • Risk management framework • Operational planning • Budgeting 	<p>The Corporation has clearly defined strategic directions and specific and measurable goals and objectives to achieve its legislative and public policy mandate. Its strategic direction and goals take into account government priorities, identified risks, and the need to control and protect its assets and manage its resources economically and efficiently.</p>
<ul style="list-style-type: none"> • Identification and development of performance indicators • Setting performance expectations • Monitoring performance (quarterly and annual reports) • Measuring performance • Reporting performance 	<p>The Corporation has identified performance indicators to measure the achievement of its mandate and statutory objectives. It also has reports that provide complete, accurate, timely, and balanced information for decision making and accountability reporting.</p>
<ul style="list-style-type: none"> • Project analysis including environmental assessments (due diligence) • Reporting to the Board • Project approval or rejection process (project summary forms) • Project monitoring and evaluation • Loan and investment portfolio management • Payment verification and approval process • Collection of loans and other repayable amounts • Post-payment audits • Monitoring the delivery of ACOA programs 	<p>The Corporation has systems and practices to ensure that due diligence in the review and approval of projects is demonstrated, clear and obtainable project objectives are set, performance against project objectives is measured and reported, and funds are managed in a responsible manner.</p>

Key Systems and Practices	Criteria
<ul style="list-style-type: none"> • Liaison and management of memorandum of understanding between ECBC and CBDC • Assessment of environmental liabilities and other future costs • Property identification, acquisition, and management processes • Real property information system management • Recording and updating information in the Directory of Federal Real Property • Periodic reviews of the real property portfolio • Criteria to determine the use of property (i.e., hold, use, develop, dispose) 	<p>The Corporation has systems and practices to ensure real property is managed in a sustainable and financially responsible manner, throughout its life cycle, to support the cost-effective and efficient delivery of its programs.</p>

The Audit Committee reviewed and accepted the suitability of the criteria used in the audit.

Audit work completed

Audit work for this special examination was substantially completed on 29 June 2009.

Audit team

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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
Governance	
<p>31 The Board of Directors of Enterprise Cape Breton Corporation should finalize the Board charter, complete the update of the Board competency profile, and consider updating committee responsibilities to reflect the final Board charter. The Board should also complete its examination of assessment options and regularly assess its own performance. (26–30)</p>	<p>The Corporation agrees with this recommendation. All of the above items are on the agenda as part of a special Board of Directors’ meeting focused on governance, to be held in July 2009.</p>
Strategic and operational planning	
<p>39 Enterprise Cape Breton Corporation should ensure that the responsibility for measures designed to mitigate risk is assigned to specific managers and that the effectiveness of those measures is regularly reviewed and reported. (36–38)</p>	<p>The Corporation agrees with this recommendation. The mitigating measures identified in Enterprise Cape Breton Corporation’s Risk Management Framework are being incorporated in the applicable unit operational plans for each area of responsibility. Senior management will regularly review and provide updates at each management committee meeting, and risk management will continue to be a standard agenda item at each Audit Committee meeting.</p>

Recommendation	Response
Performance measurement and reporting	
<p>50 Enterprise Cape Breton Corporation should strengthen expected results to ensure expected outcomes are clear. As well, the Corporation should ensure that its performance indicators and targets demonstrate the results to be achieved for its strategic outcome and program activities. It should also improve its reporting by providing additional information in its annual report on areas where performance has not met expectations and by defining key terms such as “long-term” and “sustainable.” (43–49)</p>	<p>The Corporation agrees with this recommendation. Enterprise Cape Breton Corporation received Treasury Board approval for its performance measurement framework in May 2009. Substantive work and consultation has been conducted in developing the framework and ECBC recognizes that this document could be improved and strengthened over the coming years. In the 2008/2009 Annual Report, the Corporation has reported on areas where performance had not met expectations.</p>
Property development and management	
<p>64 The memorandum of understanding with Cape Breton Development Corporation should be renewed to support transfers of property. (63)</p>	<p>The Corporation agrees with this recommendation. Meetings between the respective chief executive officers have occurred and a draft memorandum of understanding has been exchanged between the two corporations. Negotiations continue and when the agreement is satisfactory to both corporations, the memorandum of understanding will be signed.</p>
<p>67 Enterprise Cape Breton Corporation should strengthen its property management framework by developing criteria to assist in identifying properties with economic development potential and to assess the ongoing usefulness of its properties for the delivery of its programs. (65–66)</p>	<p>The Corporation agrees with this recommendation. The Corporation will establish criteria to help categorize its property inventory and, in particular, to identify and prioritize the expected economic development potential. The criteria established will be added to the existing property management framework to strengthen procedures and link real property acquisitions to economic development potential.</p>