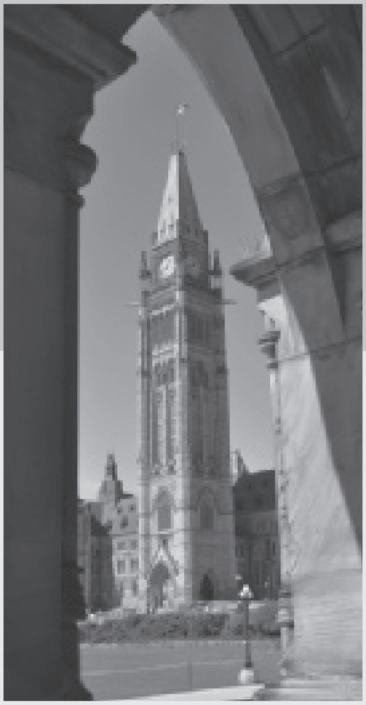


Report of the Joint Auditors to the Board of Directors of the Canada Post Corporation

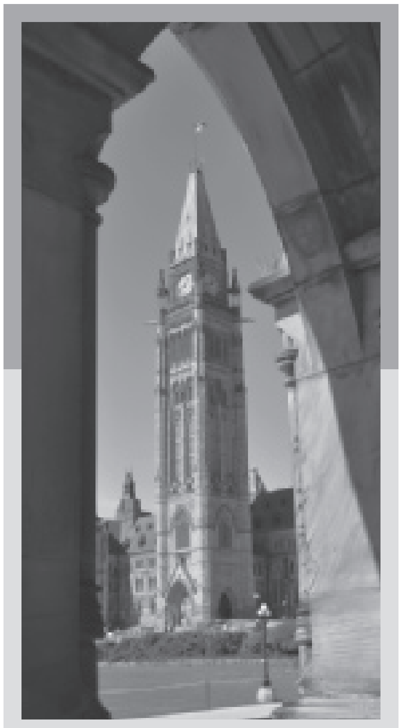
Independent Auditors' Report

Special Examination—2019

Office of the Auditor General of Canada

Bureau du vérificateur général du Canada

KPMG



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Special examination reports

Special examinations are a form of performance audit that is conducted within Crown corporations. The Office of the Auditor General of Canada audits most, but not all, Crown corporations.

The scope of special examinations is set out in the *Financial Administration Act*. A special examination considers whether a Crown corporation's systems and practices provide reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

More details about the audit objective, scope, approach, and sources of criteria are in About the Audit at the end of this report.

Ce document est également publié en français.

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

KPMG

7 January 2019

To the Board of Directors of the Canada Post Corporation:

We have completed the special examination of the Canada Post Corporation in accordance with the plan presented to the Audit Committee of the Board of Directors on 22 November 2017. As required by section 139 of the *Financial Administration Act*, we are pleased to provide the attached final special examination report to the Board of Directors.

The Office of the Auditor General of Canada will present this report for tabling in Parliament shortly after it has been made public by the Canada Post Corporation.

We would like to take this opportunity to express our 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,

Marise Bédard

Marise Bédard, CPA, CA
Principal
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KPMG LLP

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Chartered Professional Accountants,
Licensed Public Accountants

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Introduction

Background

Role and mandate

1. From colonial times to the present day, the postal service has played a key role for businesses and individuals across Canada. In 1867, it became the responsibility of a department in the new Government of Canada. The department's successor, the Canada Post Corporation, was established as a Crown corporation in 1981. It has exclusive privilege to collect, transmit, and deliver letters within Canada.

2. Under its enabling legislation, the *Canada Post Corporation Act*, the Corporation reports to Parliament through the Minister of Public Services and Procurement and Accessibility.

3. Among other things, the Act mandates the Corporation to provide basic customary postal service, with an emphasis on being financially self-sustaining and achieving a standard of service that meets the needs of Canadians and is similar across communities of the same size.

4. In 2009, the government established the Canadian Postal Service Charter, which describes the government's expectations for the Corporation in terms of standards for postal services and related activities.

Nature of business and operating environment

5. The Corporation has approximately 51,000 employees. It operates a vast delivery network, which includes 21 mail processing plants, 484 letter carrier depots, 6,183 retail post offices, and a fleet of 13,000 vehicles. In 2017, it delivered nearly 8.3 billion pieces of mail and parcels. Exhibit 1 provides some details of the Corporation's financial results by line of business.

6. The Corporation has three main lines of business:

- Transaction Mail handles the delivery of letter mail.
- Parcels is responsible for parcel delivery.
- Direct Marketing delivers promotional material.

7. Since August 2009, when we issued our last special examination report, the postal industry in Canada and abroad has been restructuring to adapt to changes in technology and in the business environment. The Corporation has experienced an ongoing decline in volumes in the Transaction Mail business line—traditionally, its main activity—as consumers and mailers continue to shift to electronic alternatives (Exhibit 2).

Exhibit 1 The Corporation's financial performance, by business line

	Revenue from operations ($ millions)				
	2013	**2014**	**2015**	**2016**	**2017**
Transaction Mail	2,965	3,203	3,190	3,037	2,913
Parcels	1,389	1,509	1,646	1,738	2,131
Direct Marketing	1,248	1,215	1,205	1,138	1,121
Other	281	287	275	273	252
Total revenue from operations	**5,883**	**6,214**	**6,316**	**6,186**	**6,417**
Income (loss) before tax	**(125)**	**194**	**63**	**55**	**74**
Source: The Canada Post Corporation's annual reports					

Exhibit 2 The Corporation's Transaction Mail volume has decreased while the number of delivery addresses has increased

	2013	2014	2015	2016	2017
Transaction Mail volumes delivered (in billions of pieces)	4.1	3.9	3.7	3.4	3.2
Delivery addresses (in millions)	15.5	15.7	15.8	16.0	16.2
Source: The Canada Post Corporation's annual reports					

8. At the same time, the rise of e-commerce has led to an expansion of the Corporation's Parcels business line, with revenue growing steadily in recent years (more than 20% in 2017 alone). The Corporation describes itself as Canada's leading parcel delivery company. However, it faces competition from large retailers that could disrupt markets by delivering parcels themselves.

9. The Corporation has experienced challenges in trying to achieve growth for its Direct Marketing line of business. Here again, it faces competition. In addition, businesses are allocating more of their marketing spending to digital media.

10. Through majority ownership stakes, the Corporation controls its subsidiaries: Purolator Holdings Ltd., SCI Group Inc., and Innovapost Inc. In its annual report, the Corporation reports on the consolidated results of the group of companies.

11. In early 2016, the government undertook a review of the Corporation. It completed the review in January 2018, at which time the responsible Minister publicly communicated to the Chair of the Board of Directors a new vision for the Corporation. This included high-quality service to Canadians, a culture of collaboration, embracing innovation, and long-term financial sustainability. The Corporation and the Minister's office continued their dialogue in 2018, with the aim of implementing the new vision.

12. The Corporation continues to face risks to achieving financial sustainability, which is a statutory requirement reiterated by the Minister in the review findings. The risks to financial sustainability stem from various economic and industry factors. However, the Corporation's obligations related to its registered pension plan have a considerable financial impact.

13. The Corporation's registered pension plan is one of the largest single-employer sponsored plans in Canada. By 31 December 2017, the plan had assets with a market value of over $25 billion and a solvency deficit of $5.9 billion. Under the federal *Pension Benefits Standards Act*, *1985*, the Corporation was required to make annual special payments to address the deficit. Starting in 2014, regulations exempted the Corporation from this requirement, but the Corporation expected to start making the special payments within the planning period from 2019 to 2023.

Focus of the audit

14. Our objective for this audit was to determine whether the systems and practices we selected for examination at the Canada Post Corporation were providing it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively as required by section 138 of the *Financial Administration Act*.

15. In addition, section 139 of the *Financial Administration Act* requires that we state an opinion, with respect to the criteria established, on whether there was reasonable assurance that there were no significant deficiencies in the systems and practices examined. A significant deficiency is reported when the systems and practices examined did not meet the criteria established, resulting in a finding that the Corporation could be prevented from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

16. Based on our assessment of risks, we selected systems and practices in the following areas:

- corporate management practices, and
- management of operations.

The selected systems and practices and the criteria used to assess them are found in the exhibits throughout the report.

17. We did not examine the systems and practices of the Corporation's three subsidiaries because they are not wholly owned and are therefore not subject to the *Financial Administration Act*. We did, however, examine the systems and practices in place at the Corporation to manage and monitor the performance of the subsidiaries, particularly in cases in which a subsidiary provided services to the Corporation.

18. More details about the audit objective, scope, approach, and sources of criteria are in **About the Audit** at the end of this report (see pages 21–24).

Findings, Recommendations, and Responses

Overall message ➔

19. Overall, during the period covered by this audit, we found that the Canada Post Corporation had in place good practices to oversee the running of the Corporation and to manage its operations.

20. We were concerned that circumstances outside the Corporation's control limited its ability to make long-term strategic decisions. The circumstances included delays in several areas that were within the government's control: appointing new members to the Corporation's Board of Directors, along with a new President and Chief Executive Officer; approving the Corporation's annual corporate plans; and providing a definitive, long-term direction on the solvency of the Corporation's registered pension plan.

21. These delays had significant impacts on the Corporation. For example, the significant turnover in Board membership—in this case, the appointment of 6 of 11 members within one month—resulted in a loss of corporate knowledge and continuity. This made it challenging for the Board to effectively oversee and guide the activities of a large and complex organization operating in a rapidly changing environment. This difficulty was compounded by the absence of current, government-approved corporate plans to guide the Corporation's long-term decision making.

22. In addition, the government publicly communicated a new vision for the Corporation as a result of a review completed in January 2018. Government support to resolve the issues that are outside the Corporation's control would help the Corporation meet the expectations outlined in the new vision.

Corporate management practices

The Corporation had good corporate management practices, but matters outside the Corporation's control limited its oversight and strategic planning

What we found

23. We found that the Corporation had good management practices in place for corporate governance, strategic planning, performance measurement and reporting, and corporate risk management, but that improvements were needed.

24. We found a loss of corporate knowledge and continuity as a result of delays in Board appointments, followed by the appointment of six new Board members in one month (circumstances outside the Corporation's control). In addition, the government did not provide clear, long-term direction on the Corporation's registered pension plan. These factors limited the Corporation's ability to formulate strategies for addressing significant planning concerns. In our view, the Board's ability to provide independent oversight was limited during the period when the Chair of the Board of Directors also held the position of interim President and Chief Executive Officer (CEO). We also found weaknesses in performance measurement and corporate risk management.

25. The Corporation relies on effective governance, strategic planning, and risk management practices to carry out its mandate. Gaps in corporate knowledge, continued delays in the appointment of a President and CEO for a full term, and the lack of direction on the registered pension plan could cause problems for the Corporation. For example, they could delay strategic decisions that are essential for ensuring long-term financial sustainability and could make it difficult for the Corporation to implement a new vision.

26. Our analysis supporting these findings discusses the following topics:

- Corporate governance
- Strategic planning, and performance measurement and reporting
- Corporate risk management

Context

27. The *Canada Post Corporation Act* provides for a Board composed of the Chair, the President and CEO, and nine other directors. The Board has formed the following committees:

- the Audit Committee,
- the Corporate Governance and Nominating Committee,
- the Pension Committee,

- the Human Resources and Compensation Committee, and
- the Labour Relations Committee.

Recommendations

28. Our recommendations in this area of examination appear at paragraphs 33, 36, 42, 45, and 51.

Corporate governance

29. **Analysis.** We found that the Corporation had good governance practices. In Board appointments and Board oversight, however, we found weaknesses that were outside the Corporation's control (Exhibit 3).

Exhibit 3 Corporate governance—key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board independence	The Board functioned independently.	The Corporation had a Statement of Board Values and Board Charter, a document outlining standards of conduct for directors, and a bylaw that required directors to be independent of management. Directors declared conflicts of interest annually and at Board meetings. The Board retained the services of an independent ethics adviser.	Met the criteria
Providing strategic direction	The Board provided strategic direction.	The Board was active in setting objectives for the previous President and CEO, and in assessing his performance against those objectives. The objectives that it established aligned with the Corporation's strategic direction. The Board challenged management decisions. The Board provided strategic direction that aligned with the last approved corporate plan, for 2015 to 2019.	Met the criteria

Legend—Assessment against the criteria

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

Exhibit 3 Corporate governance—key findings and assessment (continued)

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board appointments and competencies	The Board collectively had capacity and competencies to fulfill its responsibilities.	The Board determined the skills and expertise it needed to be effective. The Board had access to outside expertise and solicited independent advice to supplement its decision making. The Board communicated with its Minister about Board appointments, renewals, and vacancies. **Weaknesses** The appointment delays and turnover in Board membership led to a loss of corporate knowledge and continuity. There were delays in the appointment of a President and CEO for a full term.	
Board oversight	The Board carried out its oversight role over the Corporation.	The roles and responsibilities of the Board and its committees were clearly defined and understood. The Board regularly discussed the Corporation's financial status, performance, initiatives, and risks. Internal audits were regularly conducted and reported through the Audit Committee. By providing an independent and objective view of risk and internal controls, the internal audit function helped the Board exercise its oversight and monitoring responsibilities. The Board periodically evaluated its performance and the performance of its committees. Results were reported to Board members. **Weakness** During the period under audit, the same person held the positions of Chair of the Board and interim President and CEO of the Corporation—a situation that limited the Board's ability to provide independent oversight.	

Legend—Assessment against the criteria

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

30. ***Weaknesses—Board appointments.*** There were delays in the appointment of Board members. The *Canada Post Corporation Act* allows for up to 11 members of the Board, including positions reserved for the Chair of the Board of Directors and the Corporation's President and CEO. At the beginning of the period under audit, three positions on the Board were vacant. In addition, the terms of four directors had expired in 2016 or earlier, but they continued in office while awaiting reappointment or replacement, as permitted under the *Financial Administration Act*. This situation persisted until May 2018, when six new directors were appointed and two were reappointed. The turnover of so many positions in one month caused a loss of corporate knowledge and continuity. The *Financial Administration Act* requires directors to be appointed by the responsible Minister, with the approval of the **Governor in Council**; the Act requires the Board Chair and the Corporation's President and CEO to be appointed by the Governor in Council. The appointment of the Chair, directors, and President and CEO is outside the Corporation's control.

31. In addition, at the end of the period covered by the audit, the Corporation had been without a full-term President and CEO since 1 April 2018, even though the previous incumbent had given notice in August 2017 that he planned to resign. To support the Governor in Council appointment process, the Corporation provided detailed information to the Minister on a timely basis. This included a description of the position of the President and CEO; a list of the competencies, skills, and experiences needed for all Board positions; and an assessment of current Board members' skills.

32. These weaknesses matter because the ongoing Board appointment delays, compounded by a large turnover of members, made it more challenging for the Board to effectively oversee the Corporation, particularly as new members adapted to their roles. Furthermore, the delay in appointing a full-term President and CEO could have led to delays in making strategic decisions essential for the Corporation's long-term financial sustainability. Given the size and complexity of its operations, the Corporation had a critical need for leadership by the Board and the President and CEO.

33. **Recommendation.** The Corporation should continue to engage with its responsible Minister on the need for sufficient and timely appointments to the Board and continue to provide the Minister with information about the skills, knowledge, and experience required of potential directors.

Governor in Council—The Governor General, acting on the advice of Cabinet, as the formal executive body that gives legal effect to those decisions of Cabinet that are to have the force of law.

The Corporation's response. *Disagreed. The Corporation will continue to discuss Board appointments with the Minister and provide information regarding the requirements of potential directors but the Corporation is unable to wholly agree with the analysis preceding the recommendation. Although there was a loss of corporate knowledge with the onboarding of six new board members, they collectively brought significant insight, background and experience closely aligned with the shareholder's vision, which enhanced the Board's ability to implement it. Furthermore, during the initial transition, all Committees were chaired by pre-existing Board members to ensure continuity. Lastly, the recently appointed members brought new skills which broadened the overall composition of the Board.*

34. ***Weakness—Board oversight.*** The same person simultaneously held the positions of Chair of the Board and interim President and CEO of the Corporation. The Chair had legal authority to serve in both positions during the entire period: first, for up to 90 days, from 1 April to 21 June 2018, with the approval of the Board, under the *Canada Post Corporation Act*; and subsequently, under the *Financial Administration Act*, by a Governor in Council appointment to the position of interim President and CEO until a new President and CEO could be appointed for a full term. Although the *Canada Post Corporation Act* provides for a Board member to temporarily exercise this dual role, it also sets out a governance structure that distinguishes between the position of Chair of the Board and that of President and CEO.

35. This weakness matters because the Board is responsible for holding management accountable for its business performance and strategic objectives. Since the same person simultaneously held the position of Chair and the position of President and CEO for a prolonged period, this situation limited the Board's ability to provide independent oversight.

36. **Recommendation.** The Corporation should continue to engage with its responsible Minister about the urgency of the appointment of a President and CEO, distinct from other Board appointments.

The Corporation's response. *Disagreed. The process to appoint a new CEO is ongoing and the Corporation will continue to engage with the Minister regarding this appointment; that said, the Corporation is unable to wholly agree with the analysis preceding the recommendation. Ideally, the role of Chair of the Board and the role of President and Chief Executive Officer should be held by different persons. However, the interim President and Chief Executive Officer / Board Chair strengthened Board independence by appointing a Lead Independent Director to permit the Board to share any concerns in camera without the Board Chair present, by retaining an ethics advisor to the Board of Directors to provide independent advice to the members and by consulting with the Conflict of Interest and Ethics Commissioner, who has not raised any concerns.*

Accordingly, given these important mitigations and in the absence of any supporting evidence, the Corporation disagrees with the finding that this situation limited the Board's ability to provide independent oversight.

The Corporation also notes that its enabling legislation establishing Canada Post's governance expressly contemplates a Chairperson acting as the Interim President and CEO as the Act specifically provides that the Chairperson is one of the very few individuals legally permitted to be designated to act as President and CEO.

Strategic planning, and performance measurement and reporting

37. **Analysis.** We found that the Corporation had good systems and practices for strategic planning and for performance measurement, monitoring, and reporting. However, we also found weaknesses in these areas, one of which was outside the Corporation's control (Exhibit 4).

Exhibit 4 Strategic planning, and performance measurement and reporting—key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Strategic planning	The Corporation established a strategic plan and strategic objectives that were aligned with its mandate.	The Corporation considered its internal and external environments and its competitive strengths, weaknesses, threats, and opportunities, as well as those of its subsidiaries. The Corporation communicated strategic information to employees through the performance objectives set for management and through internal business performance targets. **Weakness** The Corporation did not have an approved, up-to-date corporate plan that addressed all significant challenges in its operating environment—a situation outside the Corporation's control.	Met the criteria, with improvement needed

Legend—Assessment against the criteria

- Met the criteria
- Met the criteria, with improvement needed
- Did not meet the criteria

Exhibit 4 Strategic planning, and performance measurement and reporting—key findings and assessment (continued)

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Performance measurement	The Corporation established performance indicators in support of achieving strategic objectives.	The Corporation established and approved appropriate roles, responsibilities, and resources for the performance measurement process. The Corporation established internal indicators to generate performance information for key operational areas. It made this information available to management and the Board. **Weakness** In its approved 2015–2019 corporate plan, and in the interim corporate plans submitted to the Minister during the government's review, the Corporation did not establish performance indicators or set targets related to strategic objectives.	
Performance monitoring and reporting	The Corporation monitored and reported on progress in achieving its strategic objectives.	The Corporation internally reported performance results monthly to senior management and quarterly to the Board. The Board monitored the Corporation's performance against objectives set for the President and CEO. Senior management and the Board used performance information in decision making. The Corporation reported on its performance against obligations in the Canadian Postal Service Charter. **Weakness** Although the Corporation publicly reported on key achievements related to its strategic objectives, it did not report on its performance against any established targets.	

Legend—Assessment against the criteria

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

38. ***Weakness—Strategic planning processes.*** The Corporation did not have an approved, up-to-date five-year corporate plan. It operated under the latest plan to receive approval—its 2015–2019 corporate plan, approved before the government began its review of the Corporation. We found that the Corporation continued preparing five-year corporate plans annually. It submitted its next three plans to the responsible Minister, but

they were not in turn submitted to the Treasury Board for approval while the government review was under way. The approval of corporate plans is outside the Corporation's control.

39. In January 2018, the responsible Minister communicated expectations to the Corporation resulting from the government's review. During the period covered by the audit, the Corporation had to address the Minister's expectations at the same time as managing changes in the composition of the Board and the appointment of an interim President and CEO.

40. Furthermore, because the Corporation was operating without an approved, up-to-date corporate plan, significant challenges in its operating environment remained unaddressed. The government's review reiterated the requirement that the Corporation be financially self-sustaining. However, the review provided no clear, long-term direction for addressing the solvency deficit in the Corporation's registered pension plan (see paragraph 13). Special payments were required into the Corporation's plan to reduce the solvency deficit, and they were expected to be considerable in terms of cash flows, posing a risk to the Corporation's financial sustainability. Regulations had exempted the Corporation from making payments since 2014, but the Corporation did not know whether a new exemption would be granted. This forced the Corporation to plan for making the special payments rather than allocating more funds for reinvesting in its operations.

41. This weakness matters because the Corporation operates in a quickly evolving, competitive market for parcel delivery, a business line of growing importance to the Corporation. It must make investment decisions while ensuring that it remains financially self-sustaining. Inability to make definite long-term investment plans could compromise the Corporation's ability to maintain or expand its market share. Resulting financial pressures could threaten the Corporation's ability to fulfill its mandate and meet the government's expectations.

42. **Recommendation.** The Canada Post Corporation should continue to set its strategic plans, and to engage with the government to obtain a long-term direction for its registered pension plan. It should continue to address the expectations established under the new vision for the Corporation announced by the government.

The Corporation's response. *Disagreed. The Corporation is unable to wholly agree with the analysis preceding the recommendation. Through the 2019 to 2023 Corporate Plan, which was tabled for approval at the October 2018 Board of Directors meeting, and during the development of the 2020 to 2024 Corporate Plan, the Corporation is continuing to work to align its long-term direction with the government's vision.*

During the two-year period of the government's review, the Corporation slowed the pace of strategic decision-making as expected and as *appropriate. A new vision was provided in January 2018. Shortly thereafter, the government appointed new board members who possessed the requisite skills, knowledge and expertise to guide the Corporation in implementing this new vision. Rather than losing traction with these new appointments, the Corporation has in fact either fully executed or has made significant progress on every aspect of the new mandate.*

The Corporation agrees that it faces significant challenges, one of which is related to its registered pension plan. The Corporation disagrees, however, that this issue caused it to plan for making special payments rather than allocating more funds for reinvestment in its operations. The Corporation continues to bring forward long-term investments for Board approval.

43. ***Weaknesses—Performance measurement; performance monitoring and reporting.*** In both its approved and interim corporate plans, the Corporation did not establish indicators or set targets that it could use to measure its performance against strategic objectives. Consequently, in its recent annual reports, the Corporation reported on its achievements but could not assess whether it had met or surpassed targets. Internally, management used many performance indicators and targets. However, for the Corporation as a whole, it was unclear which of these demonstrated that a particular strategic objective had been met. In addition, aside from tracking financial forecasts, management was not measuring performance beyond the short term.

44. These weaknesses matter because establishing performance indicators and targets, along with reporting on them, is necessary to support an assessment of whether the Corporation is delivering results in accordance with the government's expectations. Targets should reflect the period of time in which the Corporation plans to achieve its strategic objectives.

45. **Recommendation.** The Corporation should establish clear mid- and long-term performance indicators for all its strategic objectives. It should set targets and report on its performance against these targets.

The Corporation's response. *Agreed. As mandated by the Guidance for Crown Corporations on Preparing Corporate Plans and Budgets, the Corporation provided initial targets for its strategic objectives in the 2019 to 2023 Corporate Plan, which was tabled at the October 2018 Board of Directors meeting. The Corporation will be reporting against these targets in future Annual Reports.*

Corporate risk management

46. **Analysis.** We found that the Corporation had good systems and practices to manage various risks. However, we found weaknesses in risk identification and assessment, and in risk monitoring and reporting (Exhibit 5).

Exhibit 5 Corporate risk management—key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Risk identification and assessment	The Corporation identified and assessed risks to achieving strategic objectives.	The Corporation identified its risks. It assessed their likelihood, as well as the operational, regulatory, reputational, and financial impacts. The Corporation updated its risk register twice yearly by conducting surveys of key individuals, including risk owners. For some risks, the process also included discussions that gathered input from several business areas. **Weaknesses** The Corporation did not approve or broadly communicate a policy or framework for managing corporate risks. The Board had not set out its risk appetite and risk tolerance levels to guide management decision making.	
Risk mitigation	The Corporation defined and implemented risk mitigation measures.	The Corporation defined and implemented action plans to mitigate risk.	
Risk monitoring and reporting	The Corporation monitored and reported on the implementation of risk mitigation measures.	After receiving a briefing on the risk processes in place and reviewing the risk register, the Board provided comments on them. **Weakness** The Corporation did not establish expectations for monitoring and escalating risk mitigation activities, or for reporting on their status.	

Legend—Assessment against the criteria

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

47. ***Weaknesses—Risk identification and assessment; risk monitoring and reporting.*** The Corporation did not have an approved framework for managing its risks. The management team responsible for preparing risk-related reports twice yearly for the Board coordinated the preparation of the risk register and other briefing materials. The process involved identifying a risk owner for each corporate risk, who contributed to the development of an action plan for mitigating the risk. However, risk owners were not informed of action plans for mitigating other existing corporate risks, nor of the persons responsible for them.

48. In addition, without an approved framework in place, risk owners were not informed of their roles and responsibilities for monitoring, escalating, and reporting on risk mitigation activities. Risk owners performed these tasks at their discretion, through day-to-day operations. As a result, in our view, risk owners might have overlooked important interrelationships, particularly if there was turnover in management positions.

49. While the Board received the risk register and other briefing materials, it did not approve these documents. There also was no policy or other document setting out the Board's risk appetite and risk tolerance levels. Because it did not establish risk parameters within which the Corporation should operate, the Board left decisions on these matters to the discretion of management.

50. These weaknesses matter because a properly defined and communicated risk management framework ensures that all parties are aware of their roles and responsibilities in managing corporate risks. Because of its size and the complexity of its operations, the Corporation faced significant risks. Clearly defining roles and responsibilities and sharing knowledge of corporate risks across functional areas would provide a stronger basis for the timely and effective management of risks. Closer guidance from the Board on risk management would also support the Corporation in its management of corporate risks.

51. **Recommendation.** The Corporation should approve a risk management framework that sets out all key elements of enterprise risk management. To improve how the Corporation manages risks, it should more broadly communicate the framework and the results of the Corporation's regular risk assessments.

The Corporation's response. *Agreed. In October 2018, the risk management briefing package presented to the Board of Directors was approved. In the next annual update, the risk management briefing package will be expanded to include risk appetite and risk tolerance all of which will be submitted for Board approval.*

By December 2018, the Corporation will have communicated the risk management framework and assessments to all risk owners.

Management of operations

The Corporation had good practices for managing operations, but some improvements in environmental management were needed

What we found

52. We found that the Corporation had good practices in place for managing operations, but it did not have a corporate-wide approach to environmental management and monitoring.

53. Effective environmental management practices help the Corporation deliver its mandate in a socially responsible manner. For its operations across the country, the Corporation needs a consistent and corporate-wide approach to planning, implementing, and monitoring environmental management activities and processes.

54. Our analysis supporting this finding discusses the following topic:

- Operations management

Context

55. Several functional areas of the Corporation report to the President and Chief Executive Officer (CEO). These include commercial functions, operations, finance, strategy, information technology (IT), corporate affairs, a legal unit, and internal audit. Each area of the Corporation sets objectives that are assigned to management annually. Performance against indicators related to the objectives is monitored and reported to various management committees, as well as to the Board.

56. The Corporation delivers transaction mail (letter mail), parcels, and direct marketing materials. Parcel delivery is the area with the highest growth, but the industry is rapidly changing and includes many private sector competitors. Management practices are in place to monitor internal and external trends that may affect the achievement of operational objectives, including trends that affect customer needs and expectations related to the Parcels business line. Investment plans support the prioritization of critical projects that are necessary for achieving operational objectives. The Corporation assesses and approves the plans through its planning process.

57. In addition to staff, the Corporation relies on key suppliers to support day-to-day operations, including facilities management, construction and property maintenance, logistics, supply of uniforms, and marketing. The Corporation issues contracts worth more than $1.7 billion with over 7,000 suppliers yearly. The Corporation has a number of environmental management practices in place and regularly reports publicly on some aspects of its environmental management and sustainable development activities.

58. The Corporation has outsourced its IT function to a subsidiary. Processes have been implemented to integrate IT planning and delivery efforts across the two organizations.

Recommendation

59. Our recommendation in this area of examination appears at paragraph 63.

Operations management

60. **Analysis.** We found that the Corporation had implemented good systems and practices to manage its operations. However, we also found that improvements were needed in the management and monitoring of its environmental performance (Exhibit 6).

Exhibit 6 Operations management—key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Operational planning	The Corporation defined operational plans that were aligned with strategic plans and the mandate to deliver expected results.	The Corporation developed operational plans (including plans for managing operational risks), budgets, and performance objectives for management in support of the priorities identified in its corporate plan. Business cases for major operational projects were evaluated through the Corporation's investment planning process. They were approved by management or the Board, in accordance with the Corporation's delegated approval authorities.	
Operational plan implementation	The Corporation had systems and practices in place to remain competitive, innovative, and efficient to adapt to a changing market.	The Corporation studied market trends and customer satisfaction levels to identify opportunities for making improvements in innovation, efficiency, and competitiveness. Through a business case process, the Corporation assessed and prioritized customer opportunities. The Corporation implemented investment projects to support the achievement of operational plans.	

Legend—Assessment against the criteria

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

Exhibit 6 Operations management—key findings and assessment (continued)

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Managing key contracts and suppliers, including subsidiaries that are providing services	The Corporation managed and monitored professional service delivery against the terms of the contract, and it identified and actioned issues in a timely manner.	The Corporation had policies and procedures to approve contracts, monitor service delivery, identify and resolve issues, and report on contract performance. Expected roles and responsibilities were defined in contracts. The Corporation had standard contract terms and conditions to help protect its interests. The Corporation's Board and senior management oversaw the performance of the Corporation's subsidiaries. The Corporation and one of its subsidiaries established an integrated approach to the delivery of information technology services.	
Legislated training	The Corporation had systems and practices to provide and monitor the legislated training employees needed to carry out their work and meet objectives.	The Corporation identified training needs and implemented training. The Corporation formally monitored training required by legislation and reported on its completion.	
Healthy and safe workplace	The Corporation ensured a healthy and safe workplace.	The Corporation had formal occupational health and safety policies in place. The Corporation monitored the completion of mandatory health and safety training. The Corporation monitored and responded to health and safety incidents. Health and safety indicators were included as part of management performance objectives.	

Legend—Assessment against the criteria

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

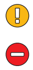
Exhibit 6 Operations management—key findings and assessment (continued)

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Environment and sustainable development	The Corporation had processes in place to manage, periodically review, and report on its environmental performance, and to implement timely corrective actions.	The Corporation reported yearly to the Board about environmental issues and any corrective actions taken. It reported publicly on environmental and sustainable development practices and performance in its Social Responsibility Report. Under a service agreement with the Corporation, a third-party provider operated environmental management systems for the Corporation's real estate. The Corporation undertook numerous initiatives to make its vehicle fleet more environmentally friendly. The Corporation commissioned an independent review and assessment of its environmental and sustainable development practices and performance in 2018. **Weakness** The Corporation did not have a corporate-wide vision or strategy for the management and monitoring of its environmental and sustainable development practices and performance.	
Performance monitoring and reporting	The Corporation monitored and reported on its operational results.	The Corporation had an operational performance monitoring and reporting system in place. It regularly validated and reconciled the information used for reporting. The Corporation monitored major corporate projects. Significant variances in budgets or plans were communicated and addressed. Management reported to the President and CEO weekly and monthly on progress against operational plans. The Corporation reported quarterly to the Board on its performance results, measured against the expectations set out in the President and CEO's performance objectives.	

Legend—Assessment against the criteria

 Met the criteria

 Met the criteria, with improvement needed

 Did not meet the criteria

61. ***Weakness—Environment and sustainable development.*** The Corporation did not have a corporate-wide approach to environmental management and monitoring. It did not have a formal environmental strategy and management system. The Corporation had an environmental policy, but it focused mainly on regulatory compliance and did not reflect sustainable development priorities. In addition, the Corporation did not have formally defined performance measures and targets for its environmental management and sustainable development activities. In April 2018, a management-initiated external review of the Corporation's environmental management practices and performance identified similar weaknesses. The Corporation formed a committee of senior executives to address the weaknesses. A member of the executive leadership team assumed responsibility for developing and implementing a new environmental strategy, and a plan was prepared to support this work.

62. This weakness matters because across the country, the Corporation has a vehicle fleet, real estate, operating equipment, and other operations that are subject to a variety of environmental regulations and requirements. With a corporate-wide approach, the Corporation would be better able to ensure consistency in working toward goals, and coordinating and prioritizing resources, while continuing to maintain regulatory compliance.

63. **Recommendation.** The Corporation should continue developing a formal environmental and sustainable development vision or policy, strategy, and related performance indicators and targets. It should establish a formal environmental management system to support the implementation of its strategy.

The Corporation's response. *Agreed. Under the direction of a lead executive, the Corporation is developing a cross-company environmental strategy which will include targets and implementation plans. These targets will be tracked and the results reported annually.*

In order to ensure the proper implementation of the strategy and the development of an underlying environmental management system, additional resources have been allocated to this initiative and outside expertise was engaged. The Board will be receiving regular updates on the development and implementation of the strategy.

Conclusion

64. In our opinion, based on the criteria established, there was reasonable assurance there were no significant deficiencies in the Canada Post Corporation's systems and practices that we examined. We concluded that the Corporation maintained its systems and practices during the period covered by the audit in a manner that provided the reasonable assurance required under section 138 of the *Financial Administration Act*.

About the Audit

This independent assurance report was prepared by the Office of the Auditor General of Canada and KPMG LLP on the Canada Post Corporation. Our responsibility was to express

- an opinion on whether there is reasonable assurance that during the period covered by the audit, there were no significant deficiencies in the Corporation's systems and practices that we selected for examination; and
- a conclusion about whether the Corporation complied in all significant respects with the applicable criteria.

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

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

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard for Assurance Engagements (CSAE) 3001—Direct Engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook—Assurance.

The joint auditors apply Canadian Standard on Quality Control 1 and, accordingly, maintain comprehensive systems of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with the independence and other ethical requirements of the relevant rules of professional conduct applicable to the practice of public accounting in Canada, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from the Corporation's management:

- confirmation of management's responsibility for the subject under audit;
- acknowledgement of the suitability of the criteria used in the audit;
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided; and
- confirmation that the audit report is factually accurate, except for the analysis preceding recommendations in paragraphs 33, 36, and 42 (exceptions are documented in the responses).

Audit objective

The objective of this audit was to determine whether the systems and practices we selected for examination at the Canada Post Corporation were providing it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively as required by section 138 of the *Financial Administration Act*.

Scope and approach

Our audit work examined the Canada Post Corporation. The scope of the special examination was based on our assessment of the risks the Corporation faced that could affect its ability to meet the requirements set out by the *Financial Administration Act*.

As part of our examination, we interviewed Board members, senior management, and other individuals throughout the Corporation to gain insights into systems and practices. We also examined targeted selections of transactions, risk mitigation strategies, projects, contracts, and reports to determine whether systems and practices were in place and functioned as intended. Selection was based on assessed risk and professional judgment.

The systems and practices selected for examination for each area of the audit are found in the exhibits throughout the report.

In carrying out the special examination, we relied on the internal audit of entity level controls.

Sources of criteria

The criteria used to assess the systems and practices selected for examination are found in the exhibits throughout the report.

Corporate governance

Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations, Treasury Board Secretariat, 2005

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Department of Finance and Treasury Board, 1996

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

Performance Management Program for Chief Executive Officers of Crown Corporations—Guidelines, Privy Council Office, 2016

Practice Guide: Assessing Organizational Governance in the Public Sector, The Institute of Internal Auditors, 2014

Strategic planning, and performance measurement and reporting

Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations, Treasury Board Secretariat, 2005

Guidelines for the Preparation of Corporate Plans, Treasury Board Secretariat, 1996

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Department of Finance and Treasury Board, 1996

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Recommended Practice Guideline 3, Reporting Service Performance Information, International Public Sector Accounting Standards Board, 2015

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

Corporate risk management

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Corporate Governance in Crown Corporations and Other Public Enterprises-—Guidelines, Department of Finance and Treasury Board, 1996

ISO 31000—Risk management—Principles and guidelines, International Organization for Standardization, 2009

Enterprise Risk Management—Integrating with Strategy and Performance, Committee of Sponsoring Organizations of the Treadway Commission, 2017

Operations management

Guidelines for the Preparation of Corporate Plans, Treasury Board Secretariat, 1996

A Guide to the Project Management Body of Knowledge (PMBOK® Guide), fourth edition, Project Management Institute Inc., 2008

COBIT 5 Framework—APO05 (Manage Portfolio), BAI01 (Manage Programmes and Projects), ISACA, 2012

Plan-Do-Check-Act management model adapted from the Deming Cycle

Policy on the Management of Projects, Treasury Board, 2013

Standard for Project Complexity and Risk, Treasury Board, 2010

8-Step Process for Leading Change, John P. Kotter, 2012

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Contracting Policy, Treasury Board, 2013

Policy on Learning, Training, and Development, Treasury Board, 2006

Ultimate HR Manual, Human Resource Professionals Association and CCH

Policy on Occupational Safety and Health, Treasury Board, 1994

Policy Framework for People Management, Treasury Board Secretariat, 2010

ISO 14001—Environmental management systems, International Organization for Standardization, 2015

Improving Environmental Performance and Compliance: 10 Elements of Effective Environmental Management Systems, Commission for Environmental Cooperation, 2000

Period covered by the audit

The special examination covered the period between 1 January 2018 and 20 September 2018. This is the period to which the audit conclusion applies. However, to gain a more complete understanding of the significant systems and practices, we also examined certain matters that preceded the starting date of this period.

Date of the report

We obtained sufficient and appropriate audit evidence on which to base our conclusion on 14 November 2018, in Ottawa, Canada.

Audit team

Office of the Auditor General of Canada:

Principal: Marise Bédard
Directors: Mélanie Cabana and Ewa Jarzyna

Shawna Acres
Jean-Philippe Lachapelle
Julie Salois

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Partner: Nancy Chase
Senior Manager: Clarissa D. Crane

List of Recommendations

The following table lists the recommendations and responses found in this report. The paragraph number preceding the recommendation indicates the location of the recommendation in the report, and the numbers in parentheses indicate the location of the related discussion.

Recommendation	Response
Corporate management practices	
33. The Corporation should continue to engage with its responsible Minister on the need for sufficient and timely appointments to the Board and continue to provide the Minister with information about the skills, knowledge, and experience required of potential directors. **(29–32)**	**The Corporation's response.** Disagreed. The Corporation will continue to discuss Board appointments with the Minister and provide information regarding the requirements of potential directors but the Corporation is unable to wholly agree with the analysis preceding the recommendation. Although there was a loss of corporate knowledge with the onboarding of six new board members, they collectively brought significant insight, background and experience closely aligned with the shareholder's vision, which enhanced the Board's ability to implement it. Furthermore, during the initial transition, all Committees were chaired by pre-existing Board members to ensure continuity. Lastly, the recently appointed members brought new skills which broadened the overall composition of the Board.
36. The Corporation should continue to engage with its responsible Minister about the urgency of the appointment of a President and CEO, distinct from other Board appointments. **(34–35)**	**The Corporation's response.** Disagreed. The process to appoint a new CEO is ongoing and the Corporation will continue to engage with the Minister regarding this appointment; that said, the Corporation is unable to wholly agree with the analysis preceding the recommendation. Ideally, the role of Chair of the Board and the role of President and Chief Executive Officer should be held by different persons. However, the interim President and Chief Executive Officer / Board Chair strengthened Board independence by appointing a Lead Independent Director to permit the Board to share any concerns in camera without the Board Chair present, by retaining an ethics advisor to the Board of Directors to provide independent advice to the members and by consulting with the Conflict of Interest and Ethics Commissioner, who has not raised any concerns. Accordingly, given these important mitigations and in the absence of any supporting evidence, the Corporation disagrees with the finding that this situation limited the Board's ability to provide independent oversight. The Corporation also notes that its enabling legislation establishing Canada Post's governance expressly contemplates a Chairperson acting as the Interim President and CEO as the Act specifically provides that the Chairperson is one of the very few individuals legally permitted to be designated to act as President and CEO.

Recommendation	Response
42. The Canada Post Corporation should continue to set its strategic plans, and to engage with the government to obtain a long-term direction for its registered pension plan. It should continue to address the expectations established under the new vision for the Corporation announced by the government. **(37–41)**	**The Corporation's response.** Disagreed. The Corporation is unable to wholly agree with the analysis preceding the recommendation. Through the 2019 to 2023 Corporate Plan, which was tabled for approval at the October 2018 Board of Directors meeting, and during the development of the 2020 to 2024 Corporate Plan, the Corporation is continuing to work to align its long-term direction with the government's vision. During the two-year period of the government's review, the Corporation slowed the pace of strategic decision-making as expected and as appropriate. A new vision was provided in January 2018. Shortly thereafter, the government appointed new board members who possessed the requisite skills, knowledge and expertise to guide the Corporation in implementing this new vision. Rather than losing traction with these new appointments, the Corporation has in fact either fully executed or has made significant progress on every aspect of the new mandate. The Corporation agrees that it faces significant challenges, one of which is related to its registered pension plan. The Corporation disagrees, however, that this issue caused it to plan for making special payments rather than allocating more funds for reinvestment in its operations. The Corporation continues to bring forward long-term investments for Board approval.
45. The Corporation should establish clear mid- and long-term performance indicators for all its strategic objectives. It should set targets and report on its performance against these targets. **(43–44)**	**The Corporation's response.** Agreed. As mandated by the Guidance for Crown Corporations on Preparing Corporate Plans and Budgets, the Corporation provided initial targets for its strategic objectives in the 2019 to 2023 Corporate Plan, which was tabled at the October 2018 Board of Directors meeting. The Corporation will be reporting against these targets in future Annual Reports.
51. The Corporation should approve a risk management framework that sets out all key elements of enterprise risk management. To improve how the Corporation manages risks, it should more broadly communicate the framework and the results of the Corporation's regular risk assessments. **(46–50)**	**The Corporation's response.** Agreed. In October 2018, the risk management briefing package presented to the Board of Directors was approved. In the next annual update, the risk management briefing package will be expanded to include risk appetite and risk tolerance all of which will be submitted for Board approval. By December 2018, the Corporation will have communicated the risk management framework and assessments to all risk owners.

Recommendation	Response
Management of operations	
63. The Corporation should continue developing a formal environmental and sustainable development vision or policy, strategy, and related performance indicators and targets. It should establish a formal environmental management system to support the implementation of its strategy. **(60–62)**	**The Corporation's response.** Agreed. Under the direction of a lead executive, the Corporation is developing a cross-company environmental strategy which will include targets and implementation plans. These targets will be tracked and the results reported annually. In order to ensure the proper implementation of the strategy and the development of an underlying environmental management system, additional resources have been allocated to this initiative and outside expertise was engaged. The Board will be receiving regular updates on the development and implementation of the strategy.