



# **Report of the Auditor General of Canada to the Board of Trustees of the National Arts Centre**

Independent Auditor's Report

Special Examination—2020



Office of the  
Auditor General  
of Canada

Bureau du  
vérificateur général  
du Canada





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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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Cat. No. FA3-160/2020E-PDF  
ISBN 978-0-660-34144-6





Office of the  
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of Canada

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du Canada

23 June 2020

To the Board of Trustees of the National Arts Centre:

We have completed the special examination of the National Arts Centre in accordance with the plan presented to the Audit Committee of the Board of Trustees on 28 February 2019. 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 Trustees.

We will present this report for tabling in Parliament shortly after it has been made public by the National Arts Centre.

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 'Etienne Matte'.

Etienne Matte, CPA, CA  
Principal  
240 Sparks Street  
Ottawa, Ontario K1A 0G6



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# Introduction

## Background

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### Role and mandate

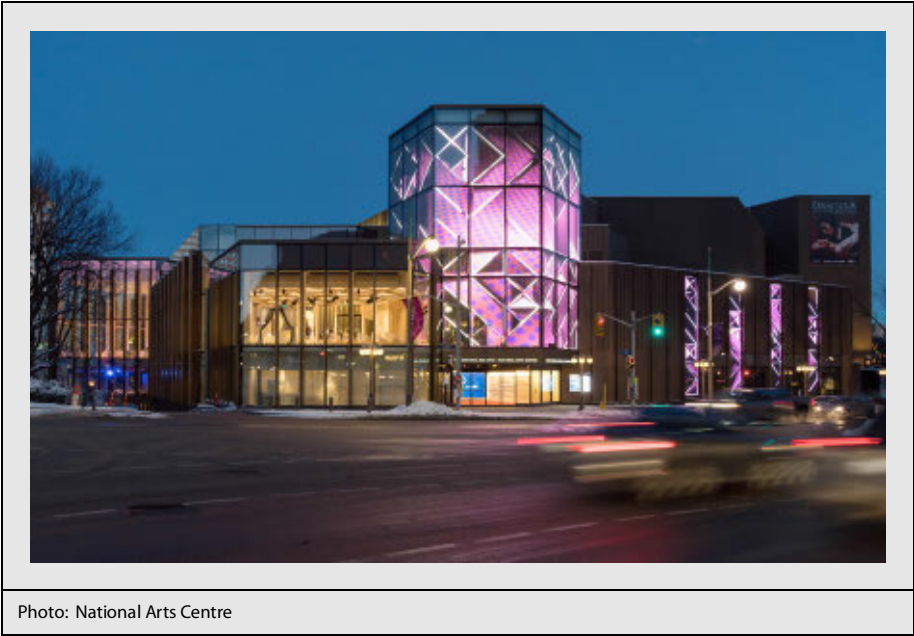
1. The National Arts Centre in Ottawa is a performing arts centre that presents about 1,400 music, dance, and theatre shows a year. On average, more than 900,000 people attend these shows.
2. The National Arts Centre is a federal Crown corporation with a mandate under the *National Arts Centre Act* to develop the performing arts in the National Capital Region and to assist the Canada Council for the Arts in developing the performing arts elsewhere in Canada. The corporation’s mandate also requires that it operate and maintain the building, which it owns. The corporation reports to Parliament through the Minister of Canadian Heritage.

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### Nature of business and operating environment

3. The National Arts Centre is a bilingual, multidisciplinary performing arts centre in Canada and one of the largest in the world, with a property that covers over 1.1 million square feet (Exhibit 1).

#### Exhibit 1 The National Arts Centre in Ottawa



4. The corporation celebrated its 50th anniversary on 2 June 2019. As it approached this milestone, it had substantially completed 2 extensive renewal projects that were funded by the Government of Canada.

5. In 2015, the government approved \$110.5 million to renovate the National Arts Centre. This included replacing the building's concrete exterior with a new glass facade and adding new public spaces to make it more welcoming and accessible. In 2016, the government approved \$114.9 million to upgrade performance spaces and lighting and audio systems, which included installing a new orchestra shell to improve acoustics.

6. In 2011, an independent engineering consultant produced a 30-year capital plan that outlined the work required to maintain the National Arts Centre's physical infrastructure. While the corporation's renovation projects since 2015 took care of some of its immediate capital needs, the building's physical infrastructure still needs significant repairs and upgrades.

7. Recently, the corporation's senior leadership has changed. In June 2018, a new Chief Executive Officer succeeded the previous Chief Executive Officer, who had led the organization for nearly 19 years. The Chief Executive Officer is supported by 17 senior managers and 8 artistic and creative leaders, many of whom were also recently hired. The corporation's staff consists of 259 full-time and 562 part-time unionized and non-unionized employees. The 55 National Arts Centre Orchestra musicians are self-employed but have a collective agreement that sets out their fees and working conditions.

8. The corporation receives about \$35 million annually from Parliament, which is about 50% of its total revenues. That amount is not sufficient to cover its yearly operating, programming, and capital costs.

9. In the 2017–18 fiscal year, the corporation spent about \$75 million, of which about \$32 million went to salaries and benefits. To cover its remaining programming, operating, and capital costs, the corporation generated income from other sources, such as tickets, food and beverages, parking, hall rentals, and fundraising grants from the National Arts Centre Foundation.

10. Although the corporation continued to offer programming throughout the construction period, it earned less income from those other sources during this time (Exhibit 2). To reduce its accumulated deficit, which had grown to about \$5.9 million during the renovations, the corporation planned a balanced budget for the 2018–19 fiscal year, followed by a series of surpluses.

**Exhibit 2 The corporation increased its accumulated deficit from 2016 to 2018**

<b>Key financial information (in thousands of dollars)</b>	<b>2015–16 fiscal year</b>	<b>2016–17 fiscal year</b>	<b>2017–18 fiscal year</b>
Total revenues*	65,200	68,611	74,536
Total expenses*	(65,407)	(72,302)	(75,323)
Net surplus / (deficit)	(207)	(3,691)	(787)
Accumulated deficit	(1,382)	(5,073)	(5,860)
Capital assets	81,287	159,717	216,473
<p>* These are net amounts after the amortization or write-down of deferred capital funding and of capital assets, which was \$10,888 in 2018, \$6,097 in 2017, and \$6,306 in 2016. Sources: Financial statements in annual reports for the 2016–17 and 2017–18 fiscal years, National Arts Centre</p>			

**Previous audit**

11. In our 2010 special examination, we found a significant deficiency in the corporation’s building maintenance and management systems and practices. Those systems did not allow the corporation to effectively monitor the condition of the building or to ensure that necessary maintenance was carried out in a timely and efficient manner.

12. We also identified other areas for improvement. For example, we recommended that the Board of Trustees of the corporation should

- implement more systematic and comprehensive risk management practices
- develop a comprehensive long-term operating and capital plan to integrate into its financial planning exercise
- formalize its board conflict-of-interest practices

**Focus of the audit**

13. Our objective for this audit was to determine whether the systems and practices we selected for examination at the National Arts Centre were providing the corporation 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*.

14. 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 we examined. A significant deficiency is reported when the systems and practices examined do 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.

15. On the basis of our risk assessment, we selected systems and practices in the following areas:

- corporate management practices
- management of programming and marketing operations

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

16. We did not examine the National Arts Centre Foundation, because it is not a wholly-owned subsidiary of the corporation.

17. 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 18–21).

## Findings, Recommendations, and Responses

### Corporate management practices

**The corporation had significant deficiencies in governance and risk management and needed to improve how it measures, monitors, and reports on its performance**

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#### What we found

18. Overall, we found significant deficiencies and weaknesses in the corporation's corporate management practices. We found a significant deficiency in the Board of Trustees' ability to provide oversight, stemming from a variety of issues in the information it received. We also found significant deficiencies in the corporation's risk management practices and weaknesses in performance measurement, monitoring, and reporting. Together, these affected the quality and completeness of the information the board received, which inhibited its ability to make decisions.

19. We found that the corporation had good systems and practices for programming and marketing. However, there is a risk that, if left unchecked, the problems noted in its corporate management practices could affect the corporation's long-term sustainability and its ability to fulfill its mandate.

20. The analysis supporting this finding discusses the following topics:
- Corporate governance
  - Strategic planning and performance measurement, monitoring, and reporting
  - Corporate risk management

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## Context

21. The corporation is governed by a 10-member Board of Trustees: 8 **Governor-in-Council** appointees and 2 **ex-officio** members (the mayors of Ottawa and Gatineau). All members of the board have board voting rights.

22. The board is supported by 6 committees: audit; finance; capital planning; human resources and compensation; marketing and communications; and governance, nominating and ethics. The corporation's bylaws require it to engage outside members for its board committees. Eleven outside members sit on the 6 committees to provide expertise in areas such as engineering, public affairs, and accounting. All members of the committees, including outside members, have committee voting rights.

23. The corporation is exempt from certain sections of Part X of the *Financial Administration Act*. For example, it does not have to submit an annual corporate plan or an operating and capital budget for government approval.

24. The corporation's last strategic plan covered the 2015–20 fiscal years. That plan identified the following 7 strategic goals, with several strategic priorities: creation, performance, learning, architectural rejuvenation, a national francophone organization, increasing earned revenue, and audiences at the centre.

25. At the time of our audit, the corporation was developing its 2020–25 strategic plan.

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## Recommendations

26. Our recommendations in this area of examination appear at paragraphs 32, 35, 42, 50, and 51.

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

**Ex-officio**—A member who holds the role because of status or another position.





**Corporate governance**

27. **Analysis.** We found a significant deficiency in Board of Trustees oversight because of gaps in key information the corporation provided to the board. In particular, the board did not receive the performance and risk information it needed to effectively oversee progress against its strategic goals (Exhibit 3). We also found a weakness in the board independence process—the corporation needed to improve its conflict-of-interest practices.

**Exhibit 3 Corporate governance—Key findings and assessment**

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board of Trustees oversight	The board carried out its oversight role over the corporation.	<p>Board member stewardship responsibilities were included in role descriptions and committee terms of reference.</p> <p>The board assessed its performance annually. Trustees received a summary of the assessment results.</p> <p><b>Significant deficiency</b></p> <p>There were gaps in the key information received by the board and its committees that was needed for effective oversight and decision making.</p>	
Board of Trustees independence	The board functioned independently.	<p>The board had a Code of Ethical Conduct and Responsibilities for Members of the Board of Trustees of the National Arts Centre.</p> <p>The board and its committees held in-camera sessions without management.</p> <p><b>Weaknesses</b></p> <p>Outside members sitting on board committees were not subject to the code.</p> <p>Board and committee meetings did not include a process to ensure independence.</p>	
Providing strategic direction	The board provided strategic direction.	<p>The corporation’s 2020–25 strategic planning process included input from the board.</p> <p>The board participated in setting the objectives of the Chief Executive Officer and assessed performance against those objectives. The objectives aligned with the corporation’s 2015–20 strategic plan.</p>	
<p><b>Legend—Assessment against the criteria</b></p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

**Exhibit 3 Corporate governance—Key findings and assessment (continued)**

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board of Trustees appointments and competencies	The board collectively had capacity and competencies to fulfill its responsibilities.	There were no vacancies on the board as of the end of the period covered by the audit.  The board had access to outside expertise. Eleven people sat as outside members on its 6 committees.	
<p><b>Legend—Assessment against the criteria</b></p> <ul style="list-style-type: none"> <li> Met the criteria</li> <li> Met the criteria, with improvement needed</li> <li> Did not meet the criteria</li> </ul>			

28. **Significant deficiency—Board of Trustees oversight.** We found a significant deficiency in the board’s ability to provide oversight, stemming from a variety of issues in the information the board received. This significant deficiency, along with significant deficiencies in risk management and weaknesses in performance measurement, monitoring, and reporting, inhibited its ability to make decisions, such as taking corrective action where needed.

29. Specifically, we found that the corporation did not ensure that the board and its committees had key information they needed for effective oversight and decision making. For example, the board or its committees did not receive

- important risk management information (see paragraphs 43–51)
- long-term capital plans (see paragraph 48) and long-term operating plans
- systematic reporting on key performance indicators to support achieving strategic objectives (see paragraphs 36–42)
- timely budget information—the board did not receive the 2019–20 corporate budget for approval until May 2019, after the season had been announced in March 2019
- status reporting against the recommendations from external independent assessments of the building condition
- independent internal audit risk assessments and status reporting against the recommendations from internal and external audits

30. Also, although the corporation started a policy review process in October 2018, management and, as a result, the board and its committees had not reviewed over half the corporation’s 47 policies in 5 or more years, including the corporation’s risk management policy.

31. This significant deficiency matters because the board needs complete information to fulfill its oversight responsibilities. Without this information, the board's capacity to make decisions was inhibited.

32. **Recommendation.** The corporation should ensure that the Board of Trustees has the information it needs for effective board oversight and decision making.

*The corporation's response.* Agreed. The board and corporation's management will ensure that the information gaps and weaknesses identified through this audit are addressed in a timely manner.

*The corporation's management has already started to address some of the identified information gaps. For example, as part of its 2020–25 strategic planning process, management is developing long-term capital plans and operating plans, as well as key performance indicators that support strategic objectives. In addition, management has adjusted the budget cycle for financial forecast and budget approval in February 2020, before season 2020–21 is announced.*

33. **Weakness—Board independence.** In our 2010 special examination report, we recommended that the corporation formalize its board conflict-of-interest practices and apply them to outside members. The board has since developed a Code of Ethical Conduct and Responsibilities for Members of the Board of Trustees of the National Arts Centre. However, there were weaknesses in how the code was applied:

- Contrary to the corporation's bylaws, the code was not applied to outside members sitting on board committees.
- There was no process to remind board and committee members to declare conflicts of interest at meetings and recuse themselves as necessary.

34. These weaknesses matter because they exposed the corporation to reputation risk. This unmitigated risk means that board and outside members could have had undeclared conflicts of interest during board discussions and decisions. Any conflicts of interest could have compromised their professional judgment.

35. **Recommendation.** The corporation should apply its Code of Ethical Conduct and Responsibilities for Members of the Board of Trustees of the National Arts Centre to all outside members who sit on any board committee. The corporation should also include a process that reminds members to declare potential conflicts of interest whenever they occur.







*The corporation's response.* Agreed. In October 2019, the Board of Trustees approved an amendment to the Code of Ethical Conduct and Responsibilities for Members of the Board of Trustees of the National Arts Centre to apply to outside members. The corporation is also implementing a process to remind members to declare potential conflicts of interest whenever they occur.



**Strategic planning and performance measurement, monitoring, and reporting**

36. **Analysis.** We found weaknesses in performance measurement, monitoring, and reporting. In particular, the corporation did not regularly report on quantitative performance indicators to show that it was achieving its strategic goals and priorities (Exhibit 4).

**Exhibit 4 Strategic planning and performance measurement, monitoring, and reporting—Key findings and assessment**

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Strategic planning processes	The corporation established a strategic plan and strategic objectives that aligned with its mandate.	<p>The 7 strategic goals and related strategic priorities in the corporation's 2015–20 strategic plan, <i>Canada Is Our Stage</i>, aligned with the corporation's mandate.</p> <p>The corporation established a systematic strategic planning process to develop its 2020–25 strategic plan.</p>	
Performance measurement	The corporation established performance indicators in support of achieving strategic objectives.	<p>The corporation established some performance indicators and targets for its operations.</p> <p><b>Weakness</b></p> <p>The corporation did not establish performance indicators and targets for its strategic goals and priorities.</p>	
Performance monitoring and reporting	<p>The corporation monitored and reported on progress in achieving its strategic objectives.</p> <p>The corporation collected and analyzed visitor data to continuously improve visitor experience.</p> <p>The corporation collected and analyzed visitor data to optimize programming attendance and revenues.</p>	<p>The corporation held its 2019 annual public meeting as required by section 113.1 of the <i>Financial Administration Act</i>.</p> <p>The corporation collected feedback from its existing and potential visitors about its reputation, brand, and overall visitor experience.</p> <p><b>Weakness</b></p> <p>Internal reports to the board and public reports did not report known performance shortcomings against the corporation's strategic goals and priorities.</p>	
<p><b>Legend—Assessment against the criteria</b></p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

37. **Weaknesses—Performance measurement, monitoring, and reporting.** We found that the corporation had not developed performance indicators and targets for its strategic goals and priorities in its 2015–20 strategic plan. As a result, although the corporation reported on its activities in its annual reports, it could not objectively assess whether it had met its strategic goals and priorities. Without this information, the board was not able to fully perform its oversight role and make decisions.

38. We acknowledge that management identified a number of ways to measure how its operations performed, such as

- the number of projects that received funding from the National Creation Fund
- the frequency of first-time ticket purchases for single tickets and retention rates for subscriptions
- the number of website visits
- operational revenues and expenses compared with the budget

39. However, we found that the corporation had not used these or any other measures to show whether it had met a particular strategic goal or priority.

40. We also found that internal reports to the board and public reports did not report known performance shortcomings against strategic goals and priorities:

- For example, one strategic priority was to invest more significantly in the building’s annual maintenance and repairs. We noted that the corporation had identified this priority in its 2015–20 strategic plan but had not reported its progress in its annual reports for the 2015–16 to 2017–18 fiscal years. Despite its renovations from 2015 to 2019, the corporation made little effort to secure funding for ongoing maintenance and repairs.
- Another strategic priority for the corporation was to develop and implement a full Customer Relationship Management approach to its business over 5 years, from 2015 to 2020. While the corporation reported on activities related to that priority, it did not report on the limited progress it had made. For example, 3 years into the 5-year strategic planning period, the corporation had completed only a preliminary business case and had not done a thorough financial analysis.

41. These weaknesses matter because the corporation cannot assess whether it is delivering results in accordance with its 2015–20 strategic plan if it does not establish performance indicators and targets for its strategic goals and priorities and report on them.







42. **Recommendation.** The corporation should establish performance indicators for its strategic goals and priorities. It should set targets and report to the Board of Trustees and the public on how it performs against these targets, and include explanations of any known performance shortcomings against its strategic goals and priorities.

*The corporation’s response. Agreed. As part of its 2020–25 strategic planning process, the corporation’s management is developing key performance indicators that support strategic objectives and will establish targets and regularly monitor and report progress against them.*

**Corporate risk management**

43. **Analysis.** We found significant deficiencies in all risk management systems and practices (Exhibit 5).

**Exhibit 5 Corporate risk management—Key findings and assessment**

<b>Systems and practices</b>	<b>Criteria used</b>	<b>Key findings</b>	<b>Assessment against the criteria</b>
Risk identification and assessment	The corporation identified and assessed risks to achieving strategic objectives.	<b>Significant deficiency</b> The corporation’s risk management policy was outdated and incomplete. The corporation did not systematically gather risk information from senior managers.	
Risk mitigation	The corporation defined and implemented risk mitigation measures.	<b>Significant deficiency</b> The corporation’s risk management policy did not define risk mitigation processes. The corporation did not identify mitigation measures for some key risks identified in the risk management reports it presented to the board’s finance committee. The mitigation measures the corporation identified in risk management reports were vague and did not have timelines.	
Risk monitoring and reporting	The corporation monitored and reported on the implementation of risk mitigation measures.	<b>Significant deficiency</b> The corporation did not systematically update the risk management reports it presented to the board’s finance committee to include all necessary information.	
<b>Legend—Assessment against the criteria</b>			
 Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			

44. **Significant deficiencies—Risk management.** We found significant deficiencies in all areas of risk management. This was greatly concerning, especially given that in our 2010 special examination report, we recommended that the corporation implement more systematic and comprehensive risk management practices.

45. During this audit, we found that, although the corporation had developed a risk management policy, it was outdated (last updated and approved in June 2012) and incomplete.

46. The corporation did not systematically gather risk information from senior managers to identify and assess risks to the corporation's ability to achieve its strategic goals and priorities. As a result, the risk management reports were not complete. Without comprehensive risk reporting, the board did not have the necessary information to make decisions and provide oversight.

47. Further, we noted that risk management reports did not

- align the identified risks to the corporation's strategic goals and priorities
- include key risks, such as IT, operational, and program risks
- assess risks according to how likely they were to prevent the achievement of key objectives but only according to their impact
- define risk tolerance levels

48. Although the corporation defined mitigation measures for some risks, it did not define them clearly or give them timelines. For example, in the 2018 and 2019 risk management reports, the corporation identified funding for ongoing capital maintenance and repairs as a risk. However, the reports did not state how large the funding gaps were or when the corporation would ask for more funding. At the time of our audit, the corporation had not developed a long-term capital plan based on an updated external independent assessment of the building condition. At the end of the period covered by the audit, the corporation had not taken action to ask for funding from the government to meet the building's capital maintenance and repair needs.

49. These significant deficiencies matter because the corporation needs to ensure that it has processes in place to identify, mitigate, and monitor risks that affect its ability to achieve its strategic goals and priorities and preserve its reputation.

50. **Recommendation.** The corporation should implement more systematic and comprehensive risk management practices. It should

- gather risk information regularly to identify and assess risks that are likely to prevent it from achieving its strategic goals and priorities

- define its risk tolerance levels and risk mitigation measures and ensure that related actions are specific, have deadlines, and can be measured
- monitor these measures and provide ongoing reporting to management and the board on their implementation

***The corporation’s response.** Agreed. The corporation’s management agrees that a more robust risk management process and policy must be put in place and is already addressing this with the Board of Trustees. The corporation will improve its risk management practices to regularly gather risk information, define its risk tolerance levels, and develop risk mitigation action plans that are monitored and reported to management and the board.*

51. **Recommendation.** The corporation should develop a long-term capital plan. The plan should be based on an updated independent assessment of the building condition that outlines the work and resources required to maintain the corporation’s building. The corporation should inform relevant government officials about the condition of the building and its capital funding needs to help ensure funding is approved in enough time to support its mandated requirement to operate and maintain the building.

***The corporation’s response.** Agreed. Now that the Architectural Renewal and Production Renewal projects are completed, an external independent assessment of the condition of the building is being launched, which will serve as the basis for the corporation’s long-term building renewal capital plan. Once the independent building condition assessment has been completed, the corporation will share the findings with government and discuss a recapitalization program.*

## Management of programming and marketing operations

### The corporation managed its programming and marketing operations well

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#### What we found

52. We found that the corporation had good systems and practices to manage its programming and marketing operations.
53. The analysis supporting this finding discusses the following topics:
- Management of programming operations
  - Management of marketing operations

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**Context**

54. The corporation has 6 programming departments:

- Music
- Dance
- English Theatre
- Indigenous Theatre
- French Theatre
- NAC Presents

The corporation collaborates with artists and arts organizations across the country, acts as a catalyst for performance, and invests in ambitious new works by artists and arts organizations nationwide. The programming lineup is different each season and includes performances on the corporation's stages (Exhibit 6), in its public spaces, in national and international spaces, and on digital platforms.

**Exhibit 6 A scene from Kidd Pivot's *Revisor*, a performance co-produced and presented by NAC Dance in 2019**



Photo: Michael Slobodian

"Revisor" by Kidd Pivot

Choreography: Crystal Pite

Dancers: Ella Rothschild, Cindy Salgado, Jermaine Spivey, Tiffany Tregarthen, Doug Letheren, David Raymond, Rena Narumi, and Matthew Peacock

55. The corporation's programming content and reach have evolved. For example, the Indigenous Theatre began its first season of programming in fall 2019. The corporation is also using technology to increase its reach: teaching students and young artists around the globe, creating podcasts, and providing a wide range of National Arts Centre Orchestra concerts on demand.

56. The corporation has a legislated responsibility to assist the Canada Council for the Arts to develop the performing arts across Canada. The Canada Council for the Arts and the corporation have thus entered into an updated Memorandum of Understanding (signed in November 2016) to provide a framework showing how both organizations will work together and further shared objectives.






**Recommendations**

57. We made no recommendations in this area of examination.





**Management of programming operations**

58. **Analysis.** We found that the corporation had good systems and practices to manage its programming operations (Exhibit 7).

**Exhibit 7 Management of programming operations—Key findings and assessment**

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Operational planning	The corporation defined programming plans that aligned with strategic plans and the mandate.	<p>The corporation’s programming plans aligned with its strategic goals and mandate.</p> <p>The programming departments considered audiences’ and industry stakeholders’ inputs when deciding on programming.</p> <p>The corporation communicated its programming season well throughout the organization.</p>	
Operational plan implementation	The corporation implemented the programming plans to deliver expected results.	<p>The corporation delivered performances according to its season brochures.</p> <p>The programming departments followed common processes for allocating stage use, launching the season to the public, and interacting with other departments (for example, production, marketing, and box office).</p> <p>The corporation met its financial obligations and reporting requirements under its updated Memorandum of Understanding with the Canada Council for the Arts.</p>	
<p><b>Legend—Assessment against the criteria</b></p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			






**Exhibit 7 Management of programming operations—Key findings and assessment (continued)**

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Performance monitoring and reporting	The corporation monitored and reported on its operational results.	The programming departments monitored and periodically reported on their operational results to senior management.  The programming departments changed their programming plans, as needed, as a result of monitoring their operational results, receiving feedback from stakeholders, and considering the results of studies.	
<b>Legend—Assessment against the criteria</b>  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			

**Management of marketing operations**





59. **Analysis.** We found that the corporation had good systems and practices to manage its marketing operations (Exhibit 8).

**Exhibit 8 Management of marketing operations—Key findings and assessment**

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Operational planning	The corporation defined marketing plans to optimize programming attendance and revenues.	The corporation’s marketing plans aligned with its strategic objectives and mandate.  The marketing department considered stakeholders’ needs when developing marketing plans.  The corporation communicated its marketing plans well to the respective programming departments.	
Operational plan implementation	The corporation implemented the marketing plans to deliver expected results.	The corporation carried out marketing plans for each programming department, including campaign briefs and media plans for specific performances.  The corporation carried out marketing campaigns and strategies that supported organization-wide initiatives.	
<b>Legend—Assessment against the criteria</b>  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			



**Exhibit 8 Management of marketing operations—Key findings and assessment (continued)**

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Performance monitoring and reporting	The corporation monitored and reported on its operational results.	<p>The marketing department monitored and periodically reported on its operational results to senior management and the board (through the marketing and communications committee).</p> <p>The marketing department regularly monitored revenues and ticket sales and communicated that information to senior management and the programming departments.</p> <p>The marketing department changed its marketing strategies as needed, as a result of monitoring its operational results, receiving feedback from stakeholders, and considering the results of studies.</p>	
<p><b>Legend—Assessment against the criteria</b></p> <ul style="list-style-type: none"> <li> Met the criteria</li> <li> Met the criteria, with improvement needed</li> <li> Did not meet the criteria</li> </ul>			

## Conclusion

60. In our opinion, on the basis of the criteria established, there were significant deficiencies in the corporation’s governance and corporate risk management systems and practices, but there was reasonable assurance that there were no significant deficiencies in the other systems and practices we examined. We concluded that except for these significant deficiencies, the National Arts Centre 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 on the National Arts Centre. Our responsibility was to express

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

Under section 131 of the *Financial Administration Act*, the corporation is required to maintain financial and management control and information systems and management practices that provide reasonable assurance of the following:

- Its assets are safeguarded and controlled.
- Its financial, human, and physical resources are managed economically and efficiently.
- Its operations are carried out effectively.

In addition, section 138 of the act 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 on Assurance Engagements (CSAE) 3001—Direct Engagements, set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook—Assurance.

The Office of the Auditor General of Canada applies the Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system 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 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:

- 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
- confirmation that the audit report is factually accurate

## **Audit objective**

The objective of this audit was to determine whether the systems and practices we selected for examination at the National Arts Centre 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 National Arts Centre. 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*.

In carrying out the special examination, we reviewed key documents related to the systems and practices selected for examination. We interviewed members of the Board of Trustees, senior management, and other employees of the corporation. We observed some meetings of the Board of Trustees and its committees. We tested the systems and practices in place to obtain the required level of audit assurance. Our audit work on the corporation's implementation of its programming and marketing plans was based on a judgmental sample of 21 performances that occurred during the period covered by the audit.

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 did not rely on any internal audits.

## **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 of Canada 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 Canada and Treasury Board, 1996
- 20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006
- 20 Questions Directors of Not-For-Profit Organizations Should Ask about Strategy and Planning, Canadian Institute of Chartered Accountants, 2008
- 20 Questions Directors of Not-For-Profit Organizations Should Ask about Risk, Canadian Institute of Chartered Accountants, 2009
- 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, monitoring, and reporting**

- Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations, Treasury Board of Canada Secretariat, 2005
- Guidelines for the Preparation of Corporate Plans, Treasury Board of Canada Secretariat, 1996
- Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Department of Finance Canada and Treasury Board, 1996
- 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
- 20 Questions Directors of Not-For-Profit Organizations Should Ask about Strategy and Planning, Canadian Institute of Chartered Accountants, 2008
- 20 Questions Directors of Not-For-Profit Organizations Should Ask about Risk, Canadian Institute of Chartered Accountants, 2009

### **Corporate risk management**

- 20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006
- 20 Questions Directors of Not-For-Profit Organizations Should Ask about Strategy and Planning, Canadian Institute of Chartered Accountants, 2008
- 20 Questions Directors of Not-For-Profit Organizations Should Ask about Risk, Canadian Institute of Chartered Accountants, 2009
- 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 Canada and Treasury Board, 1996

### **Management of programming operations**

- *National Arts Centre Act*
- Guidelines for the Preparation of Corporate Plans, Treasury Board of Canada 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
- Plan-Do-Check-Act management model adapted from the Deming Cycle

### **Management of marketing operations**

- *National Arts Centre Act*
- Guidelines for the Preparation of Corporate Plans, Treasury Board of Canada 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
- Plan-Do-Check-Act management model adapted from the Deming Cycle

### **Period covered by the audit**

The special examination covered the period from 14 September 2018 to 31 October 2019. 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 start date of this period.

### **Date of the report**

We obtained sufficient and appropriate audit evidence on which to base our conclusion on 20 February 2020, in Ottawa, Canada.

### **Audit team**

Principal: Etienne Matte

Principal: Firyal Awada

Ewa Jarzyna

France Lepine

Bismarck Ocon

# 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
<b>Corporate management practices</b>	
<p><b>32.</b> The corporation should ensure that the Board of Trustees has the information it needs for effective board oversight and decision making. <b>(28–31)</b></p>	<p><b>The corporation’s response.</b> Agreed. The board and corporation’s management will ensure that the information gaps and weaknesses identified through this audit are addressed in a timely manner.</p> <p>The corporation’s management has already started to address some of the identified information gaps. For example, as part of its 2020–25 strategic planning process, management is developing long-term capital plans and operating plans, as well as key performance indicators that support strategic objectives. In addition, management has adjusted the budget cycle for financial forecast and budget approval in February 2020, before season 2020–21 is announced.</p>
<p><b>35.</b> The corporation should apply its Code of Ethical Conduct and Responsibilities for Members of the Board of Trustees of the National Arts Centre to all outside members who sit on any board committee. The corporation should also include a process that reminds members to declare potential conflicts of interest whenever they occur. <b>(33–34)</b></p>	<p><b>The corporation’s response.</b> Agreed. In October 2019, the Board of Trustees approved an amendment to the Code of Ethical Conduct and Responsibilities for Members of the Board of Trustees of the National Arts Centre to apply to outside members. The corporation is also implementing a process to remind members to declare potential conflicts of interest whenever they occur.</p>
<p><b>42.</b> The corporation should establish performance indicators for its strategic goals and priorities. It should set targets and report to the Board of Trustees and the public on how it performs against these targets, and include explanations of any known performance shortcomings against its strategic goals and priorities. <b>(37–41)</b></p>	<p><b>The corporation’s response.</b> Agreed. As part of its 2020–25 strategic planning process, the corporation’s management is developing key performance indicators that support strategic objectives and will establish targets and regularly monitor and report progress against them.</p>

Recommendation	Response
<p><b>50.</b> The corporation should implement more systematic and comprehensive risk management practices. It should</p> <ul style="list-style-type: none"> <li>• gather risk information regularly to identify and assess risks that are likely to prevent it from achieving its strategic goals and priorities</li> <li>• define its risk tolerance levels and risk mitigation measures and ensure that related actions are specific, have deadlines, and can be measured</li> <li>• monitor these measures and provide ongoing reporting to management and the board on their implementation <b>(44-49)</b></li> </ul>	<p><b>The corporation's response.</b> Agreed. The corporation's management agrees that a more robust risk management process and policy must be put in place and is already addressing this with the Board of Trustees. The corporation will improve its risk management practices to regularly gather risk information, define its risk tolerance levels, and develop risk mitigation action plans that are monitored and reported to management and the board.</p>
<p><b>51.</b> The corporation should develop a long-term capital plan. The plan should be based on an updated independent assessment of the building condition that outlines the work and resources required to maintain the corporation's building. The corporation should inform relevant government officials about the condition of the building and its capital funding needs to help ensure funding is approved in enough time to support its mandated requirement to operate and maintain the building. <b>(44-49)</b></p>	<p><b>The corporation's response.</b> Agreed. Now that the Architectural Renewal and Production Renewal projects are completed, an external independent assessment of the condition of the building is being launched, which will serve as the basis for the corporation's long-term building renewal capital plan. Once the independent building condition assessment has been completed, the corporation will share the findings with government and discuss a recapitalization program.</p>











