National Arts Centre Corporation

Special Examination Report—2010

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

Ce document est également publié en français.

To the Board of Directors of the National Arts Centre Corporation:

We have completed the special examination of the National Arts Centre Corporation in accordance with the plan presented to the Audit Committee of the Board of Directors on 15 April 2009. As required by Section 139 of the *Financial Administration Act* (FAA), we are pleased to provide the attached final special examination report to the Board of Directors.

We will be pleased to respond to any comments or questions you may have concerning our report at your special meeting on 29 July 2010.

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,

John Rossetti

John Rossetti, CA
Assistant Auditor General

OTTAWA, 19 July 2010

Attach.

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Main Points

What we examined

The National Arts Centre Corporation was established in 1966 under the *National Arts Centre* Act and began operating the National Arts Centre in 1969. The Corporation's mandate is threefold: to operate and maintain the National Arts Centre, to develop the performing arts in the National Capital Region, and to assist the Canada Council for the Arts in the development of the performing arts elsewhere in the country.

The Corporation reports to Parliament through the Minister of Canadian Heritage and Official Languages. It is governed by a Board of Trustees and, at the time of our examination, employed 900 people including 61 full-time musicians. Approximately 60 percent of the workforce is made up of part-time employees. In the 2008–09 fiscal year, the National Arts Centre had revenues of $30.8 million from box office sales, restaurants, parking, hall rentals, and the National Arts Centre Foundation, and parliamentary appropriations of $39.8 million for operating and capital expenses. The Foundation is a separate legal entity established in 2000 as a registered charity to raise funds from individuals, foundations, and corporations to support the National Arts Centre's programs and other qualified donees whose objects are in line with the mandate of the Corporation.

We examined whether the National Arts Centre Corporation's systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. Since the National Arts Centre Foundation is a separate legal entity, it did not fall within the scope of our examination. The systems and practices we examined were those in effect from September 2008 to December 2009.

Why it's important

The National Arts Centre is the only bilingual, multi-disciplinary performing arts organization in North America, and is one of the largest in the world. Over its 40 year history, the Corporation has become one of Canada's leading centres for live performance, the creation of new works, and arts education. The Corporation has six artistic departments: English theatre, French theatre, dance, music, variety and community programming, and the Scene festivals.

The Corporation fosters the next generation of artists through children and youth programming on its stages and by taking music, dance, and theatre into the school system. It also hosts the annual Summer Music Institute, a music education program that attracts some of the most talented emerging artists from around the world. The Corporation also produces teaching materials and study guides that are distributed to schools across the country by mail and through its website.

What we found

Our examination found a significant deficiency in the Corporation's systems and practices for the maintenance of the Centre. A significant deficiency is a major weakness that could prevent the Corporation from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operation are carried out effectively.

- During our examination, the Corporation did not have effective maintenance management systems and practices to allow it to monitor the condition of the building and to ensure that necessary maintenance activities were carried out in a timely and efficient manner.

We found sound systems and practices in a number of areas, particularly in activities that are core to the Corporation's mandate. We also noted some areas that need improvement.

- The Corporation has defined its strategic direction, and it relies on strong artistic leadership within each discipline to implement it. The Chief Executive Officer (CEO) ensures that this leadership is in place by seeking out artistic directors who are among the best in their field. Artistic directors make programming decisions based on their artistic vision, the Corporation's mandate and strategic goals of fostering artistic excellence and education, and the needs of targeted audiences. The Corporation collects data through various sources to better understand its audiences and guide its promotional activities.

- The Corporation has in place the key elements of a good governance framework, enabling its Board of Trustees to effectively carry out its oversight and stewardship functions. The CEO is selected and appointed by the Board, and he is clearly accountable to the Board. Oversight by the Board and committees is focused on those areas that most impact the Corporation's performance. For example, in the past year, the Board regularly reviewed key corporate initiatives, such as the Corporation's financial restructuring in response to the downturn in the economy.

- The Corporation relies on a strong financial management framework to deliver its artistic programs while respecting the budgeted resources. Artistic directors work with administrative directors to manage financial risks and costs within each discipline. The disciplines play a key role in monitoring revenues and costs within their approved budget. Artistic directors and administrative directors are directly accountable to the CEO.
- The Corporation has established sound practices to manage the major rehabilitation project it initiated in 2006. The project management team actively monitors costs and scheduling and takes into account business continuity, health and safety, and financial risks to determine priorities. Despite the Corporation's sound project management practices, the major rehabilitation project is facing delays, changes in scope, and additional costs. These are largely due to unforeseen issues that could not be factored into the original planning for the major rehabilitation project.

The Corporation has responded*. The Corporation agrees with the recommendations. Its responses follow the recommendations throughout the report.*

Special Examination Opinion

To the Board of Trustees of the National Arts Centre Corporation

1. Under section 131 of the *Financial Administration Act* (FAA), the National Arts Centre Corporation (the Corporation) is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.

2. Section 138 of the FAA also requires the Corporation to have a special examination of these systems and practices carried out at least once every 10 years.

3. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination—from September 2008 to December 2009—there were no significant deficiencies in the Corporation's systems and practices.

4. We based our examination plan on our survey of the Corporation's systems and practices and a risk analysis. On 15 April 2009, we submitted the plan to the Audit Committee of the Board of Trustees. The plan identified the systems and practices that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. Those are the systems and practices that we selected for examination.

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

6. We conducted our examination in accordance with our plan and with the standards for assurance engagements established by The Canadian Institute of Chartered Accountants. Accordingly, it included the tests and other procedures we considered necessary in the circumstances. In carrying out the special examination, we relied on an internal audit of the management of the major rehabilitation project.

7. We noted a significant deficiency in the Corporation's systems and practices we examined for maintenance of the Centre. During our examination, the Corporation did not have effective maintenance management systems and practices to allow it to monitor the condition of the building and to ensure that necessary maintenance activities were carried out in a timely and efficient manner.

8. In our opinion, based on the criteria established for the examination, there is reasonable assurance that during the period covered by the examination there were no significant deficiencies in the Corporation's systems and practices, except for the significant deficiency in the Corporation's systems and practices for maintaining the Centre as described in the preceding paragraph.

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

John Rossetti, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
31 December 2009

Overview of the National Arts Centre Corporation

10. The National Arts Centre Corporation (the Corporation) is a Crown corporation established in 1966 under the *National Arts Centre Act*. Under the terms of the Act, the Corporation operates and maintains the National Arts Centre (the Centre), develops the performing arts in the National Capital Region, and assists the Canada Council for the Arts in the development of the performing arts elsewhere in Canada.

11. The Corporation reports to Parliament through the Minister of Canadian Heritage and Official Languages. It is governed by a ten-member Board of Trustees. Eight are appointed by the Governor in Council, and the mayors of the cities of Gatineau and Ottawa sit on the Board by virtue of their mayoral office. The Board has full responsibility for selecting and appointing the President and Chief Executive Officer (CEO) of the Corporation.

12. The Corporation has 900 employees, which includes 61 full-time musicians. The workforce is made up of 370 full-time positions and 530 part-time positions. About 70 percent of its work force is unionized, involving 6 collective agreements negotiated with 4 unions. The Corporation produces and presents an average of more than 800 performances a year in the National Capital Region and elsewhere in Canada in music, English theatre, French theatre, and dance, as well as online education and outreach resources. The Centre is home to the 61-member National Arts Centre Orchestra, which in addition to concerts, offers music education programs and outreach activities.

13. The Corporation owns, operates, and maintains the Centre—a 40-year-old building. The ownership of the building was transferred from Public Works and Government Services Canada in 2000. The Centre has four different performance stages, a restaurant and catering spaces, a parking garage, office spaces, and other facilities that include areas for sets and costumes, rehearsal halls, and dressing rooms.

14. In 2000, the National Arts Centre Foundation was established as a separate legal entity and a registered charity. The Foundation has its own Board, which comprises 20 voting members independent from the Corporation. The CEO and the Board Chair of the Corporation are ex officio members of the Foundation Board. The Foundation's purpose is to raise funds from individuals, foundations, and corporations to support the National Arts Centre's programs and other qualified donees whose objects are in line with the mandate of the Corporation. The Foundation's staff is employed by the Corporation. As of the 2008–09 fiscal year, direct fundraising costs for their salaries and benefits and other direct fundraising expenses are charged back to the Foundation by the Corporation. The Corporation also provides work spaces and some administrative services to the Foundation. The development and fundraising team of 22 employees plans and organizes fundraising activities.

15. The Corporation's mission is "To develop and promote the performing arts by establishing the National Arts Centre as the pre-eminent showcase for the performing arts, acting as a catalyst for the performing arts nationally, and nurturing and supporting artists and arts organizations in communities across the country."

16. In 2008, the Corporation developed a five-year strategic plan outlining five long-term goals:

- **Artistic excellence.** To foster artistic excellence and innovation, the Corporation will create, produce, and perform first-class work.
- **Going national.** To become an arts centre that is national in its scope and impact, the Corporation will continue to produce the Scene festivals and co-produce with theatre and dance companies across Canada.
- **The art of learning.** To make arts education a key pillar of its strategic vision, the Corporation will increase education programs in theatre and dance with a focus on youth.
- **Earning our way.** To finance activities outlined in the strategic plan, the Corporation will increase its earned revenues.
- **Audiences at the Centre.** The Corporation will develop deeper relationships with its audiences and patrons.

17. In addition to producing and presenting performances in music, dance, English and French theatres, the Corporation's programming also includes several education programs, such as the following:

- a summer music institute for young artists, conductors, and composers;
- education tours and programs by the National Arts Centre Orchestra in Canada and elsewhere;
- programs with young musicians in schools;
- video conferences of music master classes with students around the world using the Internet;

- ArtsAlive.ca, an arts education website that features resources for students and teachers in music, theatre, and dance;
- NACmusicbox.ca that offers over 150 high-quality, full-length audio streams of the National Arts Centre Orchestra online, free to the public;
- Podcasts, webcasts, and online audio and video made available through the Corporation's website and its blog as well as social media websites such as YouTube and Facebook;
- dance master classes and a dance guide; and
- resources and materials on English and French theatre plays for teachers.

18. In the 2008–09 fiscal year, the National Arts Centre had revenues of $30.8 million from box office sales, restaurants, parking, hall rentals, and the National Arts Centre Foundation, as well as parliamentary appropriations of $39.8 million for operating and capital expenses. It generated an annual surplus in eight of the last ten years and had a decrease in revenues in 2009 mostly due to the economic slowdown. Exhibit 1 outlines selected performance information of the Corporation from 2005 to 2009. In 2006, the Corporation received a one-time capital appropriation of $56 million to address business continuity and urgent health and safety risks related to its facilities.

Exhibit 1 Selected performance information for the Corporation from 2005 to 2009

	2005	2006	2007	2008	2009
Total assets ($ thousands)	$43,653	$43,867	$62,390	$90,184	$96,154
Revenues ($ thousands)	$30,322	$28,046	$32,645	$34,369	$30,762
Parliamentary appropriations ($ thousands)	$32,921	$34,080	$36,986	$35,525	$39,798
Net results of operations–surplus/(loss) ($ thousands)	$(892)	$49	$817	$204	$(1,336)
Number of performances	908	733	859	802	831
Paid audience	475,761	434,161	466,426	550,618	483,483
Paid attendance (percent of capacity)	67%	67%	65%	73%	69%

Source: Annual reports of the Corporation and management reports

Focus of the special examination

19. We examined the National Arts Centre Corporation's systems and practices in the areas of programming, corporate governance, corporate risk management, strategic and long-term planning, financial management, maintenance of the Centre, management of the major rehabilitation project, and human resource management. Our objective was to determine whether these systems and practices provide the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively during the period covered by the audit.

20. Further details on the audit objective, key systems and practices examined, and criteria are provided in **About the Special Examination** at the end of the report.

Observations and Recommendations

Programming

21. The primary purpose of the National Arts Centre Corporation (the Corporation) is to develop performing arts in the National Capital Region and to assist the Canada Council for the Arts in the development of performing arts elsewhere in Canada. Fostering artistic excellence and providing national and educational programs are key strategic goals of the Corporation. To produce successful programming, the Corporation seeks to align its programming decisions with these strategic goals and the needs of audiences. In a programming season, the Corporation's programming includes an average of more than 800 performances a year in the artistic disciplines of French theatre, English theatre, dance, and music, as well as festivals such as regional Scenes. In 2009, these performances generated more than 30 percent of the Corporation's total revenues.

22. We expected the Corporation to have systems and practices in place to ensure that programs were designed to meet the needs of the targeted audiences and the requirements of its mandate, and to achieve its strategic goals.

23. We looked at whether the Corporation had effective systems and practices for

- making decisions on programming, and
- assisting the Canada Council for the Arts in the development of the performing arts elsewhere in Canada.

24. In assessing the systems and practices for making decisions on programming, we did not review the Corporation's artistic choices. Rather, we focused our work on the role played by senior management in ensuring that programming decisions for the 2008–2009 season had been aligned with its mandate and strategic goals. We also looked at the financial management systems and practices used in budgeting, monitoring, and reporting on programming decisions (see Financial Management section—paragraphs 76 to 86). In addition, we looked at the systems and practices used to collect and analyze data on audiences in support of programming decisions and marketing strategies.

25. We found that the Corporation has the systems and practices in place to support programming decisions. Programming is designed to meet the needs of targeted audiences and is aligned with the Corporation's mandate and strategic goals. We also identified one area that needs improvement—the Corporation needs to review and update its Memorandum of Understanding with the Canada Council for the Arts to reflect current strategies and priorities.

Programming is aligned with strategic goals

26. **Fostering artistic excellence and innovation.** The key practice for fostering artistic excellence and innovation is hiring the right artistic directors. The Chief Executive Officer (CEO) is responsible for bringing strong artistic leadership to the head of each artistic discipline to implement the Corporation's strategic plan. To achieve the strategic goal of fostering artistic excellence and innovation, the CEO attempts to select artistic directors from among the best in the performing arts industry based on their reputation and artistic creativity. In the recent hiring of artistic directors, the CEO was able to draw from his knowledge of "who's who" in the performing arts industry. In discussions with senior officials in other national and US-based arts organizations and through other research, we found that the abilities of the Corporation's artistic directors are well recognized by the arts community, by critics, and by other performing arts organizations. We also found that the Corporation's artistic directors are actively sought by other performing arts organizations to co-produce or perform elsewhere in Canada and around the world.

27. Artistic directors are responsible for selecting which artistic programs they want to produce or present. They maintain an effective network with production companies and other performing arts organizations to bring on stage acclaimed artists and identify emerging ones to present at the Centre. Overall, programming reflects their own artistic vision and supports the Corporation's strategic goals and its mandate to develop the performing arts in the National Capital Region. While artistic directors are given significant artistic freedom in designing their programs, they must operate within established financial management parameters. The CEO oversees all aspects of programming and financial performance of each artistic discipline and reports to the Board on the results regularly. The financial management systems and practices are described later in this report.

28. **The art of learning.** In pursuing its national role and its commitment to youth education, we found that the Corporation conducts a large number of activities. It does so by ensuring that all of these activities are approved by the CEO and the Corporation's Board, and by having the CEO oversee and report on the performance of these activities to the Corporation's Board on a periodic basis. In the past 10 years, the National Arts Centre Orchestra (NACO) has implemented a comprehensive education program that includes education master classes, an apprenticeship program, and school visits by musicians when touring across the country. In addition, NACO is host to the annual Summer Music Institute, founded by NACO's current music director, which offers programs for young artists, conductors, and composers. In the summer of 2009, about 90 young people came from across Canada and around the world to Ottawa to participate at the Summer Music Institute.

29. In 2009, the Corporation established the new National Arts Centre English Theatre Acting Company, a company made up of 18 artists selected from across the country to bring all-Canadian productions to audiences. The Corporation produced the Festival Zones Théâtrales, which brought together the francophone theatre community from across the country and included seven plays, four workshops, and a conference in collaboration with multiple cultural organizations. The Corporation also co-produced the 2009 Canada Dance Festival in the National Capital Region to present culturally diverse dance performances. In addition, the Corporation created 20 educational activities in dance, which included master classes and a dance guide.

30. **Audiences at the Centre.** The Corporation recognizes that building audience relations is vital to performing arts organizations. In its recent strategic plan, the Corporation stated its intention to develop deeper relationships with its audiences and to increase earned revenues. Given the large variety of performances and programs presented at the National Arts Centre, collecting and analyzing data on the Corporation's current and potential audiences is a challenging but necessary activity to design programming that considers the needs of audiences.

31. We found that the Corporation collects data on audiences through various sources, including its information systems for ticketing, subscriptions, fundraising, and development; parking; and comments from pre-performance and post-performance chats featuring the artistic directors and performing artists. The Corporation also hires experts as needed to conduct studies to better understand trends in current audiences. The Corporation recently conducted studies to assess current trends in attendance and retention in both music and English theatre disciplines. The data collected provides useful information for better understanding the disciplines' penetration in local markets and for designing outreach marketing activities. We also found that the Corporation has used this type of information to develop promotional strategies to increase audience attendance and retention for the 2009–2010 programming season, such as offering smaller subscription packages and planning a more celebratory season for the English theatre.

32. We found that audience information is currently collected in various databases independent of each other. Consequently, the Corporation has difficulty integrating this data to provide a comprehensive view of its patrons. Such a view would allow the Corporation to determine, for example, whether a patron is a single-ticket buyer or a subscriber, and whether the patron is contributing to fundraising activities, is using the parking or restaurant facilities, or has commented in the past. Although a global picture is difficult and time-consuming to build, such information would be helpful in optimizing marketing and promotion strategies, maximizing opportunities to target products and services to specific patrons, reducing duplication of information, and minimizing risks in managing personal information. The Corporation has recognized the need to better integrate its marketing data. In addition, it plans to bring its ticket selling operations in-house and use this opportunity to collect information about individual patrons that is more comprehensive and timely.

33. **National programs.** We found that in developing its programs, the Corporation retains actors, musicians, dancers, and other individuals recognized in the performing arts industry in Canada. The Centre is a stage of choice for many acclaimed Canadian artists. The planning for each artistic discipline begins one to two years in advance of the actual programming season. Artistic disciplines maintain effective networks with production companies and other performing arts organizations in Canada to identify young and emerging Canadian artists. The Corporation also hosts the Governor

General's Performing Arts Awards Gala that honours the lifetime achievements of Canadian artists. In addition, since 2003, the Corporation has worked in collaboration with the Canada Council for the Arts, the Department of Canadian Heritage, provincial ministries responsible for the arts, independent performing arts organizations, and artists across Canada to create a series of biennial Scene festivals in Ottawa to showcase established and emerging artists from various regions across Canada and provide them with national and international exposure. For example, in 2009, the Corporation presented the BC Scene in Ottawa, which hosted more than 600 performing artists from British Columbia.

The Memorandum of Understanding with the Canada Council for the Arts needs to be updated

34. We found that over the last 10 years, the Corporation has expanded its national role by providing more learning programs and developing and presenting performing arts outside the National Capital Region. The Corporation and the Canada Council for the Arts share a national mandate to foster the performing arts in Canada. However, the Corporation's national mandate is to assist the Canada Council for the Arts in the development of the performing arts elsewhere in Canada. Since 2000, the working relationship between the two entities has been guided by a Memorandum of Understanding (MOU), which states that "The Canada Council recognizes the role that the National Arts Centre has played and will continue to play in the creation, production and distribution of the performing arts across Canada and abroad, as well as its development of individual artists." However, the agreement has not been updated to reflect the Corporation's current strategic goals and priorities. The principles of the MOU focus on sharing information about developments and programming in the performing arts in Canada, using the Centre to display the Art Bank to the public, developing new initiatives to better promote Canadian performing artists and arts organizations both in Canada and internationally, and seeking new opportunities to discharge their national mandates in the performing arts through joint projects and initiatives.

35. While these principles are still relevant to both organizations, many agreed-upon initiatives and opportunities are outdated. Currently, the Corporation's artistic disciplines work with representatives of the Canada Council for the Arts on an ad hoc basis to identify potential initiatives to fulfill its mandate. However, an up-to-date MOU would help to formalize its current dialogue and relationships and ensure that new initiatives and opportunities to develop performing arts outside the National Capital Region are pursued strategically and in accordance with its mandate.

36. **Recommendation.** The National Arts Centre Corporation should review and update its Memorandum of Understanding with the Canada Council for the Arts to ensure that it reflects relationships, new opportunities, and up-to-date strategies to fulfill its role in education and in the development of performing arts outside the National Capital Region.

The Corporation's response. *The Corporation agrees with the recommendation and has started to work with the Canada Council for the Arts in updating the existing Memorandum of Understanding.*

Corporate governance

37. Corporate governance refers to structures, systems, and practices for overseeing the direction and management of an organization so that it can fulfill its mandate and achieve its objectives. The Board is a key component of corporate governance. Sound corporate governance practices are essential to meeting the statutory control objectives required for Crown corporations.

38. We expected the Corporation to have a well-performing corporate governance framework that meets the expectations of best practices in Board stewardship, shareholder relations, and communication with the public. Such a framework would maximize the Corporation's effectiveness and its ability to balance public policy objectives with its commercial objectives.

39. We found that, in general, the governance framework met our overall expectations.

The Corporation has the key elements of a good governance framework

40. The Corporation's ten-member Board of Trustees is composed of eight external members from across Canada appointed by the Governor in Council and two ex-officio members from the National Capital Region. There are five Board committees: Audit Committee; Finance Committee; Governance, Nominating and Ethics Committee; Marketing and Communications Committee; and Human Resources and Compensation Committee.

41. The Board selects and appoints the CEO and, as such, there is a clear accountability of the CEO to the Board. At the same time, the Board maintains its independence from management—for example, by holding regular in-camera sessions without management's attendance.

The Board actively played a role in succession planning for the CEO. It also evaluates the CEO's performance on an annual basis, and in 2009 it extended the CEO's mandate for an additional two years.

42. Further, the Board evaluated its collective performance for the first time in 2009 and documented the results. While the self-evaluation assessed most of the Board's principal duties in overseeing the Corporation, we noted that it did not assess the contributions of individual board members. The Board plans to assess the performance of its committees in the coming year.

43. We noted that a detailed orientation package is provided to new Board members about their duties. However, we found that Board members had not attended any professional development programs in the past three years. As part of its self-evaluation process, the Board may wish to consider whether individual members could improve their contribution by participating in continuing education programs in areas such as public sector developments, governance practices, financial literacy, and risk management.

The Board's oversight is effective

44. The Board and its committees focus on providing oversight in key areas affecting the Corporation's performance. For example, in the past year, the Board met regularly to review and challenge key corporate initiatives, such as the Corporation's financial restructuring in response to the downturn in the economy, the development of the Memorandum of Understanding with the National Arts Centre Foundation, and the development of major performances at the Centre and elsewhere in Canada. In addition, we found that Board members participated actively in the development of the Corporation's new strategic plan by, among other things, attending selected external consultations, receiving presentations by senior management, considering and discussing potential strategic directions at a strategic retreat, and reviewing and approving the strategic plan at a Board meeting. We also found that the Board, the Board Chair, and Board committees all have mandates approved by the Board that define their roles, responsibilities, and accountabilities. These mandates are updated regularly.

45. Although we did not find significant deficiencies in the Board's systems and practices, we did identify opportunities for improvements in governance practices (see paragraphs 49 and 53).

The Board profile needs to be updated

46. The Corporation has a Board profile, but it has not updated it since 2001. Given that the Corporation is involved in a major multi-year rehabilitation project and is facing uncertain economic times in the near term, we believe that it is important for the Board's profile to reflect the necessary skills and experience to provide effective oversight. For example, the current profile does not reflect the requirement of financial expertise on the Board. Although the Board believes that it currently has the necessary skill sets, it needs to document all the necessary skills in its profile to help determine the ideal skill sets needed to fill vacancies as they arise.

47. With the small size of the Corporation's Board—eight members appointed from across Canada—it is a challenge to ensure that the Board and its committees have all of the appropriate skills and experience. As a result, some Board committees lack certain needed expertise. To compensate, the Board has taken steps to supplement its skills and experience by engaging six outside experts in the areas of marketing, engineering, governance, and accounting to participate in certain Board committee meetings.

48. To ensure continuity and fill its vacancies, we found that the Board actively communicates names of potential Board members to the Minister of Canadian Heritage and Official Languages in a timely manner. Although in the recent past there have been long periods with vacancies, the Board currently has a full complement of members.

49. **Recommendation.** The Board of Trustees of the National Arts Centre Corporation should review and update its profile to ensure that it includes all key skills and expertise needed on the Board, and communicate any existing skill gaps to the Minister of Canadian Heritage and Official Languages to allow for their consideration in filling future vacancies on the Board.

The Corporation's Board of Trustees' response. *The Board of Trustees of the Corporation agrees with the recommendation and by the fall of 2010 will review and update its profile to ensure that all skills and expertise needed are reflected on the Board and are communicated to the Minister of Canadian Heritage and Official Languages.*

The Board does not have a "tailored" code of values and ethics

50. The Corporation has a code of values and ethics for its employees. For Board members, the requirements set out in the *Conflict of Interest Act* apply. The Act defines the term "conflict of interest" and provides rules for Governor in Council appointees. However, the Board does not have a code of values and ethics that would identify circumstances and relationships that could lead to a potential conflict of interest in its specific business environment.

51. Also missing are guidelines addressing the roles of non-Board members who interact with the Board or attend and advise in Board meetings. Although the Foundation and the Corporation each have their own Board composed of different Board members, some Foundation Board members often attend meetings of the Corporation's Board or are members of some of its committees at the request of the Chair of the Board of the Corporation. The rules set out in the *Conflict of Interest Act* do not apply to these non-Board members, nor do they apply to the outside experts attending the meetings of the Board and its committees. In addition, it is still not clear which of the Corporation's policies apply to them. We encourage the Board to clarify their roles, including matters such as values and ethics and conflict-of-interest considerations.

52. Upon appointment, new Board members attest to the absence of conflict of interest. Although the Board informed us that its members self-declare any potential conflict of interest before each Board meeting, the terms of reference of the Board and its committees do not require them to do so.

53. **Recommendation.** The Board of Trustees of the National Arts Centre Corporation should formalize its conflict-of-interest practices and develop a code of values and ethics for members that is specific to the Corporation's business and working relationships. It should also determine how the Corporation's policies apply to outside experts and stakeholders attending the meetings of the Board and its committees.

The Corporation's Board of Trustees' response. *The Board of Trustees of the Corporation agrees with the recommendation. A draft code of ethical conduct and a conflict of interest disclosure form has been discussed by the Governance, Nominating and Ethics Committee of the Board of Trustees. It is expected that both documents will be tabled and approved by the full Board in June 2010.*

The Corporation maintains good relations with the shareholder and good communications with the public

54. In the arts, traditionally an arm's-length relationship is maintained between the organization and the government in order to avoid any possible perception of interference in the selection of artistic programming. This can make it more challenging to establish an appropriate relationship with the office of the Minister of Canadian Heritage and Official Languages.

55. We found that the Chair of the Board and the CEO have been active in developing and maintaining good relations with the shareholder (the Government of Canada). Discussions with the senior department officials at the Department of Canadian Heritage and with established contacts in the Minister's Office and the Treasury Board of Canada Secretariat provided the Corporation with good information on the shareholder's priorities when developing its new strategic plan.

56. We found that the Corporation also maintains good communications with the public. Each year, the Chair of the Board and the CEO hold a public meeting at the Centre to provide an overview of the previous year's activities, and members of the public are invited to discuss programming, financial, and operational issues with trustees. In 2009, the Chair and the CEO presented the Corporation's new strategic plan at the meeting.

Corporate risk management

57. The Corporation faces risks in producing and presenting performances, national and international tours, national festivals, and major educational initiatives and in maintaining its facilities. We expected the Corporation to have identified the risks to realize its mandate, business goals, and objectives and to have monitored and mitigated them where appropriate. We looked for risk management practices suitable for small Crown corporations.

The Corporation needs a more comprehensive risk management system

58. We found that the Board and senior management were knowledgeable of the risks faced by the Corporation. At all levels, we found that there was a focus on identifying and managing financial, programming, and liability risks and communicating them to the Board. Other good examples of risk management practices that we observed included careful planning of international programs, monitoring of the major rehabilitation project, and planning of internal audits based on a Board-approved, risk-based audit plan that focuses on higher-risk areas.

59. While we found that individual managers were aware of risks and the need to manage them, we found a limited corporate-wide view of risk management. Risk management is an important responsibility of senior management and the Board, and it is difficult to provide meaningful oversight in the absence of a corporate-wide perspective. In such an environment, it is important for management and the Board to determine the level of risk management capability it should have, and then establish and maintain that capability. In our opinion, management and the Board would benefit from a more comprehensive analysis of its identified risks that includes a list of the most critical risks ranked by significance, a description of any mitigating controls or actions being taken by management, and identification of any significant changes in risks, rankings, management actions, or consequences.

60. **Recommendation.** The National Arts Centre Corporation should implement more systematic and comprehensive risk management practices.

The Corporation's response. *The Corporation agrees with the recommendation. The recommendation follows management's report to the Corporation's Board of Trustees in February 2010. Management has identified Board and management responsibilities, ranked key risk categories, and presented a timetable for the development of policies and procedures. The development of more systematic risk management practices will be undertaken with due regard to economy and available resources.*

Strategic and long-term planning

61. Strategic planning guides an organization in achieving its mandate, while focusing on the future. It also allows the organization to set out its objectives over the long term, based on a realistic assessment of the resources available. This process also includes assessing and adjusting the organization's direction in response to a changing environment. Long-term plans detail how the strategic direction is to be carried out.

62. We expected the Corporation to have a clearly defined strategic direction and specific and measurable goals and objectives to achieve its legislative, commercial, and public policy mandate. Its strategic direction and goals should take into account government priorities, identified risks, and the need to control and protect its assets and manage its resources economically and efficiently.

63. We found that the Corporation has a clearly defined strategic direction, consisting of the five long-term goals set out in paragraph 16 of this report.

The Corporation has defined its strategic direction

64. In our 1998 special examination, we noted that the Corporation lacked strategic direction. Since then, the Corporation has appointed a new Chief Executive Officer (CEO) and made significant improvements in articulating its strategic direction.

65. In 2001, the Corporation issued its first strategic plan entitled Restoring the Vision. In 2008, the Corporation consulted extensively with its employees and external stakeholders across Canada to assess progress against its 2001 strategic goals. Through this consultation, the Corporation confirmed the relevancy of the four goals established in 2001 and identified a fifth one related to developing deeper relationships with its audiences and patrons.

66. As part of the strategic planning process, the Corporation considered its strengths, weaknesses, opportunities, threats, and emerging risks, and took into account government priorities. It also developed strategies to achieve its corporate objectives and mandate. The revised strategic plan, entitled Performing for Canadians, was widely communicated to employees and stakeholders in November 2008.

The Corporation does not have a comprehensive long-term operating and capital plan to support its strategic direction

67. Although the Corporation is not required under the *Financial Administration Act* to prepare and table annually a corporate plan in Parliament, we expected the Corporation to have developed a plan to guide management decisions in implementing its strategic goals. A comprehensive long-term operating and capital plan helps a Corporation translate its strategic goals and priorities into meaningful, time-bound, performance outcomes and targets, and allocate resources accordingly. A long-term plan includes the organization's operating and capital budgets, thus helping the Corporation to budget the costs of implementing strategic goals and priorities within the planned period. It also helps the Board to oversee the implementation of the strategic goals. Without a comprehensive long-term operating and capital plan approved by the Board, there is a risk that priorities will not be addressed within the desired time frame.

68. The Corporation has some elements of a long-term plan. For example, we found multi-year projections, a business case to complete the major rehabilitation project for the Corporation, a financial restructuring plan to respond to the negative impacts caused by the downturn in the economy, and a multi-year operational plan for one department. The Corporation also has a nine-year plan for other major repairs to the Centre that are not in the business case. As such, the Corporation has some of the information needed to develop a comprehensive long-term plan, but it is not integrated into a cohesive whole. At the same time, the Corporation lacks important cost estimates in its various planning documents, such as the costs of implementing strategic initiatives like bringing its ticket-selling operation in-house. In its strategic plan, the Corporation has identified areas for revenue growth, such as fundraising and ticket sales, but it lacks a comprehensive long-term operating and capital plan to demonstrate how the Corporation is planning to increase earned revenues and generate funding for its long-term operating and capital cost requirements.

69. **Recommendation.** The National Arts Centre Corporation should develop a comprehensive long-term operating and capital plan to integrate new initiatives into its financial planning exercise to help ensure that it has the capacity to achieve its strategic goals and priorities within the planned time frame and that it can continue to maintain the functionality of the Centre over the longer term.

The Corporation's response. *The Corporation agrees with the recommendation. It will integrate the strategic plan in its long-term financial planning. The Corporation intended to add the strategic planning initiative to its existing long-term financial planning and to develop a comprehensive long-term operating and capital plan to cover 2009–2014. However, the difficult economic climate required the Corporation to develop a financial restructuring plan to respond to the resulting erosion of revenues. Now that this restructuring plan is in place, the Corporation will begin to integrate its strategic plan into its long-term financial planning.*

The Corporation has made progress in measuring and reporting on its performance

70. Measuring and reporting on performance is important for sound decision making, holding management accountable for its use of resources, and communicating to stakeholders on the Corporation's performance in meeting its strategic objectives.

71. We expected the Corporation to have performance indicators to measure the achievement of its mandate and statutory control objectives and to have reports that provide complete, accurate, timely, and balanced information for decision making and accountability reporting.

72. As mentioned in paragraphs 64 to 66, the Corporation has developed a clear strategic direction. Its most recent strategic plan established some expected results and targets against strategic goals, such as increasing earned revenues by 30 percent and significantly increasing ticket sales through audience development activities. We also found that the Corporation has developed indicators for measuring its own performance. The main indicators being used include budgeted costs, subscription and ticket sales, audience attendance, the reviews and feedback from critics, and commercial revenues (restaurant, parking, and hall rentals). Each discipline compiles performance information, monitors its performance against plans and prior years, and reports the results to senior management and the Board on a regular basis.

73. The Corporation publishes an accountability report (Annual Report) each year. The Annual Report includes a discussion of activities during the year and a one-year view of the performance against each strategic goal established in the Corporation's strategic plan, along with quantitative information on the Corporation's performance. For the 2007–08 fiscal year, the Corporation reported statistics on subscriptions, the number of co-productions, and attendance to the Corporation's performances and to youth and family programming. Results on paid attendance and subscriptions were compared with those of the previous season, including an explanation of any significant variances.

74. Since one of the purposes of the Annual Report is to present progress against plans, the absence of analysis of financial results against budgets for operating and capital expenditures reduces the meaningfulness of the information presented in the Annual Report. By developing a comprehensive long-term operating and capital plan, the Corporation would be in a better position to report progress against plans in its Annual Report.

75. The Corporation has not yet established expected outcomes for its role in assisting the Canada Council for the Arts in developing the performing arts elsewhere in Canada. Although the Corporation does report on the various activities it conducts in support of this aspect of its mandate, it and the Board would benefit from having one or more outcome-oriented measures and targets to help assess progress and success in this role.

Financial management

76. Financial management is a key part of an organization's control, reporting, and decision-making process. Each discipline needs to know what funds are allocated to meet its strategic objectives, while the Corporation needs to establish systems and practices so that these activities are managed with due regard to economy.

77. We expected the Corporation to have an effective financial management framework to manage identified risks, allocate resources in accordance with its strategic goals, encourage due regard to economy in the use of resources, and report on actual results in a timely manner. We also expected the financial management framework to produce information that supports senior management and the Board in their decision-making processes.

78. We reviewed the annual corporate budgeting process for the 2008–2009 programming season and the related financial reports and found that the Corporation is planning and managing its resources with due regard to economy. However, the Board of the Corporation needs more information when approving fundraising and development plans.

Programming decisions are made within an effective financial management framework

79. Artistic disciplines develop their programming seasons and make artistic choices with due consideration of the Corporation's strategic goals of fostering artistic excellence, education, and its national mandate (see paragraphs 26 to 35). In addition to artistic decisions, we found that the development of a programming season also involves making important financial decisions. Each artistic director works in collaboration with an administrative director in developing and managing their programming season. The administrative directors are responsible for managing financial risks and balancing finances for each of their disciplines.

80. The Corporation's Finance department (Finance) provides a funding allocation to each artistic discipline one or two years in advance of each season. In developing their programs, artistic disciplines communicate with musicians, dancers, artists, and artistic companies to assess interest and availability and to receive quotes to prepare production cost estimates. Administrative directors will then review cost estimates with the marketing and production departments to ensure that the planned use of resources is reasonable in the circumstances and consistent with established corporate policies and practices. The revenues and production cost estimates are then used to prepare a detailed annual operating budget by month for each discipline. Finance then ensures that the disciplines' programming choices are made within the constraints of the funding allocation. In our view, these detailed reviews provide reasonable assurance that due regard to economy is achieved.

81. Finance compiles the annual operating budget for each discipline to prepare an annual operating budget for the Corporation as a whole. It also ensures that the principal risks identified by the Corporation have been considered in finalizing the annual corporate operating budget. The CEO reviews this corporate budget and satisfies himself that the season is developed to meet the Corporation's strategic goals.

82. The annual corporate operating budget is then sent to the Board for review, challenge, and approval. The corporate budget for the 2008–2009 season that started in September 2008 was sent to the Board and approved in June 2008. We noted that before the proposed operating budget went to the Board, it was reviewed and challenged by the Finance Committee, which includes two external financial experts. We reviewed the minutes of that meeting and found that the Committee members had asked appropriate questions and discussed the proposed plan. We also noted that the Board is aware of the general contents and direction of the plan well in advance of receiving it.

Each artistic discipline plays a key role in monitoring revenues and costs

83. We found that each artistic discipline monitors and controls its approved annual operating budget. The disciplines monitor programming expenses regularly so that they do not exceed the budgeted costs. They also monitor estimated revenues using reports on subscriptions and ticket sales. Finance also monitors programming risks and the use of financial resources at the corporate level. A monthly variance report comparing the approved operating budget with actual results is prepared for each discipline, and the disciplines and finance officials follow up on any significant differences. Revenue and expense forecasts to year end are also prepared regularly to monitor trends and identify any financial changes in expected financial results.

84. We found that these financial reports are sufficiently complete and timely to meet senior management's needs. The reports are presented to the Finance and Audit committees of the Board for review and discussion at their regular meetings.

85. Artistic directors and administrative directors are directly accountable to the CEO on their performance. The CEO intervenes when expected financial results are not achieved or when audience levels fall significantly below expectations. At that time, the CEO discusses the situation with the relevant artistic director and team, works with them to develop strategies to address the situation, and provides specific direction as needed.

86. In monitoring estimated revenues and risks in 2009, the Corporation determined that revenues were down noticeably at mid-year, which was mostly attributed to the downturn in the economy. As a result, the CEO formed a cross-functional team and requested a financial restructuring plan with the artistic disciplines and other departments. We reviewed the plan that was developed and found that senior management and the Board were provided with relevant and timely financial management information and analysis in reaching their decisions on the final details of the plan.

The Corporation's Board needs more information when approving fundraising and development plans

87. The Corporation relies heavily on fundraising and development revenues to fund its local, national, international, and educational programs. In 2000, the Corporation formed the National Arts Centre Foundation as a separate legal entity that oversees the fundraising strategies and activities of the Corporation. The Foundation manages endowments and fundraising revenues to finance the Corporation's programs and other qualified donees whose objects are in line with the mandate of the Corporation. At the end of each year, most revenues collected by the Foundation are distributed to the Corporation. In the past two years, fundraising revenues represented more than 15 percent of the Corporation's revenues.

88. Since the Foundation is a separate legal entity, it does not fall within the scope of our special examination. As such, we did not audit the systems and practices in place at the Foundation, including those for overseeing fundraising and development strategies and for managing endowments and fundraising revenues.

89. Rather we focused our work on the role played by the Corporation's Board in approving the allocation of the Corporation's resources to be used in fundraising and development activities, and on the information provided to them to support their decision making.

90. Because fundraising activities frequently use the Corporation's facilities and other resources, we expected the Corporation's Board to have adequate financial management information to determine whether fundraising and development activities are planned with due regard to economy and produce the intended results.

Fundraising and development information is improving but needs further enhancements

91. In the past, providing the Board with detailed information to assess the Corporation's proposed investments in fundraising was challenging. Several factors contributed to this challenge. First, there was no agreement in place between the Corporation and the Foundation on the types of fundraising costs that should be assumed by each party. Second, the nature of some of the Corporation's activities, such as special events, had both a fundraising objective as well as other artistic and educational purposes. Finally, benchmarking of key performance indicators for fundraising with other similar arts organizations is difficult given the nature of the Corporation—a national, multi-disciplinary, performing arts organization.

92. **A new agreement with the Foundation.** The Corporation entered into a Memorandum of Understanding (MOU) with the Foundation in July 2009 that defines the responsibilities of each Board to the other. As part of the MOU, the Corporation's Board is to review and approve the Foundation's annual fundraising and development plan.

93. As well, in 2009, the Corporation took steps to improve its ability to more accurately track the direct costs of fundraising and development activities. It adopted a new costing method to account for fundraising activities. As a result, direct fundraising costs are now charged to the Foundation. These actions led to improvements in the information provided to the Board members about fundraising activities and in disclosures in the Corporation's annual financial statements.

94. Nevertheless, in our view, the Corporation needs to go further in providing Board members with other information to complement the information currently being provided on direct fundraising costs. Although direct fundraising costs of the Corporation are charged back to the Foundation, Board members should also have an understanding of other fundraising costs, such as the use of the Corporation's facilities and other resources. While it may be difficult to find precise comparable information for benchmarking purposes, other information, such as trend analyses over time, is needed to help Board members meet their oversight responsibilities.

95. **Recommendation.** The National Arts Centre Corporation should improve the information made available to Board members to assist them in their oversight responsibilities when approving fundraising and development plans.

The Corporation's response. *The Corporation agrees with the recommendation. In 2008–2009, direct fundraising costs were provided to the Corporation's Board of Trustees. In the future, additional information about indirect fundraising costs will also be presented at the Corporation's annual planning and budgeting meeting. In addition, the Corporation will bring relevant benchmarking information, as well as trend analyses, to the attention of the Board.*

Maintenance of the Centre

96. The Corporation is responsible for maintaining and operating the Centre, a facility of more than 111,500 square metres dedicated to showcasing the performing arts. There are four different performance stages, a restaurant and catering spaces, a parking garage, office spaces, and other facilities that include areas for sets and costumes, rehearsal halls, and dressing rooms.

97. We expected the Corporation to have maintenance management systems and practices in place to provide it with a good understanding of the condition of the Centre and to allow it to prioritize project repairs needed and plan for their efficient and timely completion.

98. To assess the maintenance management systems and practices, we looked at how the Corporation collected information on the condition of the building, how it documented this information in its maintenance management information system, and how priority repairs were addressed. We also looked at the role that senior management played in ensuring that maintenance work was carried out as planned, in an efficient and timely manner.

99. We found a significant deficiency in the maintenance of the Centre. A significant deficiency is a major weakness that could prevent the Corporation from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operation are carried out effectively. The Corporation did not have effective systems and practices in place to allow it to monitor the condition of the building and to ensure that necessary maintenance activities were carried out in a timely and efficient manner.

There are weaknesses in the Corporation's maintenance management systems

100. The Corporation assesses the condition of building components by using different means, including inspections by suppliers, in-house staff, and consultant experts.

101. Certain suppliers perform regular inspections and maintenance of key equipment, such as the fire system and the escalators, following an established maintenance schedule. In-house employees also perform a visual inspection of certain key building components, such as the roof and the entire exterior cladding of the building.

102. The Corporation obtains inspection reports from external engineering firms on the condition of key building components, such as structural elements, and the electrical and mechanical systems, including the air systems. Since the transfer of ownership of the building in 2000, the Corporation has received several inspection reports from external engineering firms. While we found that the Corporation had recent reports on the condition of its air and electrical systems, we noted that some the inspection reports on the structural elements were relatively old and, as such, there is a risk that they may be outdated. For example, we found that there was no recent engineering report on the condition of the roof or of the entire exterior cladding of the building.

103. The Corporation has a maintenance management information system where it normally captures data collected on the condition of key components of the Centre. Management uses this information for various purposes, including scheduling maintenance and monitoring equipment inspections. The maintenance management information system is to be updated to include, among other things, recommendations of recently completed inspection reports from external engineering firms, in-house inspections, and major rehabilitation work done on the Centre's systems components.

104. In reviewing the Corporation's maintenance management information system, we found that the Corporation is missing key information on the condition of the building to ensure that necessary maintenance activities are planned and carried out on a timely basis. We found that the results of in-house inspections of the roof and the exterior cladding were not documented in the system. We also found that management did not ensure that the results of inspections of key building components by external engineering firms in 2008 and 2009 were captured in the system. As a result, recommendations requiring immediate actions were not implemented on a timely basis. In some cases, it took more than a year to carry out some of the maintenance work necessary to address high-priority recommendations.

105. Comprehensive and up-to-date information on the condition of the building would also support the development of a comprehensive long-term operating and capital plan as recommended in paragraph 69.

106. **Recommendation.** The National Arts Centre Corporation should ensure that

- the results of building inspections are entered in its maintenance management information system to ensure that the documentation on the current condition of the building is up-to-date and needed repairs are planned and done on a timely basis, and
- the roles and responsibilities of those responsible for the maintenance of the building are reviewed to ensure that recommendations requiring immediate action are implemented as quickly as possible.

The Corporation's response. *The Corporation agrees with the recommendation. On 28 May 2010, the Corporation implemented new procedures and assigned new responsibilities for high-priority maintenance issues, including updating the information in the maintenance management information systems. In June 2010, the Corporation engaged independent consulting engineers to survey the Centre to address high-priority maintenance issues. The Corporation will engage consulting engineers over the summer to provide advice on the scope, cost, and effort required to produce a more comprehensive building condition report. In the fall of 2010, the Corporation will begin preparing plans for the execution of the required building surveys. The surveys will be conducted with due regard to priority, economy, and the activities at the Centre, and will culminate in a comprehensive building condition report and updated maintenance management information systems.*

Management of the major rehabilitation project

107. In 2006, the government announced that special capital funding could be made available for major maintenance requirements. After having operated for nearly 40 years, many of the key components of the National Arts Centre facility (the Centre) had reached or exceeded their normal life expectancy, and management had identified significant business continuity and health and safety risks that needed to be addressed. To address these risks, the Corporation presented a business case to rehabilitate the Centre's elevators and stage lifts, garage and structural concrete, fire protection systems, air handling systems, electrical distribution systems, exterior lighting systems, and security systems. In November 2006, it obtained one-time funding of $56 million.

108. This major rehabilitation project is a major undertaking that presents significant risks to the Corporation if it is not managed well. Several factors make it a complex and challenging project: a lack of accurate original construction drawings covering all aspects of the Corporation's facilities, a desire to complete the repairs without disrupting the Corporation's planned activities and performances, and a short time frame for completing the project (three years).

109. Given the importance of this project, we expected the Corporation to have effective project management controls in place. In addition, we expected the Corporation to have assessed the condition of its facilities and prioritized repair projects needed and planned for their efficient and timely completion. We also expected that completion of projects would be certified by qualified personnel and that regular reports on progress against plans would be provided to the Board and the government in an accurate and timely manner.

110. Overall, we found that the Corporation has established effective project management controls for this major rehabilitation project. We also found that the Corporation prioritizes project repairs needed and plans for their efficient and timely completion. We noted that projects are certified by qualified personnel to confirm their completion and accurate and detailed reports are provided to the Board and the government on a semi-annual basis.

The Corporation has sound management practices for overseeing the major rehabilitation project

111. In February 2008, the Audit Committee of the Board of Trustees received an internal audit report that assessed whether the project management controls for the major rehabilitation project were adequate and operating effectively. We noted that the internal audit focused on significant aspects of the overall project management, including authorization and governance, project scope, time and claims management, financial planning and cost management, quality management, risk management, procurement management, and safety and environmental management.

112. The internal audit concluded that project management controls in certain areas needed improvement and made several recommendations. In June 2009, a follow-up of the internal audit was done to determine whether management had acted on the recommendations. It found that the Corporation had adequately addressed all of the recommendations in the 2008 audit.

113. We found that the Corporation had established sound project management practices. A comprehensive project governance framework was developed that included the creation of a full-time project management team and the establishment of a formal process for reviewing and approving scope changes. We also found that members of the project management team were well-qualified and that both Corporation staff and external members had the necessary experience and skills. We noted a strong level of commitment among the team members. Finally, we found that the Corporation hired well-known consultants in the industry to assist it in planning and carrying out most aspects of the major rehabilitation project. These consultants provide regular reports on progress against plans and sign off on repairs as they are completed. We noted that final payments on projects are not made until the work is certified by qualified personnel.

114. In reviewing the $35 million spent to date on the major rehabilitation project, we found that the project management team actively monitors project costs and scheduling. It reviews the main reasons for any delays and increased costs and submits the changes from the original plan to senior management (and where necessary, the Board) for review and approval. In making changes to the original plan, the project management committee determines its priorities based on consideration of business continuity, health and safety, and financial risks.

115. We found that the Corporation continuously tracks and monitors project risks. In its reports to the Board and the government, the Corporation discusses the risks associated with each element of the project as well as planned mitigation activities for that project. We noted that no injuries attributed to the construction activity have been reported to the Corporation, nor has the Centre experienced any disruptions in its performances or services.

116. We found that management provides timely and accurate reports on progress against plans to the Board of Trustees and to the government on a semi-annual basis. These reports provide information on financial management issues, project scheduling, risk management, progress against milestones, actual and committed expenditures, original budgets, variances with explanations, forecasts to the end of the project, and summaries of scope, schedule, and quality changes. We reviewed several of the major scope changes and found that they were well-supported and reasonable in the circumstances.

117. In completing its major rehabilitation project, the Corporation faced significant delays, changes of scope, and additional costs attributable mostly to hidden defects that could not have been known when making its original funding request. The Corporation's project management practices were helpful in dealing with these challenges. The Corporation has revised the scope of the original work to fit the funding and is currently developing more detailed cost estimates for outstanding works to determine whether the major rehabilitation project can be completed within the $20 million funding balance. We found that the Board and the government had been informed of these situations in June 2008. Management intends to reinstate deferred projects as funding becomes available.

118. The Corporation gave due consideration to the project's risks in making its decisions about which project plans to extend and/or delay. For example, we reviewed the decision to defer the major rehabilitation of some ventilation systems and noted that, based on recent inspection reports, repairs could be done at a later date without undue risks as long as the Corporation continues to monitor and maintain the ventilation systems.

Human resource management

119. We expected the Corporation to have human resource systems and practices in to place to provide reasonable assurance that it has an appropriate number of qualified people, in the right place and at the right time, to carry out its mandate.

120. We found that, in general, the Corporation has established a sound governance structure for managing its human resources in a manner that supports its overall corporate strategy. Human resource risks are identified and monitored by senior management and overseen by the Board of Trustees. We found that the Corporation has been successful in attracting and retaining staff with the right mix of skills and experience to allow it to carry out its strategic plan and complete its planned schedule of artistic performances and other activities.

121. We identified one area—succession planning—that could pose a future risk to the organization.

The Corporation needs to strengthen its succession planning process

122. A succession planning process is normally one component of good human resource management. Succession planning acknowledges that senior managers will not be with an organization indefinitely and that an orderly process needs to be put in place to respond to the departure of certain key individuals. Such a plan would include the skills and experience needed for key management positions and strategies for staffing them in a timely manner. The plan should be reviewed and approved by the Board.

123. There are three key factors that highlight the need for the Corporation to have a succession plan: First, about 23 percent of senior managers are eligible to retire in 2010; second, the end of the CEO's mandate in 2011 could bring significant changes to the organization; and third, there is a relatively small pool of candidates from which qualified senior managers can be drawn.

124. While the Corporation does not yet have a succession plan for senior managers, we found that it has taken some steps that would ultimately be part of a formal succession plan. For example, the Board actively encouraged the current CEO to sign a contract extension for an additional two years; the Corporation identified five key senior management positions in the organization, and it expects that associate directors can replace departing directors (at least on a temporary basis to finish the season); and the Corporation identified an external pool of potential candidates for artistic director positions.

125. It is the Board of Trustees' responsibility to recruit and select the President and CEO, while it is the CEO's responsibility to recruit and select the senior management team at the Corporation. The Human Resources and Compensation Committee has a mandate to advise the Board on corporate succession planning. It would be useful for the Committee to have a list of key skills and experience needed for each of the key positions of the senior management team and management strategies for staffing them in a timely manner.

126. **Recommendation**. The National Arts Centre Corporation should strengthen its succession planning process for senior management to ensure that key positions of the Corporation can be staffed in a timely manner by individuals with the appropriate skills and experience.

The Corporation's response. *The Corporation agrees with the recommendation. It is developing a succession plan with the completion date scheduled for December 2010.*

Conclusion

127. We concluded that during the period covered by our examination, there was a significant deficiency in the Corporation's systems and practices for maintenance of the Centre. The Corporation did not have effective maintenance management systems and practices to monitor the condition of the building and to ensure that necessary maintenance activities were carried out in a timely and efficient manner.

128. The systems and practices in all other areas we examined are maintained in a way that provides the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

About the Special Examination

All of the audit work in this report was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objective

Under section 138 of the *Financial Administration Act* (FAA), federal Crown corporations are subject to a special examination once every 10 years. Special examinations of Crown corporations are a form of performance audit where the scope is set by the FAA to include the entire corporation. In special examinations, the Auditor General provides an opinion on the management of the corporation as a whole. Since the National Arts Centre Foundation is a separate legal entity, it did not fall within the scope of our examination. The opinion for this special examination is found on page 5 of this report.

Special examinations answer the question: Do the corporation's systems and practices provide reasonable assurance that assets are safeguarded and controlled, resources are managed economically and efficiently, and operations are carried out effectively? A significant deficiency is reported when there is a major weakness that could prevent the Corporation from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operation are carried out effectively.

Key systems and practices examined and criteria

At the start of this special examination, we presented the Corporation's audit committee with an audit plan that identified the systems and practices, and related criteria, that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. These are the systems and practices and criteria that we used for our special examination.

Key system and practice examined	Criteria
1. Programming	• The Corporation has systems and practices in place to ensure that programs were designed to meet the needs of the targeted audience, the requirements of its mandate, and to achieve its strategic goals. • The Corporation has systems and practices to collect and analyze the necessary data on its audiences to help design its programs and marketing strategies.
2. Corporate governance	The Corporation has a well-performing corporate governance framework that meets the expectations of best practices in board stewardship, shareholder relations, and communication with the public to maximize the Corporation's effectiveness and its ability to balance public policy objectives with its commercial objectives.
3. Corporate risk management	The Corporation has identified the risks to the realization of its mandate, business goals, and objectives and has monitored and mitigated them where appropriate.

Key system and practice examined	Criteria
4. Strategic and long-term planning	• The Corporation has clearly defined strategic directions and specific and measurable goals and objectives to achieve its legislative, commercial, and public policy mandate. Its strategic direction and goals take into account government priorities, identified risks, and the need to control and protect its assets and manage its resources economically and efficiently. • The Corporation has developed plans to guide management decisions in the implementation of its strategic goals. • The Corporation has performance indicators to measure the achievement of its mandate and statutory control objectives. It also has reports that provide complete, accurate, timely, and balanced information for decision making and accountability reporting.
5. Financial management	• The Corporation has an effective financial management framework to manage identified risks, allocate resources in accordance with its strategic goals, encourage due regard to economy in the use of resources, and report on actual results in a timely manner. • The financial management framework produces information that supports senior management and the Board in their decision-making processes.
6. Maintenance of the Centre and management of the major rehabilitation project	• The Corporation has effective project management controls for its major infrastructure repair projects. • The Corporation has assessed the condition of its facilities and prioritized project repairs needed and planned for their efficient and timely completion. Completion of projects is reviewed (certified) by qualified personnel. Regular and accurate reports on progress against plans are provided to the Board and the government in a timely manner.
7. Human resource management	The Corporation has the appropriate number of qualified people, in the right place and at the right time, to carry out its mandate.

Audit work completed

Audit work for this special examination was substantially completed on 31 December 2009. The systems and practices we examined were those in effect from September 2008 to December 2009.

Audit team

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Appendix List of recommendations

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

Recommendation	Response
Programming	
36. The National Arts Centre Corporation should review and update its Memorandum of Understanding with the Canada Council for the Arts to ensure that it reflects relationships, new opportunities, and up-to-date strategies to fulfill its role in education and in the development of performing arts outside the National Capital Region. **(34–35)**	**The Corporation's response.** The Corporation agrees with the recommendation and has started to work with the Canada Council for the Arts in updating the existing Memorandum of Understanding.
Corporate governance	
49. The Board of Trustees of the National Arts Centre Corporation should review and update its profile to ensure that it includes all key skills and expertise needed on the Board, and communicate any existing skill gaps to the Minister of Canadian Heritage and Official Languages to allow for their consideration in filling future vacancies on the Board. **(46–48)**	**The Corporation's Board of Trustees' response.** The Board of Trustees of the Corporation agrees with the recommendation and by the fall of 2010 will review and update its profile to ensure that all skills and expertise needed are reflected on the Board and are communicated to the Minister of Canadian Heritage and Official Languages.
53. The Board of Trustees of the National Arts Centre Corporation should formalize its conflict-of-interest practices and develop a code of values and ethics for members that is specific to the Corporation's business and working relationships. It should also determine how the Corporation's policies apply to outside experts and stakeholders attending the meetings of the Board and its committees. **(50–52)**	**The Corporation's Board of Trustees' response.** The Board of Trustees of the Corporation agrees with the recommendation. A draft code of ethical conduct and a conflict of interest disclosure form has been discussed by the Nominating and Ethics Committee of the Board of Trustees. It is expected that both documents will be tabled and approved by the full Board in June 2010.

Recommendation	Response
Corporate risk management	
60. The National Arts Centre Corporation should implement more systematic and comprehensive risk management practices. **(58–59)**	**The Corporation's response.** The Corporation agrees with the recommendation. The recommendation follows management's report to the Corporation's Board of Trustees in February 2010. Management has identified Board and management responsibilities, ranked key risk categories, and presented a timetable for the development of policies and procedures. The development of more systematic risk management practices will be undertaken with due regard to economy and available resources.
Strategic and long-term planning	
69. The National Arts Centre Corporation should develop a comprehensive long-term operating and capital plan to integrate new initiatives into its financial planning exercise to help ensure that it has the capacity to achieve its strategic goals and priorities within the planned time frame and that it can continue to maintain the functionality of the Centre over the longer term. **(67–68)**	**The Corporation's response.** The Corporation agrees with the recommendation. It will integrate the strategic plan in its long-term financial planning. The Corporation intended to add the strategic planning initiative to its existing long-term financial planning and to develop a comprehensive long-term operating and capital plan to cover 2009–2014. However, the difficult economic climate required the Corporation to develop a financial restructuring plan to respond to the resulting erosion of revenues. Now that this restructuring plan is in place, the Corporation will begin to integrate its strategic plan into its long-term financial planning.
Financial management	
95. The National Arts Centre Corporation should improve the information made available to Board members to assist them in their oversight responsibilities when approving fundraising and development plans. **(87–94)**	**The Corporation's response.** The Corporation agrees with the recommendation. In 2008–2009, direct fundraising costs were provided to the Corporation's Board of Trustees. In the future, additional information about indirect fundraising costs will also be presented at the Corporation's annual planning and budgeting meeting. In addition, the Corporation will bring relevant benchmarking information, as well as trend analyses, to the attention of the Board.

Recommendation	Response
Maintenance of the Centre	
106. The National Arts Centre Corporation should ensure that • the results of building inspections are entered in its maintenance management information system to ensure that the documentation on the current condition of the building is up-to-date and needed repairs are planned and done on a timely basis, and • the roles and responsibilities of those responsible for the maintenance of the building are reviewed to ensure that recommendations requiring immediate action are implemented as quickly as possible. **(96–105)**	**The Corporation's response.** The Corporation agrees with the recommendation. On 28 May 2010, the Corporation implemented new procedures and assigned new responsibilities for high-priority maintenance issues, including updating the information in the maintenance management information systems. In June 2010, the Corporation engaged independent consulting engineers to survey the Centre to address high-priority maintenance issues. The Corporation will engage consulting engineers over the summer to provide advice on the scope, cost, and effort required to produce a more comprehensive building condition report. In the fall of 2010, the Corporation will begin preparing plans for the execution of the required building surveys. The surveys will be conducted with due regard to priority, economy, and the activities at the Centre, and will culminate in a comprehensive building condition report and updated maintenance management information systems.
Human resource management	
126. The National Arts Centre Corporation should strengthen its succession planning process for senior management to ensure that key positions of the Corporation can be staffed in a timely manner by individuals with the appropriate skills and experience. **(119–125)**	**The Corporation's response.** The Corporation agrees with the recommendation. It is developing a succession plan with the completion date scheduled for December 2010.