



Canada Development
Investment Corporation

Special Examination Report—2009



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



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.

Ce document est également publié en français.



Office of the Auditor General of Canada
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12 February 2009

To the Board of Directors of Canada Development Investment Corporation

We have completed the special examination of Canada Development Investment Corporation in accordance with the plan presented to the Audit Committee of the Board of Directors on 19 August 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 would like to take this opportunity to express our appreciation to the Board members, management and the Corporation's staff for the excellent cooperation and assistance offered to us during the examination.

Yours sincerely,

Sylvain Ricard, CA
Assistant Auditor General

Barry J. Lalonde, CA
Partner, KPMG LLP

Attach.

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Canada Development Investment Corporation

Special Examination Report—2009

Main Points

What we examined

The Canada Development Investment Corporation (CDIC), a Crown corporation reporting to Parliament through the Minister of Finance, was created in 1982 to manage the commercial holdings of the government. In 1995, it was directed to actively divest its assets and prepare for eventual windup. In 2007, however, the Minister issued new direction to continue operating on a commercial basis while remaining prepared to divest when so directed.

Our examination included the operations of CDIC and two subsidiary corporations, Canada Eldor Inc. (CEI) and Canada Hibernia Holding Corporation (CHHC).

CEI manages liabilities resulting from the sale of its assets to Cameco Corporation in 1988. That is, it is responsible for financial obligations set out in its agreement with Cameco that relate to Cameco's management and disposal of historic wastes, site restoration, and administration of retiree benefits. It is also responsible for managing legal claims as they arise in connection with past operations. CHHC's sole purpose is to manage the federal government's 8.5 percent interest in the Hibernia Development Project.

CDIC's corporate headquarters are in Toronto and it has seven employees, including those of its subsidiaries. Total revenues, consisting of crude oil sales and interest income, were \$309 million for the year ended 31 December 2007, and total operating expenses were \$66 million.

We examined whether CDIC and its subsidiaries have systems and practices in place to provide the Corporation with reasonable assurance that assets are safeguarded and controlled, resources are managed economically and efficiently, and operations are carried out effectively. Our detailed examination work in both the parent Corporation and the subsidiaries focused on corporate governance, strategic planning, risk management, and operations. Our examination was carried out from September 2008 to October 2008.

Why it's important

CDIC, through its subsidiary CHHC, manages an investment that generates significant cash flow in dividends to the federal government. At 31 December 2007, CHHC's net book value was recorded at \$208 million.

CDIC, through its subsidiary, CEI, is responsible for reimbursing costs related to the cleanup of historic contaminated waste sites, a matter of concern to Canadians because of the potential health implications.

What we found

We found no significant deficiencies in the systems and practices of CDIC and its subsidiaries. We found a number of sound practices and also some areas for improvement:

- The Corporation is governed by a Board of experienced professionals who are actively involved in their oversight responsibilities. The Board identifies what it needs to provide stewardship and oversee the Corporation's accountability. The Board has the appropriate independence and access to the resources needed to discharge its responsibilities effectively. It has enough information and knowledge to interpret the Corporation's mandate, provide management with strategic direction, and exercise its oversight responsibilities. It also participates appropriately in the strategic planning of the Corporation, including discussion and challenge with management.
- While the Board understands the key risks it faces and has strategies in place to mitigate them, the Corporation lacks a formal risk management approach that would provide for the systematic identification, monitoring, and reporting of risks to the Board. We also note that while CDIC's corporate plan summary and annual report are tabled in Parliament, they are made available to the public only upon request. Given its status as a Crown corporation, CDIC should ensure that information on the Corporation is easily accessible to the public.
- Management of CHHC actively participates in the oversight of the Hibernia Platform operator's committees. There are systems and practices in place to address both joint-venture operations and the sale and transportation of oil. CHHC has decided as a risk mitigation strategy to contract out the shipping and storage of oil. It sells direct to market to increase revenue and reduce risks related to the transportation of oil, since the transfer of ownership takes place when the oil is loaded into the tanker at the platform.

- CEI has systems and practices in place to ensure the proper management of its financial obligations related to contaminated waste disposal, site restoration, and retiree benefits. It has processes in place to oversee Cameco's related operations and claims, drawing on such experts as lawyers, actuaries, and auditors to ensure that Cameco complies with the conditions of its agreement with CEI.

CDIC has responded. *CDIC agrees with all the recommendations. Its responses follow the recommendations throughout the report.*

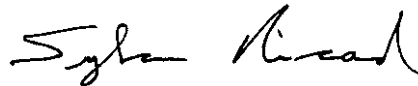
Special Examination Opinion

To the Board of Directors of Canada Development Investment Corporation

1. Under section 131 of the *Financial Administration Act* (FAA), the Canada Development Investment 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 five years.
3. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination—from September 2008 to October 2008—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 19 August 2008, we submitted the plan to the Audit Committee of the Board of Directors. The plan identified the systems and practices that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. Those are the systems and practices that we selected for examination.
5. The examination plan also included the criteria that we used to examine the Corporation’s systems and practices. These criteria were selected for this examination in consultation with the Corporation. The criteria were based on our experience with performance auditing and our knowledge of the subject matter. The criteria and the systems and practices we examined are listed in **About the Special Examination** at the end of this report.
6. We conducted our examination in accordance with our plan and with the standards for assurance engagements established by The Canadian Institute of Chartered Accountants. Accordingly, it included the tests and other procedures we considered necessary in the circumstances. In carrying out the special examination, we did not rely on any internal audits.

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

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



Sylvain Ricard, CA
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for the Auditor General of Canada



KPMG LLP
Chartered Accountants,
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Ottawa, Canada
31 October 2008

Overview of Canada Development Investment Corporation

Background

9. The Canada Development Investment Corporation (CDIC or the Corporation) was incorporated in 1982 as a parent Crown corporation under the provisions of the *Canada Business Corporations Act*. It is listed as a Schedule III, Part II, Crown corporation under the *Financial Administration Act* (FAA).

10. **Mandate.** When it was created, CDIC was given a broad mandate that included, among other things, creating or developing businesses and industries in Canada, investing in shares of corporations, acquiring properties, and operating in a commercial manner. Since 1984, the Corporation has been divesting its holdings as directed by the Minister of Finance. In 1993, the Canada Hibernia Holding Corporation (CHHC) was created to acquire, hold, and manage an 8.5 percent equity interest in the Hibernia oil project. This holding has been held ready for sale since 1999; however, no approval for sale has been received from the Minister of Finance.

11. In November 2007, the Minister of Finance informed CDIC that its strategic direction “should reflect a future focused on the ongoing management of its current holdings in a commercial manner, providing assistance to the government in new policy directions suited to CDIC’s capabilities, while maintaining the capacity to divest CDIC’s existing holdings, and any other government interests assigned to it for divestiture, upon the direction of the Minister of Finance.”

12. **Subsidiaries.** CDIC wholly owns three subsidiaries: Canada Eldor Inc. (CEI, formerly Eldorado Nuclear Limited), Canada Hibernia Holding Corporation and PPP Canada Inc. It should be noted that PPP Canada Inc. has been deemed a parent Crown corporation subject to its own special examination, and therefore is not included in this special examination report.

13. In 1988, CEI sold all of its assets and operations to Cameco Corporation. CEI’s remaining obligations include managing historic waste, site restoration, and retiree benefits.

14. CDIC acquired Canada Hibernia Holding Corporation in March 1993. CHHC’s sole purpose is to hold, manage, and finance its 8.5 percent equity interest in the Hibernia Development Project, a joint venture with other private-sector oil companies.

15. CDIC and its subsidiaries have seven employees in total. Although the subsidiaries are separate legal entities, each with their own management structure and Board of Directors, CDIC guides and directs them.

Operations

16. **Canada Eldor Inc.** CEI's remaining obligations consist of the following:

- **Waste contingencies and costs—Historic Waste.** As a result of past refinery operations, significant quantities of waste material had accumulated prior to the sale of Eldorado Nuclear Limited's assets to Cameco in 1988. The waste consists mainly of low-level radioactive waste. Pursuant to the purchase and sale agreement in 1988, CEI has a financial obligation to Cameco to share the costs incurred to manage and dispose of any waste that existed at the time of sale as defined in the purchase and sale agreement. This waste was located at the Port Granby Waste Site in Port Granby, Ontario, the Welcome Waste Site near Port Hope, Ontario, the Port Hope Refinery in Port Hope, Ontario, and the Blind River Refinery in Blind River, Ontario. Cameco is responsible for the management and disposal of historic waste and must comply with the regulations of the relevant authorities such as the Canadian Nuclear Safety Commission. CEI's responsibility is limited to its share of the cost.
- **Site restoration—Beaverlodge.** Beaverlodge is a former mine site near Uranium City, Saskatchewan, which has been inactive since prior to the sale of CEI's assets to Cameco. Pursuant to the purchase and sale agreement in 1988, CEI is responsible for all costs associated with the decommissioning of this site, which was transferred to Cameco at the time of the sale. Cameco is responsible for monitoring and managing the site. CEI reimburses Cameco for actual costs plus a 15 percent management fee. Again, CEI's responsibility is limited to reimbursing costs incurred.
- **Retiree benefits.** Pursuant to the purchase and sale agreement in 1988, CEI is responsible for managing the benefit plan for all Eldorado and Eldor employees who retired prior to October 1988. These benefits include life insurance, and health and dental benefits. Currently, 285 former employees participate in this plan, which Cameco administers.

- **Contingencies.** Since CEI was at one time an operating mining company, it is responsible for managing claims or possible claims related to those previous operations as they arise. They engage external legal counsel to address these related issues.

17. Canada Hibernia Holding Corporation (CHHC). CHHC's business has two core elements: fulfilling its role as a non-operating joint-venture owner of the Hibernia Development Project and selling and transporting its share of Hibernia crude oil.

- **Non-operating joint venture.** CHHC is a non-operating joint-venture owner with the Hibernia Management and Development Company (HMDC). That is, CHHC is responsible for funding its share of Hibernia operations, drilling, and platform and processing facility upgrades. The project is operated by HMDC on behalf of the owners. CHHC participates on the Hibernia Executive Committee and the many business and technical committees that collectively oversee the ongoing business planning and operations of the Hibernia project.
- **Sale and transportation of crude oil.** CHHC receives its share of production from the Hibernia project "in-kind". This means that CHHC receives crude oil and subsequently sells it. Consequently, CHHC is responsible for the marketing of its oil and for transporting it to market. To transport its oil, CHHC joined with other oil companies in entering into a long-term time charter for a tanker.

Focus of the special examination

18. We examined Canada Development Investment Corporation's systems and practices in the areas of corporate governance, strategic planning, risk management, and the operations of Canada Hibernia Holding Corporation and Canada Eldor Inc. Our objective was to determine whether those systems and practices provide Canada Development Investment 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.

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

Observations and Recommendations

Corporate governance

20. Corporate governance refers to the structures, systems, and practices that oversee the way an organization is managed so it can carry out its mandate and achieve its objectives. Sound practices in corporate governance are essential to meeting the objectives outlined in Part X of the *Financial Administration Act* as it relates to Crown corporations.

21. We expected the Corporation and its subsidiaries to have a corporate governance framework and practices that perform well, and that meet the expectations of best practices in Board stewardship, shareholder relations, and communication with the public.

CDIC's governance framework and practices are appropriate

22. We examined the mandate, composition, and functioning of the Board of Directors of the parent corporation and its subsidiaries as well as its application of various policies, including the Corporation's conflict of interest policy.

23. **Board stewardship.** The governance structure of CDIC and its subsidiaries is as follows: CDIC, the parent corporation, has a Board consisting of four directors. The Corporation is seeking two additional director appointments to replace recent departures. The Board has two committees: an audit committee, and a nominating committee. Each subsidiary, CHHC and CEI, has its own Board and the same directors sit on all three boards. Each Board also has its own audit committee. In addition, the CEO of CHHC sits on the Board of that subsidiary.

24. A letter from the Minister of Finance provides CDIC's Board with the Corporation's strategic direction. Neither the CDIC Board nor its subsidiaries' boards has a formal charter in place as yet; however, terms of reference do exist for all of the committees. A Board charter promotes effective accountability by clearly defining roles and responsibilities of the Board members. We encourage the Corporation to complete the Board charters in a timely manner.

25. The Audit Committees for each organization—CDIC, CEI, CHHC—do have charters which describe their roles and responsibilities. The members of the audit committees have strong financial capabilities and adequately challenge and review the financial statements and the associated management discussion and analysis. The Audit Committees meet regularly with the external auditors.

26. The CHHC Board has considered succession planning for the President and CEO. Once a year, the CHHC Board assesses the performance of its President and CEO. We noted, however, that there is no formal evaluation process for the executive vice-president of CDIC and CEI. The Corporation could benefit from a formal evaluation process by clarifying the objectives and results expected from this position. In addition, the Boards of CDIC and its subsidiaries informally self-assess their performance on an annual basis.

27. Internal audit is an important element in corporate governance as it provides assurance to senior managers and the Board that important financial, administrative, and operational activities are carried out efficiently and effectively. CDIC has conducted internal audits of operations for both its subsidiaries in 2002 and in 2005. Another audit, which will focus on cash management, is scheduled to be conducted in 2008 by an independent audit firm. There were no major observations noted in the 2002 and 2005 audits, and management's response and action plans have addressed those observations that were noted.

28. Board information. The Board has information and knowledge to interpret the Corporation's mandate, to provide management with strategic direction, and to exercise their oversight responsibilities. If they need it, they ask for more information. This information allows the Board to be closely involved in such areas as developing and approving CDIC's corporate plan. Board decisions are documented in the minutes of the various Board and committee meetings.

29. Board competency and independence. For CDIC, a nominating committee exists, and a Board member profile has been prepared and presented to the Minister of Finance. Analysis of the desired versus the actual competencies of Board members indicates that collectively the Board has the appropriate knowledge to discharge their responsibilities. There is evidence that the Board has access to, and uses, outside expertise when necessary to fill gaps in its skills and expertise profile. While discussion of Board succession planning does appear as an item on the annual work plan, there is no formal documentation of succession plans. Future appointments and reappointments will have to be carefully managed to ensure proper continuity among Board membership.

30. The independence of the Boards of CDIC and its subsidiaries, from management, is ensured through various mechanisms:

- having sufficient expertise to carry out their duties;
- allowing only Board members to vote and make decisions; and
- holding part of each meeting without management to discuss issues of interest to the Board.

31. New directors are provided with information on the Corporation through an informal orientation process, a director's manual, and access to courses relevant to director responsibilities. As new director appointments are being considered for CDIC, the Corporation would benefit from expanding its orientation and training of directors to cover the public sector environment and its impact on CDIC's affairs.

32. The Board has drafted a code of conduct that sets forth the expected standards of values and ethics for directors, management, and employees with the Corporation, and its subsidiaries. It establishes rules of conduct and procedures to minimize the possibility of a conflict arising between their private interests and work for the Corporation. We encourage the Corporation to implement the code of conduct in a timely manner.

33. Communication. We examined correspondence between the Corporation and the Minister of Finance and the Department, such as the letter from the Minister of Finance that provided strategic direction. The Board communicates regularly with the CEO of CHHC and with the executive vice-president of CDIC and CEI. We noted that while CDIC's corporate plan summary and annual report are tabled in Parliament, they are made available to the public only upon request.

34. Recommendation. Given that CDIC is a Crown corporation, it should ensure that information on the Corporation is easily accessible to the public.

The Corporation's response. The Corporation agrees. The Corporation will create a website to allow information on the Corporation to be accessed in a cost-effective manner by the public.

CDIC is planning for its transition to international financial reporting standards

35. International financial reporting standards (IFRS) are being adopted in Canada. Publicly accountable enterprises with March 31st year ends, including Crown corporations such as CDIC, are required to adopt IFRS beginning 1 April 2011. The conversion is a fundamental

change in financial reporting and may significantly affect the management of Crown corporations. The responsibility for adequately planning and managing the conversion rests with each corporation's management. The Board's responsibility is to oversee and ensure that an effective conversion takes place. In their respective roles, management and the Board will need to address issues that the conversion triggers, related to changes in risk, financial reporting, and internal controls.

36. We examined how CDIC and its subsidiaries are preparing for an effective conversion. We found that they have taken a number of steps to prepare. To date, management of the subsidiaries has regularly updated their audit committees on the importance of IFRS and the status of the project. Since the audit committees of all three entities consist of the same personnel, they all are aware of these developments. Members of management will attend training about these standards and plan to make a presentation on IFRS to the CDIC Audit Committee in December 2008.

37. In our view, CDIC and its subsidiaries have taken appropriate steps at this point to plan its conversion to IFRS. A successful conversion will continue to require sustained attention from management and the Board of Directors.

Strategic planning and performance reporting

38. Strategic planning is a management tool that an organization uses to define its mandate, determine its long-term goals, and identify the best approaches to achieve those goals. Both management and the Board have a role in the strategic planning process. The corporate plan is the result of this process.

The Board participates in the development of the corporate plan

39. We expected to see that the Corporation would have a clearly defined strategic direction and would have set specific and measurable goals and objectives in order to achieve its mandate. This strategic direction and goals would reflect the direction the Minister provided, and would identify risks and related mitigating strategies.

40. We reviewed the Corporation's most recent planning process related to the preparation of the corporate plan. The Board works with senior management to set out the Corporation's strategic direction. In October 2008, senior management presented a first draft of the corporate plan to the CDIC Board. The Board discussed the draft corporate plan and challenged management on its content to best reflect the mandate, size, and nature of the Corporation's business.

41. The corporate plan is based on an analysis of CDIC's business environment and the key risks it faces. It is then forwarded to the Minister for the approval of the Governor in Council. The corporate plan reflects the direction provided by the Minister, and includes the mandate and future role of the Corporation, its corporate profile, and corporate performance.

42. It is important that a corporation have operational plans with specific measurable goals and objectives to realize its strategic plan, and that the use of performance information is integrated into the regular management processes. This allows a Corporation to prepare periodic reports that measure its success in meeting the expected corporate results and statutory control objectives in the strategic and operational plans.

43. Measuring and demonstrating the impact and effect of an organization's activities is a constant challenge. All organizations face this same problem. Nonetheless, it is important to assess the extent to which the Corporation's activities contribute to fulfilling its mandate and achieving its objectives.

44. We examined the Corporation's performance management and measurement framework and the corporate plan. CDIC's five-year corporate plan has a section headed "Objectives, Strategies, and Performance Measures." We noted that it included a narrative summary of performance; however, we could not find in the text concrete performance measures by which CDIC could assess the degree to which it has achieved its objectives and report the results to the Board and to Parliament. It is our understanding that the Corporation will regularly review its corporate objectives, and provide performance indicators for those that can be measured.

Risk management

45. Risk management is the process of identifying the risks that face an organization, which it needs to manage if it is to have reasonable assurance that it will achieve its strategic and operational objectives, manage its resources economically and efficiently, and safeguard its assets.

46. We expected CDIC to have identified all significant risks to which the Corporation and its subsidiaries are exposed. We also expected CDIC and its subsidiaries to have defined the level of tolerance related to risks identified, and assigned responsibilities for mitigating any risks that are present. Risk management is a key responsibility for both management and the Board of Directors in overseeing the operations of the Corporation.

CDIC has identified its risks

47. We found that every year when preparing its annual corporate plan, CDIC evaluates risks that the Corporation and its subsidiaries face in achieving their corporate objectives. The Board of Directors is active in reviewing and approving the corporate plan. The output of this annual exercise is a corporate plan that identifies the risks facing CDIC and the mitigating strategies in place for the coming year.

48. Through discussions with management and Board members, we found that the Corporation understands the risks it faces and has strategies to mitigate those risks. We observed that both management and Board focus on monitoring the risks related to the operations of its subsidiaries. CHHC manages its main risks by employing an experienced management team focused on monitoring the operator of the Hibernia platform. CEI addresses risks by hiring external third parties, such as lawyers, actuaries, and auditors, to provide management and the Board of Directors with their insight and expertise in evaluating the Corporation's exposure to liabilities.

A more systematic approach to risk management is needed

49. Although the Corporation has a thorough understanding of the risks that it faces, we noted that CDIC has not developed a formal and systematic approach to risk assessment. There is no formal risk management policy or framework that specifies levels of tolerance for identified risks that can be used to monitor the effectiveness of mitigation strategies. CDIC would benefit by better linking objectives, major risks, mitigating strategies, important systems and practices, performance measures, and related targets.

50. **Recommendation.** CDIC should develop and implement a formal risk-management approach that will provide for the systematic identification, mitigation, monitoring, and reporting of risks so that the risks can be kept within appropriate levels.

The Corporation's response. The Corporation agrees. As indicated in the report, the Board of Directors and management are very conscious of risk management and are already reviewing risks through reports to the Board on a regular basis. In order to provide more formality to this process, a draft risk management summary is being considered by the Board.

Operations CHHC's operations are adequately managed

51. CHHC's business has two core elements: fulfilling its role as a non-operating joint-venture owner of the Hibernia oil project, and selling and transporting its share of Hibernia crude oil.
52. We reviewed the operational systems and processes at CHHC to monitor the activities for a non-operating joint-venture owner, and the sale and transportation of crude oil.
53. We expected that the Corporation would have systems, practices, and a strategy in place to manage its 8.5 percent interest in the Hibernia oil project in a manner which would ensure maximization of shareholder value of the asset and return thereon.
54. **Non-operating joint-venture owner.** The management team at CHHC is responsible for managing the Corporation's interest, maximizing the value of the asset to the shareholder and operating in a commercial manner. CHHC funds its share of Hibernia operations, drilling, and platform and processing facility upgrades. From 1993 to 2007, CHHC's share of project expenditures totalled \$608 million. As of 31 December 2007, the accumulated dividend that CHHC has paid to the government totalled \$1 billion.
55. We found that a management group with extensive experience in the oil industry operates CHHC. It has systems and practices in place to address joint-venture operations. For example, CHHC managers actively participate in overseeing the Hibernia platform operator's committees, including both the Hibernia Executive Committee that governs operations, and the Safety, Health, and Environment Committee that monitors health and safety issues.
56. CHHC has focused its resources on areas of misalignment with the other partners in order to maximize the value to the shareholder.
57. **Sale and transportation of crude oil.** CHHC receives its in-kind share of oil production from Hibernia. Consequently, CHHC is responsible for the sale of its share of oil production and for the transportation of the oil to market in order to maximize the return to the shareholder. Crude oil sales from 1993 to 2007 totalled \$2.4 billion.
58. We found that with respect to the sale and transportation of oil, CHHC has decided, given its low volume of transactions and as a strategy to mitigate risk, to contract out aspects such as the shipping and storage of the oil. CHHC also sells direct-to-market to increase revenue and reduce the risks associated with the transportation of oil.

CHHC transfers ownership of the oil to the buyer right at the platform, when the operator loads the cargo into the tanker for shipment.

CEI's obligations are properly managed

59. CEI manages liabilities resulting from the sale of Eldorado Nuclear Ltd. to Cameco Corporation in 1988. Those liabilities include retiree benefit obligations and the management and clean up of waste sites.

60. We expected to see that the Corporation has systems and practices in place to allow for the management of existing liabilities and ongoing claims and litigation as they arise.

61. Retiree benefit obligations. Pursuant to the purchase and sale agreement in 1988, CEI is responsible for the management of the benefit plan for all Eldorado and Eldor employees who retired prior to October 1988. These benefits include life insurance, and health and dental benefits. Currently, there are 285 former employees in this plan, which is administered through Cameco. As at 30 September 2008, CEI has \$2.3 million accrued in its financial statements for this liability.

62. We reviewed the processes in place for management of retiree benefit obligations. We found that CEI has systems and practices in place to properly manage the retiree benefit obligations. We noted that every three years an independent actuarial evaluation is performed that provides the basis for recording the liability.

63. Clean up of waste sites. CEI is also responsible for assuming the remaining obligations related to waste contingencies and costs. These obligations have two main components: historic waste and site restoration.

64. Historic waste obligation is the result of past refinery operations by CEI before the sale to Cameco in 1988. As at 31 December 2007, CEI has recorded a liability of \$11 million related to this obligation.

65. The site restoration obligation is the result of a former mine site that has been inactive since prior to the sale of Eldorado assets to Cameco. CEI is responsible for all costs associated with the decommissioning of this site, which was transferred to Cameco at the time of the sale. As at 31 December 2007, CEI has a liability of \$11 million related to that obligation.

66. We found that CEI has systems and practices in place to properly allow for the management of liabilities pertaining to contaminated waste sites as they relate to the sale of its assets to Cameco. CEI has

hired experts including lawyers and auditors to oversee Cameco's compliance with the conditions of the agreement.

67. We noted that the Corporation has engaged external auditors to audit Cameco's compliance with the 1988 Agreement of Purchase and Sale, regarding the management of historic waste. However, the agreement does not provide the Corporation with the right to have a third-party audit conducted concerning site restoration costs at the Beaverlodge mine site. In order for the Corporation to obtain evidence that invoices paid comply with the agreement and that underlying activities have been performed for site restoration, management engages in activities it deems necessary to provide the Corporation sufficient diligence prior to payment. Management is provided with an annual briefing of expected activities and a budget for the year, and reviews invoices and the supporting documentation provided for reasonableness prior to payment. Management has also taken steps to be active in their diligence, such as performing periodic site visits and engaging external experts to validate the work plans provided by Cameco.

Conclusion

68. We examined the Canada Development Investment Corporation and its subsidiaries' systems and practices in the areas of corporate governance, strategic planning, risk management, and operations. Our objective was to determine whether the Corporation's systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. We found no significant deficiencies in the systems and practices we examined.

About the Special Examination

Objective

Under section 138 of the *Financial Administration Act* (FAA), federal Crown corporations are subject to a special examination once every five years. Special examinations of Crown corporations are a form of performance audit where the scope is set by the FAA to include the entire corporation. In special examinations, the Auditor General provides an opinion on the management of the corporation as a whole. The opinion for this special examination is found on page 5 of this report.

Special examinations answer the question: Do the corporation's systems and practices provide reasonable assurance that assets are safeguarded and controlled, resources are managed economically and efficiently, and operations are carried out effectively?

Key systems and practices examined, criteria, and approach

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 examination.

| Key system and practice examined | Criteria |
|----------------------------------|--|
| Corporate Governance | To maximize the Corporation's effectiveness and its ability to fulfill its mandate, the Corporation should have a well-performing corporate governance framework that meets the expectations of best practices in Board stewardship, shareholder relations, and communication with the public. |
| Risk Management | <p>CDIC should have a focus on risk embedded in its corporate culture. That focus should be pervasive at all levels of the Corporation and should support the realization of its mandate, business goals, and objectives. Risks should be identified, measured, mitigated, monitored, and reported in order to be kept within a level appropriate to the nature of the business.</p> <p>The Corporation has considered and assessed the environmental impacts and related risks and opportunities and liabilities associated with its operations, activities, and strategies. It manages these risks as appropriate, consistent with government expectations and applicable laws, regulations, and other requirements.</p> |

| | |
|---|--|
| Strategic Planning and Performance Reporting | <p>The Corporation has clearly defined strategic directions and specific and measurable goals and objectives to achieve its mandate. Its strategic direction and goals take into account government priorities, identified risks, and the need to control and protect its assets and manage its resources economically and efficiently.</p> <p>The Corporation has identified performance indicators to measure the achievement of its mandate and statutory objectives. It also has reports that provide complete, accurate, timely, and balanced information for decision making and accountability reporting.</p> |
| Operations | <p>The Corporation should have systems, practices, and a strategy in place to manage its investment in Hibernia to ensure maximization of the shareholder value of the Hibernia asset and the return thereon.</p> <p>The Corporation should have systems and practices in place to allow for the management of existing liabilities and ongoing claims and litigation as they arise.</p> |

Audit work completed

Audit work for this special examination was substantially completed on 31 October 2008.

Audit team

Office of the Auditor General

Assistant Auditor General: Sylvain Ricard

Principal: Louise Bertrand

Director: Rob Wilson

Julie Salois

Arethea Curtis

KPMG

Partner: Barry Lalonde

Manager: Jonathan Cavalier

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

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 |
|--|---|
| Corporate governance | |
| <p>34. Given that CDIC is a Crown corporation, it should ensure that information on the Corporation is easily accessible to the public. (33)</p> | <p>The Corporation agrees. The Corporation will create a website to allow information on the Corporation to be accessed in a cost-effective manner by the public.</p> |
| Risk management | |
| <p>50. CDIC should develop and implement a formal risk-management approach that will provide for the systematic identification, mitigation, monitoring, and reporting of risks so that the risks can be kept within appropriate levels. (45–49)</p> | <p>The Corporation agrees. As indicated in the report, the Board of Directors and management are very conscious of risk management and are already reviewing risks through reports to the Board on a regular basis. In order to provide more formality to this process, a draft risk management summary is being considered by the Board.</p> |