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Crown Investments Corporation of Saskatchewan

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Main points

In this chapter, we report the results of the audits of Crown Investments Corporation of Saskatchewan (CIC) and the Capital Pension Plan (Plan) for the year ended December 31, 2004.

We concluded that the financial statements of CIC and the Plan are reliable. CIC complied with the authorities governing its activities and had adequate processes to safeguard public resources.

The Plan complied with the authorities governing its activities. It had adequate processes to safeguard public resources except the Plan needs to improve its governance processes.

We reviewed the 2003 annual reports of four large CIC Crown corporations. They compare well against Crowns in most other Canadian jurisdictions, although the reports of Crowns in a few other jurisdictions are more advanced in some areas. We encourage Saskatchewan's CIC Crown corporations to continue to improve their performance reports using the CCAF's reporting principles as guidance.

Introduction

Crown Investments Corporation of Saskatchewan (CIC) is the holding company for Crown corporations such as Saskatchewan Power Corporation (SaskPower), Saskatchewan Telecommunications (SaskTel), SaskEnergy Incorporated (SaskEnergy), and Saskatchewan Government Insurance (SGI). CIC is responsible for establishing the strategic direction for these corporations and for monitoring their performance. CIC's Board provides advice about them to Executive Council (Cabinet). CIC also manages the Capital Pension Plan (the Plan).

CIC's 2004 Annual Report contains two sets of financial statements. The first set shows CIC's financial results consolidated with its subsidiaries. The second set shows the financial results of CIC, the legal entity. The Legislative Assembly asked CIC to prepare the second set of financial statements to provide additional information on how CIC managed the assets entrusted to it by the Assembly. CIC's 2004 consolidated financial statements show it had revenue of \$4.1 billion, net income of \$312 million, and assets of \$8.1 billion.

The Plan's 2004 Annual Report contains combined financial statements as well as separate financial statements for its funds. The Plan's 2004 combined financial statements show it had net assets available for benefits of \$747 million.

Our audit conclusions and findings

This chapter contains our audit conclusions and findings for CIC and the Plan for the year ended December 31, 2004. We worked with CIC's appointed auditor, KPMG LLP, to form our opinions. We used the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see <http://www.auditor.sk.ca/rrd.html>). Our Office and KPMG formed the following opinions.

In our opinion, for the year ended December 31, 2004:

- ◆ the financial statements of CIC and the Plan are reliable
- ◆ CIC had adequate rules and procedures to safeguard public resources

- ♦ the Plan had adequate rules and procedures to safeguard public resources except for matters related to governance as reported in this chapter
- ♦ CIC and the Plan complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing

The remainder of this chapter contains the results of our study of performance reporting by four large Crown corporations and our audit findings related to governance of the Plan.

Performance reporting

In this section, we compare the quality of the annual reports prepared by four Saskatchewan Crown corporations to those prepared by Crown corporations in other Canadian jurisdictions. We reviewed annual reports available in 2004.

Performance reporting in the public sector has attained a reasonable degree of maturity, even though new developments continue. Therefore, a good base of information is available for comparing performance reports in Saskatchewan to those in other jurisdictions.

Our purpose is to encourage more meaningful reporting by Crown corporations. This will lead to improved governance, better management and decision-making processes, and increased public confidence.

Background

In 1997, CIC began to use the Balanced Scorecard¹ performance measurement system. CIC's objective is to "balance the Crowns' business needs with meaningful accountability to the people of Saskatchewan." CIC uses the Balanced Scorecard to evaluate financial performance as well as the achievement of targets in the areas of innovation and growth, customer satisfaction, and public policy. We support CIC's decision to adopt the Balanced Scorecard as a framework

¹ For more information, see www.balancedscorecard.org

for its corporations² (CIC Crown corporations) to measure and report on their actual performance compared to their plans.

In January 2000, CIC's Board approved a performance reporting and disclosure policy for CIC and its corporations. CIC committed to use the Balanced Scorecard "to communicate, review, update, and promote the continuous improvement of each Crown's performance." CIC and its corporations jointly develop a Crown Sector Strategic Plan. This Plan and the Balanced Scorecard form an integrated short and long-term strategic performance management system for this sector.

Because CIC Crown corporations have used this framework for several years, we considered it an appropriate time to assess how well they report on their performance compared to Crowns in other jurisdictions.

Governments and government agencies are focusing more attention on how they report on performance. Where reports once focused only on the year's activities and achievements, many are now becoming much more informative. More reports now discuss what those activities and achievements mean in the context of the entity's success in meeting its long-term goals.

Effective reporting on performance is one of the key elements of a sound public accountability system. It is important that there are informative reports and reasonable reviews of performance. These reports must correspond to agreed-upon plans that are clear concerning responsibilities, authorities, performance expectations, and resources needed.

Canadian jurisdictions are at various stages in developing more robust reporting systems. For example, the governments of British Columbia, Alberta, and Canada have incorporated specific reporting requirements into governing legislation. Those jurisdictions already have several years of experience with enhanced performance reporting. Others have less formal performance reporting frameworks. Some jurisdictions continue to focus on current year's activities. The table in Exhibit 2 on page 184 compares some of the performance reporting practices of a sample of large Crown corporations in Canada.

² For list of these corporations, see www.cicorp.sk.ca/cicholdings/crowncorps.html

Approach

Using recommended public reporting principles, we assessed the content of the December 2003 annual reports of four large CIC Crown corporations: SaskPower, SaskTel, SGI, and SaskEnergy. Also, for each Canadian jurisdiction, we examined the latest available annual report of one large Crown corporation that has significant revenues and/or assets and is an important part of its respective public sector economy. Those Crown corporations are:

Export Development Canada (Government of Canada)
Insurance Corporation of British Columbia
Alberta Treasury Branches
Manitoba Public Insurance
Hydro One Inc. (Ontario)
Hydro-Québec
Nova Scotia Gaming Corporation
Newfoundland and Labrador Hydro
New Brunswick Power Corporation
Island Waste Management Corporation (PEI)

In addition, we reviewed the 2003 annual report of Potash Corporation of Saskatchewan (PotashCorp). Our purpose was to compare public sector reporting with recognized best practices in the private sector. In December 2004, The Canadian Institute of Chartered Accountants (CICA) recognized PotashCorp for excellence in corporate reporting.

To carry out this study, we were guided by *The Standards for Assurance Engagements* established by the CICA. This includes selecting suitable criteria and obtaining sufficient and appropriate evidence to support our findings.

Criteria

The criteria we used to assess the annual reports are the public reporting principles developed by the CCAF-FCVI³ (CCAF). These are set out in *Reporting Principles: Taking Public Performance Reporting to a New Level*. This publication is the result of a multi-year project on public

³ CCAF-FCVI is a public-private partnership that “is a source of support, leading edge research and capacity for members of governing bodies, executive management, auditors, and assurance providers.”

performance reporting. It involved extensive research and consultation with government managers, auditors, and legislators throughout Canada. All legislative auditors in Canada have agreed to use these reporting principles when assessing government annual reports in their jurisdictions.

According to the CCAF, an agency's performance report must incorporate the following nine principles to adequately report on its performance (see Exhibit 1 on page 173 for more detail):

1. Focus on the few critical aspects of performance
2. Look forward as well as back
3. Explain key risk considerations
4. Explain key capacity considerations
5. Explain other factors critical to performance
6. Integrate financial and non-financial information
7. Provide comparative information
8. Present credible information, fairly interpreted
9. Disclose the basis for reporting

These CCAF principles go beyond current reporting practice. While some principles may exist to some degree in current practice, it is not common to find them used in an integrated manner, or to their full extent. According to the CCAF, that would represent a new level of public performance reporting. Some of the principles will challenge even governments that have made good advances in performance reporting.

Overall findings

The 2003 annual reports of Saskatchewan's four large CIC Crown corporations compare well against Crowns in most other Canadian jurisdictions, although the reports of Crowns in a few other jurisdictions are more advanced in some areas. Similar to most other jurisdictions, the four CIC Crowns provided better information on the first five principles than on the last four.

The first five principles focus on what information should be reported. For some of these principles, the four CIC Crowns have applied many of the significant elements. For other principles in this group, they have not

addressed many of the elements, but there is evidence that they are making progress.

The last four principles focus on how information should be reported. The four CIC Crowns face the most challenge in applying these principles. In most cases, the 2003 reports do not yet apply the elements of these principles. However, Saskatchewan's reports are consistent with the reports of Crowns in most other jurisdictions.

The CCAF's reporting principles are comprehensive and far-reaching—they require more than public sector agencies are currently providing. They represent a different level of performance reporting. It will take much effort by Crown corporations to prepare reports that meet the standard they set. The effort is worthwhile, as better reporting will contribute to better performance and accountability.

We encourage Saskatchewan's CIC Crown corporations to continue to improve their performance reports using the CCAF's reporting principles as guidance. They can also benefit by reviewing and incorporating the best reporting practices of award-winning corporations such as PotashCorp.

Detailed assessment

This section summarizes the results of our assessment of the annual reports of the four CIC Crowns under each of the CCAF's nine reporting principles. For each principle, we describe the principle in italics, set out the results of our assessment of the 2003 annual reports of the four Crowns, and highlight notable performance reporting in other jurisdictions.

We used an evaluation process similar to that suggested by the CCAF to rate how well the corporations applied each of the recommended principles. We based our evaluation on the following four levels:

- ◆ Start up—most elements of the reporting principle have not been addressed
- ◆ In process—many of the elements have not been addressed, but progress is being made
- ◆ Fundamentals in place—most significant elements have been addressed, but further improvements are possible

- ◆ Fully incorporated—all elements have been substantially addressed

Exhibit 1—CCAF's reporting principles

- 1. Focus on the few critical aspects of performance**
 - focus selectively and meaningfully on a small number of things
 - centre on core objectives and commitments
- 2. Look forward as well as back**
 - set out the goals and how activities contribute to the goals
 - track achievements against expectations
- 3. Explain key risk considerations**
 - identify the key risks
 - explain the influence of risk on choices and directions, and relate achievements to levels of risk accepted
- 4. Explain key capacity considerations**
 - discuss capacity factors that affect the ability to meet expectations
 - describe plans to align expectations and capacity
- 5. Explain other factors critical to performance**
 - explain general factors such as changes in the economic, social, or demographic environment that affect results
 - discuss specific factors such as standards of conduct, ethics, and values; or performance of other organizations that influence performance
 - describe unintended impacts of activities
- 6. Integrate financial and non-financial information**
 - explain the link between activities and desired results
 - show spending on key strategies and explain how changes in spending affect results
- 7. Provide comparative information**
 - provide comparative information about past performance and about the performance of similar organizations when relevant, reliable, and consistent information is reasonably available
- 8. Present credible information, fairly interpreted**
 - present information as credibly as reasonably possible
 - explain management's involvement, judgment, and basis for interpretation of performance
 - information is consistent, fair, relevant, reliable, and understandable
- 9. Disclose the basis for reporting**
 - explain the basis for selecting the few critical aspects of performance on which to focus
 - describe changes in the way performance is measured or presented
 - set out the basis on which those responsible for the report hold confidence in the reliability of the information being reported

Source: Provincial Auditor's 2004 Report – Volume 3, page 295.⁴

⁴ Adapted from: CCAF-FCVI Inc. (2002). *Reporting principles: Taking public performance reporting to a new level*. Ottawa: Author.

Principle 1—Focus on the few critical aspects of performance

To be understandable, public performance reports need to focus selectively and meaningfully on a small number of critical areas of performance. Reports need to explain the value created by key programs or business lines; show the relationship between short-term results (outputs) and long-term goals (outcomes); and organize the information that is important to stakeholders in a concise yet robust presentation.

SaskEnergy and SaskTel have addressed the fundamentals and SaskPower is in the process of providing the type of information that the CCAF expects to meet this principle. SGI does not address most elements of this reporting principle.

A key benefit of using the Balanced Scorecard framework for performance reporting is that it has helped CIC Crowns to focus on their critical areas of performance. For example, SaskTel provides a *statement of direction* for each of its scorecard areas—these goals provide important links to the corporation’s objectives, strategies, measures, and targets. SaskTel also provides additional discussion on those areas of strategic focus.

SGI’s annual report is not as clear; it does not state the corporation’s mission, vision, and key long-term goals. The objectives and measures listed in its Balanced Scorecard table do not correspond well to the matters discussed in the ten-page section titled *2003 in Review*. While SGI provides some information about several strategic objectives in its *management discussion and analysis*, SGI needs to provide more information about all areas it considers significant and about its performance in each area.

To improve, corporations should describe their key goals, strategies, and objectives in a way that is integrated with the presentation of their Balanced Scorecard. Corporations should avoid listing activities and anecdotes of minor significance that confuse rather than enhance readers’ understanding of what is significant.

On average, the four CIC Crowns are slightly ahead of those in other jurisdictions. Most others are still in the process of applying many of the elements of this principle.

Two that did well are Insurance Corporation of British Columbia (ICBC) and PotashCorp. Of the reports we reviewed, ICBC is the best at applying this principle—the corporation explicitly links its overriding goals to the specific objectives and key strategies for achieving them. It then links them to narratives describing the related measures, targets, and results.

PotashCorp clearly presents its goals, objectives, measures, and targets. It explains why it did not meet targets where necessary. In addition, it organized its annual report to clearly show the key aspects of performance for each of its major lines of business.

Principle 2—Look forward as well as back

Clear expectations are important to a fair assessment of an agency's past performance. Therefore, reports need to identify the specific objectives through which goals are to be realized; track actual achievements against them; inform stakeholders how short-term achievements affect prospects for realizing long-term goals; and show what has been learned and what will change as a result.

SaskPower, SaskTel, and SaskEnergy are in the process of addressing the elements of this principle in their reports. SGI is at the start up level. In most cases, these Crowns identify key objectives and corresponding results for the year under review. However, reporting on key areas of performance needs to extend beyond the current year. To provide important context, reports should also contain performance information about a number of prior years and expectations beyond the immediately upcoming year. This will better explain how their current results contribute to the achievement of their long-term goals.

When results either fall short of or surpass planned targets, readers need to be told the impact and what management plans to do to redirect the corporation if necessary. Often, Crowns do not adequately explain their results from the point of view of their targets and goals. SaskPower does a better job in this area—it provides additional information about the results for each of its performance measures. Also, SaskPower provides several pages of forward looking information in a section titled *Priorities and Challenges for the Future*.

In many businesses, comparison to industry benchmarks is a valuable tool for assessing a corporation's performance. CIC Crowns are no different. They should ensure their reports identify and explain relevant benchmarks, how they plan to position themselves in relation to those benchmarks, and what they intend to do to achieve that plan.

For this principle, SaskPower, SaskTel, and SaskEnergy compare favourably against the Crowns in other jurisdictions, as many others are at the start up level.

Those that did better than most are ICBC and Export Development Canada (EDC). Once again, of the reports we reviewed, ICBC has done the best job of incorporating this principle. ICBC provides performance results for two prior years as well as targets and actual results for the current year. It explains each measure, anticipated outcomes, and reasons why the corporation did or did not achieve its targets. Where applicable, it also provides plans to improve situations or minimize fluctuations. In addition, ICBC's public Service Plan provides targets for three future years and explains how it determined them.

EDC describes the changes it made to its plans and targets to address the difficulties it encountered during the year. Its report was well organized, providing clear links from activities and short-term achievements to the related long-term goal.

Principle 3—Explain key risk considerations

Reports should identify key strategic risks, explain their influence on policy choices and performance expectations, and relate results achieved to the risks (and the level of risk) accepted. A corporation should describe how it:

- ◆ *uses formal processes for identifying and classifying risks and developing a risk profile*
- ◆ *uses qualitative and quantitative analytical techniques to assess and manage risk*
- ◆ *gauges the success of risk mitigation strategies*

The four CIC Crowns are in the process of incorporating the elements of this reporting principle in their annual reports. However, they have not progressed as far as several other jurisdictions.

Generally, the four Saskatchewan reports contain some discussion of the risks to which the corporations are exposed. Some elaborate by describing how management is mitigating the risks they have identified. However, it is not yet common to find a discussion of accepted risk levels, an analysis of the challenges faced as a result of the risks identified, or more detailed information about the success of the risk mitigation strategies implemented by management.

Among those that have achieved a higher level of reporting are EDC, PotashCorp, Alberta Treasury Branches (ATB), and Hydro One. EDC has an extensive risk management section in its report. It does an excellent job of presenting an analysis of the risks that it faces and providing background information as support.

PotashCorp provides a good description of its risks and their ranking (i.e., as tier 1 and tier 2) as well as its mitigation strategies. The report goes into greater depth on risks that are more significant or complex.

ATB provides good explanations of risks and how it is mitigating them. ATB notes that its Board has approved levels of acceptable risk, but it does not disclose those levels.

Hydro One provides an overview of risks, noting it has an enterprise risk program that aims at balancing business risks and returns. It also reports that Hydro One's Board annually reviews the corporation's risk tolerances, risk profiles, and control systems used to manage risk.

Principle 4—Explain key capacity considerations

The CCAF recommends that public performance reporting should disclose and discuss key considerations affecting capacity to sustain or improve results and meet expectations. Reports should focus on the dimensions of capacity of strategic significance and conclusions should be well supported by qualitative and quantitative information.

Discussions of capacity should extend, where relevant, to a corporation's plant and infrastructure; computer and technological resources; human resources; and internal systems and processes. These discussions should be provided in the context of the corporation's strategic goals and indicate whether it has the necessary capacity or not. Where the capacity to meet future performance expectations is not in place, the report should discuss the corporation's plans to build or acquire the needed capacity and address the risks associated with the imbalance.

While the four Saskatchewan Crowns report on some aspects of their capacity, most are still in the process of providing all the information that the CCAF expects to meet this principle. They have not progressed as far as several other jurisdictions where the fundamentals are in place.

The exception is SGI, which has the fundamentals in place. SGI does a good job of explaining its capacity. It reports its capacity to underwrite business by discussing its net risk ratio, a standard industry benchmark based on premiums written divided by total equity. SGI also discussed capacity issues related to its reinsurance activities and liquidity, key considerations in an insurance enterprise.

SaskPower reports its electrical generation capacity compared to the amount of peak demand during the year. It also outlines anticipated challenges in its human resource capacity and its succession planning efforts to address those issues. However, it does not discuss capacity issues for areas such as information technology and financing.

Crowns in several other jurisdictions report most of the expected information on their capacity. For example, ATB discusses capacity issues throughout, e.g., number of branch locations, which it views as critical to achieving its goals.

EDC does a good job of identifying key capacity considerations (e.g., financial, human resource, and information technology) as well as some of the ways EDC is addressing them.

PotashCorp integrates capacity issues throughout its report, discussing the industry, global demand, and the corporation's capability to meet future demand.

Principle 5—Explain other factors critical to performance

Often, there are key factors that affect an agency's performance such as economic, environmental, or demographic variables and the performance or actions of other organizations. Reports should identify and explain any of these other factors that are important to the agency's success. Also, reports should provide sufficient information to indicate how the corporation is managing or responding to those factors.

Other factors that are critical to a corporation's performance may include issues related to environmental protection, regulatory compliance, safety of employees or the public, and governance processes related to the corporation and its subsidiaries.

The four Saskatchewan Crowns have made the most progress in providing the information expected about other factors critical to their performance. SGI, SaskPower, and SaskTel achieve a good standard of quality related to this principle by addressing most of the required elements.

SaskEnergy does the best job. It fully incorporates other factors it views as important in addition to the primary factors that affect its performance. These other matters are set out in the annual report supplement, *Corporate Social Responsibility Report 2003*. It provides additional performance measures and targets, together with adequate discussion, for topics such as community involvement; employee diversity, safety, and training; buying in Saskatchewan; and reducing emissions as part of the effort to meet its Kyoto targets.

Most other reports we reviewed also do well in this area. For example, PotashCorp provides extensive information about the critical areas of its performance. It is aiming at achieving its goal of being as transparent and providing as much useful information as possible to its readers.

ATB discusses other key aspects of performance that readers would consider important, such as regulatory and compliance matters and capital adequacy.

Principle 6—Integrate financial and non-financial information

Performance reports need to describe the relationship between resources and results. Associating the cost of resources with results enables corporations to demonstrate how its activities add value. Reports should demonstrate how short-term results contribute to longer-term outcomes for each business line or strategy. This is one of the most difficult principles to implement.

Other than SaskTel, which has the fundamentals in place, Saskatchewan Crowns are at the start up level. SaskTel is the only Saskatchewan Crown to show any significant integration of financial and non-financial information. SaskTel provides an overview of the financial performance of its business lines, and relates the costs incurred to specific achievements in planned non-financial outcomes. This includes outcomes such as cellular service coverage, availability of high-speed internet access, and percentage of long distance lines retained in Saskatchewan.

In common with Saskatchewan, most other jurisdictions are also at the start up level. Only a few reports incorporate some of the expected information.

Most annual reports focus separately on financial and non-financial aspects of performance, providing little direct connection. To associate costs with key strategies, corporations must usually set up their accounting systems by business line. This will enable them to track the relationship between costs incurred and results achieved. Corporations can then begin to measure and report on the value added by its activities as they relate to long-term goals.

Principle 7—Provide comparative information

Public performance reports should provide comparative information about past performance and about the performance of similar organizations when doing so would enhance readers' ability to understand and use the information. Benchmarking against similar processes in similar organizations is one method of providing comparative information about key aspects of performance.

Good performance reports show data for several years so readers can review and analyze trend information. This makes it clear to readers whether performance is stable, improving, or deteriorating. In many cases, the inclusion of important industry or peer benchmarking information would help readers understand the corporation's achievements and performance in the context of other organizations with similar lines of business or goals.

Most of the four Saskatchewan Crowns are at the start up level for this principle. In almost all cases, Balanced Scorecard tables contain no comparative information about past performance.

An exception is SaskPower's report, which is somewhat better in this area. However, it only includes results for one prior year in addition to the current year. SaskPower also provides comparative information related to industry-wide system reliability measures. In some cases, reports (e.g., SGI, SaskPower) include other graphs of supporting information that reflect data over several years.

As in Saskatchewan, most Crowns in other jurisdictions are also at the start up level. A few reports incorporate some of the required elements. ICBC and ATB incorporate most of the required elements.

ICBC did the best job of providing relevant comparative information. ICBC provides three years of actual results for most performance measures, with comparisons to benchmarks and current targets. In addition, ICBC refers readers to its public Service Plan where the corporation discusses its plans and targets for the next three years. This gives readers plenty of information to review trends.

ATB compares its results to industry averages as well as to its targets and prior years' performance. It also set out the targets for the next year.

Another example of a corporation that has addressed its key elements is PotashCorp. It provides considerable information on the industry and the markets in which it operates. This helps readers to gain a better understanding of the corporation's performance in a useful context.

Principle 8—Present credible information, fairly interpreted

Performance reports should present relevant, unbiased, verifiable information that is understandable and balanced. This includes the characteristics of consistency, fairness, and reliability. Performance information that appears in more than one report (i.e., business plan and annual report) should be consistent. In addition, to demonstrate that performance reports are credible, the reports must include adequate qualitative and quantitative information to support management's explanations, interpretations, and judgments.

Annual reports need to take a more integrated and cohesive approach to the presentation of critical performance information. For each critical aspect of performance, corporations need to articulate their intended objectives and select the most appropriate measures to assess their progress in meeting those objectives. Corporations should follow the same approach when deciding on the content and format of their annual reports. It is important for annual report narratives to provide balanced and thorough coverage of each of the areas that the corporation views as critical to its success. It is important that annual reports provide adequate information about all critical areas of performance, regardless of the results achieved.

SaskPower and SaskTel are in the process of incorporating the fundamentals of this principle into their annual reports; SGI and SaskEnergy are at the start up level. Annual reports have a tendency to focus on positive achievements and activities, even those that are not critical to a corporation's performance. In some cases, corporations do not adequately discuss unfavourable results.

Most of the other jurisdictions are also at the start up level. However, ICBC does a better job of demonstrating that its information is credible and presented fairly. For example, ICBC discloses when it changes measures and explains why, clearly labels data sources on each performance measure graph, provides details about the number of people surveyed, and explains what it is doing to refocus policies or programs when it does not meet its targets. Also, ICBC discusses limitations in its ability to influence certain desired outcomes. These factors help build readers' confidence that the information reported is balanced and not biased.

Principle 9—Disclose the basis for reporting

Performance reports should explain the basis for selecting the critical aspects of performance that the report focuses on. Management needs to describe the steps it has taken to validate the information presented in the report, and any limitations in its ability to do so. An independent audit and report on the performance information is important to corroborate the information and judgments contained in the report.

To help readers understand a corporation's performance, reports must show, for each key area of performance, a clear link between each objective and the specific performance measures used to assess progress. It must explain how each selected measure is relevant to achieving the intended outputs or outcomes.

As well, management should clearly define each measure—this enables readers to assess critically the methodologies used and compare results to previous periods or to other entities. To enhance confidence in its report, management needs to describe how it is satisfied that the performance information is accurate. This may include systems of internal verification and the use of independent external parties such as auditors.

This principle is not well addressed in any of the Saskatchewan or other annual reports we reviewed. Accordingly, all except for ICBC are at the start up level. Generally, they do not provide reasons for the selection of measures and targets (i.e., why they are relevant), data sources are not clearly stated, changes in objectives or measures from the previous report are not explained, and the reliability of the information presented is not substantiated.

ICBC does better than the rest. For example, it discusses the reasoning behind the choice or development of performance measures, and it clearly states its data sources.

Exhibit 2—Comparison of published information

	Corporate Plan i.e., strategic, business, or performance plan	Quarterly financial statements	Annual audited financial statements with MD&A	Annual report on goals, performance measures, and targets	List of payees
Saskatchewan Crown corporations	‡	√	√	√	√
Export Development Canada	√		√	√	
Insurance Corporation of British Columbia	√		√	√	√
Alberta Treasury Branches	√	√	√	√	**
Manitoba Public Insurance		√	√	√	†
Hydro One (Ontario)		√	√		†
Hydro-Québec	√	√	√	√*	
Nova Scotia Gaming Corporation	√	√	No MD&A		
Newfoundland and Labrador Hydro			√		
New Brunswick Power Corporation			√		†
Island Waste Management Corporation (PEI)			No MD&A		

Based on information available as of December 2004
(MD&A = Management's discussion and analysis)

√ - document is public

‡ - plan exists for entire Crown corporation sector, not for individual Crowns

† - partial list: i.e., only salaries, not suppliers

* - this information is reported in the Strategic Plan—Follow up

** - discloses board and senior executives pay

Capital Pension Plan

The Capital Pension Plan is a defined contribution (money purchase) pension plan sponsored by CIC. Overall direction is provided by the Capital Pension Plan Board (the Board). The Board members are appointed by CIC as representatives of participating employers. The Plan is available to corporations in both the public and private sectors upon approval by the Plan's administration.

Improving governance processes

In our 2003 Report – Volume 1, Chapter 10, we made the following recommendations to help the Government's pension plans improve their governance processes.

We recommended that the Government's pension plan boards:

- ◆ develop and implement strategic plans that include the goals and objectives of the plan, a summary of the risks faced by the plan and its members, and the key strategies to manage those risks
- ◆ clearly set out the specific responsibilities of the board including a clear delegation of authority and an education plan for board members and management
- ◆ define and communicate the financial and operational information that the boards need to oversee the plans
- ◆ establish an appropriate code of conduct for board members, management, and employees of the plans
- ◆ develop and implement written communication plans
- ◆ establish policies for periodic governance self-assessment

In September 2004, the Standing Committee on Public Accounts agreed with our recommendations.

Over the next few years, our plan was to assess the pension plans' progress toward improving their governance processes. We have now completed our assessment of the progress made by the Board on the Plan's governance processes.

Our findings

To make our assessment, we measured the Board's progress against the following criteria. We reported the criteria in our 2003 Report – Volume 1, page 163. For each criterion, we set out what we expected (in italics) and what we found.

Possessing adequate knowledge

We expected the Board to:

- ♦ *have a clear understanding of what to do, why to do it, and to whom they are accountable*
- ♦ *define a clear mission statement for the plan*
- ♦ *be qualified and knowledgeable to adequately carry out their duties and responsibilities*
- ♦ *maintain qualified and knowledgeable board members and management and have a written succession plan that identifies the required skills and knowledge*

The Plan has taken some steps to ensure the Board has a clear understanding of what to do, why to do it, and to whom they are accountable. Committees of the Board have been established along with terms of reference. Also, the Board has approved a mission statement.

However, the Plan still needs to set out the qualifications for board members. As well, training plans and succession planning policies for board members and senior management should be documented.

Approving an appropriate delegation of authority

We expected the Plan to have:

- ♦ *documented its delegations of authority in accordance with legislation and plan arrangements*
- ♦ *documented its understandings of the roles and responsibilities with those who provide day-to-day administration for the plan*
- ♦ *contracts/agreements for outside professionals (e.g. actuaries, custodians, investment managers, asset consultants) setting out what those professionals can do and when*

The Plan does have contracts/agreements that specify their expectations for outside professionals. Work on a procedures manual has also commenced. However, the Plan has not documented its delegations of authority or its understandings of the roles and responsibilities of management.

Properly documenting Board decisions

We expected the Board to have clearly documented:

- ◆ *the Board's roles and responsibilities*
- ◆ *decisions regarding the investment of the pension plan's money*
- ◆ *a strategic plan including the pension plan's goals and objectives*
- ◆ *the key risks faced by the pension plan and its members and the key strategies to manage those risks*

Investment decisions are documented in the minutes of the Investment Committee. The Plan has also addressed some risks by drafting policies on Protection of Confidential Information and Privacy. Also, the Plan has appointed a privacy officer.

The Plan has not clearly documented the Board's roles and responsibilities, a strategic plan with goals and objectives, and the key risks and strategies to manage those risks.

Monitoring operations on an on-going basis

We expected the Board would:

- ◆ *have clearly set out its needs for regular reports from management and outside professionals*
- ◆ *receive and review regular, accurate, and timely reports from management and outside professionals*
- ◆ *ensure that the pension plan complies with the law*
- ◆ *have a written code of conduct for board members, management, and employees of the plan*
- ◆ *have governance self-assessments to ensure its processes continue to be effective*

At each meeting, the Board receives regular reports from management and outside professionals. The Plan continues to work on receiving reports to independently verify investment compliance. Also, it has adopted code of conduct and conflict of interest policies.

However, the Plan has not developed a list of all the reports the Board wishes to receive and when it wishes to receive them. The Plan also needs to develop a checklist to ensure it complies with the law. Also, the Plan needs to develop a process for Board governance self-assessment.

Approving an appropriate external communication policy

We expected the Board would have:

- ◆ *approved a written external communication policy including standards for preparing the plan's annual reports*
- ◆ *approved how to communicate with plan members and other stakeholders*
- ◆ *an appropriate process to educate and fully inform plan members when they bear the investment risk*

A communications policy has been drafted but not provided to the Board. Management expects the Board to review, revise, and approve the draft policy in 2005. The communications policy will include all three areas discussed above.

Recommendations

The Plan needs to improve its governance processes. While the Plan has taken some steps to improve its governance practices, more work is needed.

We continue to recommend that the Board:

- ◆ develop and implement strategic plans that include the goals and objectives of the Plan, a summary of the risks faced by the Plan and its members, and the key strategies to manage those risks
- ◆ clearly set out the specific responsibilities of the Board including a clear delegation of authority and an education plan for board members and management

- ◆ define and communicate the financial and operational information that the Board needs to oversee the Plan
- ◆ develop and implement written communication plans
- ◆ establish policies for periodic governance self-assessment

Management of the Plan has informed us that they have received support from the Board and CIC to ensure they have the necessary resources to complete the improvement of its governance processes in 2005.

