Canadian Broadcasting Corporation

30 November 2005

Special Examination Report
presented to the Board of Directors

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

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Canadian Broadcasting Corporation
Special Examination Report—2005

Special Examination Opinion

1. Under Part III of the *Broadcasting Act,* the Canadian Broadcasting 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. The Act 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 April 2004 to April 2005, there were no significant deficiencies in the systems and practices we examined.

4. We based our examination plan on a survey of the Corporation's systems and practices, which included a risk analysis. We submitted the plan to the Audit Committee of the Board of Directors on 20 September 2004. 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.

5. The plan included the criteria that we selected specifically for this special examination in consultation with the Corporation. The criteria were based on our experience in performance auditing. Our choice of criteria was also influenced by legislative and regulatory requirements, professional literature and standards, and practices followed by the Corporation and other organizations. The systems and practices we examined and the criteria we used are listed in the Appendix 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. Our examination included the tests and other procedures we considered necessary in the circumstances. We relied on internal audits of the Corporation's capital planning process and revenue-generating activities and on specific progress reports on the Corporation's VISION project.

7. We examined the systems and practices we considered essential to providing the Corporation with reasonable assurance with respect to its assets being safeguarded and controlled, its resources being managed economically and efficiently, and its operations being carried out effectively. Our 2000 special examination report identified significant deficiencies in the Corporation's systems and practices in four areas: strategic management; governance relationships, performance information, and external accountability; people management; and facilities management. In this special examination we found that the CBC has undertaken numerous initiatives and has made significant progress in addressing many of the concerns we raised in 2000. However, we found the following significant deficiency in the systems and practices examined.

8. The absence of a corporate-wide performance management framework, including targets for expected performance and indicators of actual results achieved, seriously hinders the ability of the Corporation to demonstrate its level of efficiency and the extent to which it is meeting its corporate objectives. Better costing information for programming and activities would help to achieve this objective. Significant improvements in external reporting practices are also needed to meet public accountability expectations of a corporation of the size and importance of the CBC.

9. In our opinion, except for the significant deficiency described in the preceding paragraph, based on the criteria established for the examination, there is reasonable assurance that there were no significant deficiencies in the systems and practices we examined.

10. The rest of this report provides an overview of the Corporation and more detailed information on our findings, recommendations, and conclusions.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
30 April 2005

Summary

11. As stated in our special examination opinion, we concluded that during the period under examination, except for performance measurement and reporting, the systems and practices of the CBC were designed and operated in a way that provided reasonable assurance that assets were safeguarded and controlled, resources were managed economically and efficiently, and operations were carried out effectively.

12. Our 2000 special examination report identified significant deficiencies in the Corporation's systems and practices in four areas:

- strategic management;
- governance relationships, performance information, and external accountability;
- people management; and
- facilities management.

13. In this special examination we found that the CBC has undertaken numerous initiatives and has made significant progress in addressing many of the concerns we raised in 2000. Later in this report we comment on its progress in streamlining its strategic planning, governance, and human resources management practices. With regard to facilities management, the rationalization of the real estate portfolio is particularly worth noting. However, the Corporation has not made enough progress in the areas of performance measurement and external accountability reporting. As outlined in our special examination opinion, the absence of a solid corporate-wide performance measurement and reporting framework, including targets for expected performance and indicators of actual results achieved, seriously hinders the ability of the Corporation to demonstrate its level of efficiency and the extent to which it is meeting its corporate objectives. Better costing information for programming and activities would help to achieve this objective. Significant improvements in external reporting practices are also needed to meet public accountability expectations of a corporation of the size and importance of the CBC. Management informed us that these issues are being addressed, that a corporate performance management framework is being put in place, and that significant improvements will be made to its external reporting.

14. There are also other opportunities to enhance the quality of the Corporation's systems and practices. In our view, the CBC should focus its efforts on the following:

- enhancing conflict of interest and disclosure policies for directors, management, and employees;
- developing and implementing a corporate risk management framework;
- enhancing its strategic management of major corporate-wide initiatives;
- assessing its management of program rights;
- finalizing its strategy and assessment of funding needs for capital investments;
- assessing the cost-effective use of production facilities; and
- "greening" operations in its environmental management process.

Overview of the Canadian Broadcasting Corporation

15. The Canadian Broadcasting Corporation (the CBC or the Corporation) was established in 1936, by the *Broadcasting Act,* to take over the broadcasting activities of the Canadian Radio Broadcasting Commission, Canada's first public broadcaster and regulator, created in 1932. It now operates under the *Broadcasting Act* of 1991, which sets out expectations for the Canadian broadcasting system and, within it, the CBC. The *Broadcasting Act* identifies the Corporation as an instrument of public policy to ensure that cultural and broadcasting policy objectives, the national interest, and regional needs are met. It also establishes the independence of the CBC in its journalistic, creative, and programming decisions. The Corporation reports to Parliament through the Minister of Canadian Heritage.

Mandate

16. The CBC is Canada's largest cultural institution, and its services are available across the country. The Corporation's mandate under the *Broadcasting Act* is to provide a wide range of radio and television programming, in English and French, that informs, enlightens, and entertains and that is predominantly and distinctively Canadian. Programming is expected

- to reflect Canada and its regions to national and regional audiences while servicing the special needs of those regions;

- to actively contribute to the flow and exchange of cultural expression;
- to reflect the needs and circumstances of each official language community, including English- and French-speaking minorities;
- to strive to be of equivalent quality in English and French;
- to contribute to a shared national consciousness and identity;
- to be made available throughout Canada by the most appropriate and efficient means as resources become available; and
- to reflect the multicultural and multiracial nature of Canada.

17. The CBC is expected to play a role in the maintenance and enhancement of national identity and cultural sovereignty. It can bring citizens together from all parts of the country on important national occasions and serve to connect societies in ways that are often intangible.

Corporate objectives and strategies

18. The CBC began to reshape itself in 2000 to respond to the many challenges it was facing. Its strategies are based on eight priorities grouped under six strategic areas (Exhibit 1).

Exhibit 1 CBC's priorities and strategic areas

High-quality, distinctive Canadian programming

- Ensure distinctive Canadian programming of the highest quality.
- Recognize the importance of regional reflection and of the changing face of Canada.
- Ensure the sustainability of CBC's Canadian schedules.

Efficiency

- Demonstrate that CBC is a well-managed company and generate cash flow to re-invest in programming.

Creative human resources

- Strengthen CBC commitment to all its employees—to those who create and those who support them.

Strategic partnerships

- Position CBC to enhance its ability to fulfill its mandate through selective alliances and partnerships.

Collaboration

- Reinforce the capacity of CBC to work as one integrated company.

Strong stakeholder relations

- Enhance/strengthen CBC stakeholder relationships.

Source: CBC/Radio-Canada Corporate Plan Summary for 2005–2006 to 2009–2010.

Organization and services of the CBC

19. Programming is central to the role of the CBC. The Corporation delivers programming in news and current affairs, arts and entertainment, and sports, as well as programs for children and youth. The CBC currently delivers these programs and services in English and French across Canada through the following platforms:

Television

- Two national television networks with 23 regional stations and 17 affiliated stations; in addition, there are television services to northern Canada in eight Aboriginal languages
- Two 24-hour news and information television services—CBC Newsworld and the Réseau de l'Information (RDI) financed by cable subscriptions and advertising revenues
- Three specialty television channels—one wholly owned service—Country Canada; and ARTV and the Documentary Channel owned in partnership with others

Radio

- Four national networks and 81 regional stations, of which some offer services to northern Canada in eight Aboriginal languages
- Radio-Canada International (RCI), which broadcasts shortwave radio in nine languages

Internet

- French and English Internet sites that include radio and television content and unique "new media" programming
- Internet-based programming services for English and French youth

Audio-based

- Galaxie—a digital-pay audio service

20. The CRTC awarded a licence to CBC and its private sector partners in June 2005 to operate a satellite radio service. The future operating date is yet to be determined.

21. At present, close to 99 percent of the Canadian population can access some or all of the CBC's broadcast services. These services are delivered across six time zones through a complex and sophisticated transmission and distribution system.

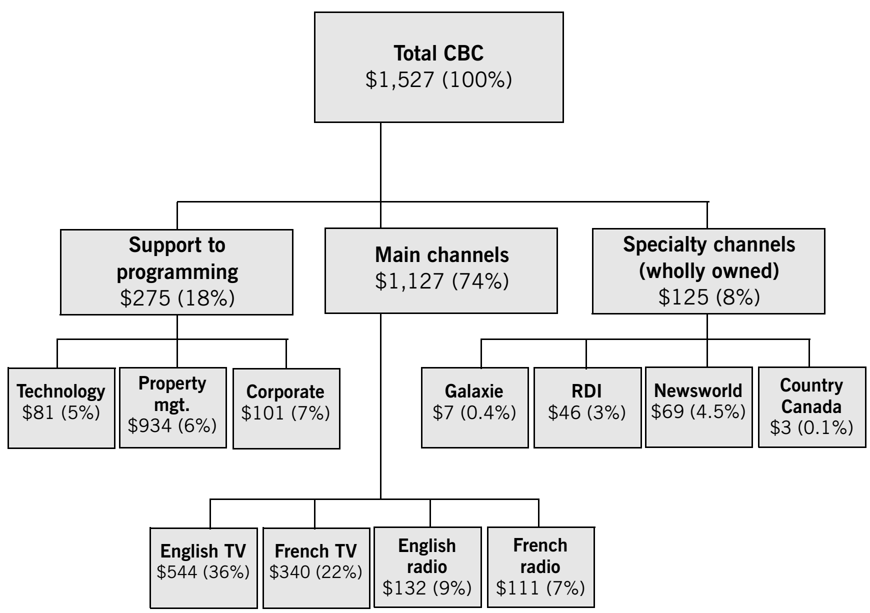
22. In March 2005, the Corporation had about 9,700 full-time employees.

Funding

23. At 31 March 2005, the CBC had assets of approximately $1.6 billion and liabilities of about $1.5 billion. Property and equipment represented about $983 million or almost 62 percent of the corporate assets.

24. The CBC is financed mainly through public funds, supplemented by advertising revenue on television and by other revenue sources. In 2004–05, its total operating expenditures (excluding amortization) were just over $1.5 billion, of which $939 million were financed by parliamentary appropriations. The CBC generated total revenues of approximately $547 million, including $322 million in advertising revenue and $225 million from other sources such as cable subscription fees, program sales, specialty channels, facilities rentals, and interest. In addition, the CBC received parliamentary appropriations of $96 million in capital funding and $4 million in working capital funding. Exhibit 2 shows the distribution of operating expenditures throughout the Corporation.

Exhibit 2 CBC's 2004–05 operating expenditures, excludes capital investment ($ millions)



Source: CBC internal report

Challenges facing the CBC

25. The CBC is a large and complex organization that operates in a very dynamic environment characterized by a high level of competition, new services, and rapid changes in technology. It faces many challenges and risks.

26. The CBC operates in a multi-channel universe where a myriad of choice is available to viewers, causing fierce competition among broadcasters for audience share and loyalty. Audience fragmentation and eroding advertising revenues have forced media companies around the world to develop aggressive strategies for remaining profitable. Today, fewer and larger media conglomerates dominate the industry.

27. Rapid changes in technology offer both a challenge and an opportunity. New media such as the Internet attracts a large and increasing audience, the rollout to digital radio has begun, and television is undergoing a major transition to digital services, both standard and high-definition. To fund programming, broadcasters are looking for new means beyond the traditional form of advertising revenue. New technologies and new media are integrated into our daily lives, increasing consumers' demand for information and entertainment in the format and medium of their choice.

28. The CBC's challenge is to continually assess the impact of these changes on its audiences and its services and to adjust rapidly to remain relevant to Canadians by delivering distinctive compelling programming of high quality, which also meets its public policy objectives. It must also find resources within its budget to keep up with the pace of change, by increasing its operational efficiency and its revenue opportunities. The CBC must also be in a position to manage programming rights to deliver content efficiently and effectively across a number of media platforms.

29. Furthermore, the Corporation will need to invest significant resources in its equipment infrastructure in the coming years to keep up with the rapid evolution of technology in the industry and to modernize an aging transmission and distribution network. The financing of these initiatives could pose important challenges.

30. Another challenge for the CBC is that it has to compete with private broadcasters for programming content, advertising revenues, and other resources, while being heavily financed by public funds. Such conditions leave the Corporation vulnerable to criticism from its competitors on the fairness of its business practices and their impact on the industry. It is therefore important for the Corporation to find a balance between how it fulfills its public policy role and its commercial activities.

Previous audits and reviews of the CBC

31. The Office of the Auditor General has conducted two previous special examinations of the CBC that were reported in 1995 and 2000. Our 2000 Special Examination Report identified significant deficiencies in the CBC's management systems and practices in four areas:

- strategic management;
- governance relationships, performance information, and external accountability;
- people management; and
- facilities management.

32. The Corporation has also been the subject of various studies and reviews over the last 10 years. The most recent study of the state of the Canadian broadcasting system was the two-year review by the House of Commons Standing Committee on Canadian Heritage, whose report was published in June 2003. In *Our Cultural Sovereignty: The Second Century of Canadian Broadcasting*, the Standing Committee reaffirmed "the importance of public broadcasting as an essential instrument for promoting, preserving and sustaining Canadian culture." It recognized the CBC as the primary guarantor of high-quality, distinctively Canadian television programs.

33. The Standing Committee also identified concerns about the reduction of local reflection in CBC's programming strategy, as there are few alternatives for many areas of Canada. The Standing Committee expressed the view that it is incumbent upon the Corporation to ensure that levels of local programming—based on local needs—are delivered to audiences, and it requested that the CBC submit a fully costed strategic plan for local and regional service. It also called on the Corporation to deliver a strategic plan to Parliament on how it would fulfill its Canadian programming objectives and deliver new media programming initiatives.

34. When reviewing the funding of CBC, the Standing Committee was concerned that, in order to meet its longer-term needs, the Corporation may need additional and stable funding. It therefore recommended that the CBC be provided with increased and stable multi-year funding. Other recommendations specific to the CBC included changes to the *Broadcasting Act* to recognize the value of new media services, the evaluation of the strategic plans noted above, and a detailed plan for the CBC identifying its needs for the digital transition.

35. In addition, the Standing Committee pointed out that coherent objectives, sub-objectives, and targets for certain public policy instruments—including the CBC—are either ill-defined or missing altogether. It therefore called for clarification of the mandate of agencies and government programs that support or regulate Canadian broadcasting. Finally, the Standing Committee noted that the measurement and reporting of outcomes by these agencies tend to focus on outputs, rather than outcomes. Therefore, it encouraged the CBC to better communicate its plans and priorities and to improve its accountability to Canadians.

Findings and Recommendations

Governance

36. Corporate governance refers to the framework of systems, practices, and structures for overseeing the direction and management of an organization, so it can carry out its mandate and achieve its objectives. We expected that the Board of Directors would clearly understand its role and responsibilities and would have in place a corporate governance framework that enables it to effectively oversee the activities of the Corporation and protect the interests of the CBC and the Canadian public.

37. The Board is made up of 12 directors, including both the Chairperson and the President of the Corporation. The Board has four committees: the Standing Committee on English and French Broadcasting, the Human Resources and Compensation Committee, the Governance and Nominating Committee, and the Audit Committee.

The core elements of a good governance framework are in place

38. Since our last special examination in 2000, the Corporation has put significant effort into enhancing and modernizing its governance structure, systems, and practices, and improving relationships between the Chair and management as well as with external stakeholders. Overall, we found the core elements of a good governance framework in place.

39. **Roles and responsibilities.** We found that the roles and responsibilities of the President, the Chair, and members of the Board are clearly defined and understood. Terms of reference have been established for the Board and its various committees. These are reviewed on an annual basis and reflect current best practices.

40. **Board renewal.** Since our last special examination, the Board revised the required core competencies and skills for directors and updated its profile of an ideal CBC Board. We noted that the Board profile includes the information we would normally expect to see about the required mix of expertise, skills, experience, and geographical representation to meet the Corporation's needs. This information has been communicated to the Minister of Canadian Heritage and to the Privy Council Office for consideration in filling Board vacancies.

41. As appointments made by the government to the Board in previous years were not properly staggered, the terms of seven of the eleven independent directors expired in 2004. Since the *Broadcasting Act* states that Board members cannot sit for more than two consecutive terms, only one of these seven directors was eligible for renewal. In addition, the term of one other director had expired in 2003.

42. Following government directions on Board appointments at that time, the Governance and Nominating Committee hired an external consultant to help identify candidates who would meet the established Board profile. The Board subsequently recommended to the government that the director who was eligible for renewal be re-appointed; the Board also submitted a list of 21 candidates—three possible names for each of the remaining seven positions.

43. Five new directors were appointed by the government in February 2005 and three more in May 2005. In our view, the mix of directors meets the Corporation's Board profile. We noted that the recommendation for re-appointment was not accepted and that two candidates were selected from CBC's proposed list.

44. In March 2005 the Chair of the Board resigned; in accordance with the *Broadcasting Act*, the President is acting in this position. At the time of writing this report, a new chair had not yet been appointed.

45. **Training and orientation.** The CBC provides new directors with orientation and information to ensure that they can carry out their duties effectively. Our review of the orientation material revealed that the Corporation would benefit from expanding its orientation and training of directors to cover the public sector environment and its impact on the affairs of the CBC; emerging governance practices; financial literacy; and specific risks, issues, and strategic challenges in the broadcasting industry. Moreover, we encourage Board members to also take advantage of the orientation and training program that the Privy Council Office now offers to directors of Crown corporations.

46. **Board performance.** The Board assessed its own performance in 2004; directors were generally satisfied with current practices but noted areas for improvement. The Board developed an action plan to assess the information it receives from management, including information for strategic planning, and to hold meetings without management in attendance. It also updated its Board profile to provide for an appropriate mix of skills and experience in its composition. We encourage the Board to continue assessing its performance regularly and to consider means to assess the contributions of individual directors. This is important if the Board is to continue to improve its effectiveness and to fulfill its responsibilities for renewal.

47. **Strategic planning.** The Board is responsible for setting and approving the CBC strategic direction. The Corporation's strategic direction and key priorities are identified in the Corporate Plan.

48. At the time of our examination, the directors expressed a desire to involve themselves more actively through more discussion and debate on strategic issues such as the impact of technology, management of program content, and financial management. We also found that for the past two years, the Board and management did not hold their annual retreat on strategic direction. With the recent appointments of the new directors, it is important for management and the Board to reach an understanding on the strategic planning process and the level and timing of the directors' involvement. It would also be important for the Board to ensure that the issues we raise later in this report regarding strategic planning and performance measurement practices are addressed.

Values and ethics practices need to be enhanced

49. Recent events in the private and public sectors have pointed to the need for establishing and maintaining a corporate culture of sound values and ethics. Regulatory bodies in the private sector and government central agencies are defining related policies, processes, and practices that organizations are to implement.

50. The CBC has codes of conduct and conflict-of-interest guidelines for the Board of Directors, senior management, and employees. The Board's Governance and Nominating Committee follows up annually on the application of the corporate guidelines.

51. It is important for a number of directors of the Board to have a good knowledge of the broadcasting industry. This need, however, creates a potential for conflict-of-interest situations at times. Rigorous monitoring mechanisms need to be in place to manage these conflicts of interest and ensure the effective functioning of the Board. We noted that Board directors have to submit a declaration in accordance with conflict-of-interest guidelines upon their appointment as well as provide an annual update. We found that at the end of June 2005, such declarations had not been received from two newly appointed members. In our view, such declarations should have been obtained prior to these new directors attending their first meeting.

52. We also noted that management and employees are required to complete an annual declaration stating that they have read the Corporation's code of conduct and have adhered to it. As well, employees are required to disclose in writing real or potential conflicts of interest to their immediate supervisor. Under the new *Values and Ethics Code for the Public Service* issued in September 2003, such a declaration is filed with senior management. The CBC has been asked by the government to respect the spirit of the code and adopt similar provisions. We encourage the Corporation to ensure that its practices are consistent with the intention of these provisions.

53. In September 2004, the Board approved a policy for internal disclosure of information on wrongdoing in the workplace. The policy provides for appointing an independent officer to deal with employee complaints and to report to the Audit Committee. By the end of our examination, this officer had just been appointed. We encourage the Corporation to pursue its efforts in implementing this policy.

The Board needs to strengthen its role in the oversight of risk management

54. Board stewardship includes overseeing the management of key corporate risks and their integration into planning and decision making. The Board needs to obtain assurance that management has identified the keys risks affecting the organization and that systems and practices are in place to manage them.

55. We noted in our last examination that the CBC did not have in place a risk management framework. We encouraged the Corporation to establish management structures that would allow for an organization-wide approach to identifying, analyzing, managing, and reporting risks in a way that would meet the Board's information needs.

56. In the present examination, we noted that risk assessments have been incorporated into the planning exercises of the media and other corporate functions, including corporate finance and the internal audit. The use of integrated risk management practices at CBC is still quite recent, and the risk frameworks that the Board has seen are not consistent. The Board needs to oversee the development of an integrated corporate risk management framework to be used by senior management and the Board. It needs assurance that the key risks are identified and prioritized and that the Corporation has the systems and practices in place to mitigate them. The Corporation needs to link the operational risk assessments currently in place with the corporate risk management framework. Further, this corporate risk perspective would provide the Board and senior management with a focus on matters of greatest significance to the viability of the Corporation; this, in turn, would guide strategic planning and performance measurement and reporting needs.

Information to the Board needs to be streamlined

57. In our last special examination, we noted a need to clarify the information that the Board requires. Board members also said at the time that the information they received needed to be linked more clearly to the Corporation's objectives and priorities.

58. In the present examination, we noted that members of the Board and its committees receive extensive information in advance of meetings, mainly in the form of presentation decks. We noted a number of cases where information presented for decision making lacked both a discussion of alternatives and their potential impact on the Corporation's activities. As noted in paragraph 46, the Board identified the need to assess the information it receives from management. Board members and management should continue working together to identify and define the level, quality, and frequency of information that directors should receive.

59. We also noted that the minutes of the Board and its committees did not always provide enough detail on the nature of discussions, options considered, or analyses provided to support important decisions. However, we found that the minutes have improved since January 2005.

The Corporation has little control over its external accountability structure

60. Our report in 2000 pointed out that the Corporation had an abundance of accountability relationships; however, none of them met the following expectations:

- within the mandate of the Corporation, defining the job the Corporation is expected to do broadly enough not to interfere with its independence but specifically enough to define resource requirements;

- matching the resources and authority available to the Corporation with the agreed expectations; and
- defining performance measures by which the Corporation could account for its use of these resources.

61. We also noted that relationships with the CRTC, Canadian Heritage, and the Heritage portfolio entities had not produced a shared view of the role, funding, and strategy of the Corporation. We suggested that the Corporation needed a process through which the Corporation and its key stakeholders could periodically discuss the role and funding of the public broadcaster and measure its success.

62. The Corporation itself has little control over its accountability structure. We therefore brought this issue to the attention of the Minister of Canadian Heritage after completing our special examination report in 2000. The recent review of the House of Commons Standing Committee on Canadian Heritage recognized the need to ensure the clarity of the mandates of the agencies and programs that support Canadian broadcasting. The response of the Minister of Canadian Heritage agreed with the report of the Standing Committee on this matter. To date, no change has been made to the current accountability structure.

Internal audit generally performs its duties as expected

63. Internal audit is a key element of corporate governance. It provides assurance to senior management and the Board that key financial, administrative, and operational activities are efficient and effective; internal audit can also suggest improvements.

64. We expected that the Corporation would have an internal audit function designed to add value by assessing whether the controls to safeguard assets and carry out operations in an economical, efficient, and effective manner are functioning. We also expected that internal audit would play an appropriate role in supporting the organization's governance, including the assessment of corporate risk management and controls.

65. In 1999, the CBC outsourced its internal audit function under a contract that expires at the end of March 2006. We noted that the Corporation has developed terms of reference for internal audit and that the roles and responsibilities of management, the internal audit function, and the Audit Committee are clearly defined and understood. We noted, however, that the internal audit function reports functionally to the Audit Committee and administratively to the Chief Financial Officer. Given significant changes in the audit profession and the heightened need to ensure its independence, the internal audit function should report administratively to the President.

66. The internal audit function generally performs its audits of key financial, administrative, and operational activities as expected. It prepares an annual audit plan that is based on a risk assessment of the Corporation and the likelihood and impact of weaknesses in internal controls. This plan is presented to the Audit Committee for approval. The internal audit function provides quarterly reports to the Audit Committee that include a status of internal audit projects, delays in obtaining management's responses, a summary of notable observations from the audits, and various other statistics.

67. In our view, the annual audit plan could be improved by including a clearer description of the nature, the scope, and the costs of the proposed audits. This would allow the Audit Committee to better understand the nature of the audit work within the context of the needs of the Corporation and to further monitor the actual hours and costs of the audits against the annual plan.

68. We also encourage the internal audit function, in consultation with the Audit Committee, to broaden the scope of its audits to include more strategic matters, such as risk management, horizontal issues facing the Corporation, and its technological infrastructure. As well, the internal audit function can provide advice to the Audit Committee in a number of areas, including governance practices and integrated risk management; however, activities in these areas have been limited.

69. With the contract for the current outsourcing arrangement of the internal audit function up for renewal in 2006, it will be important that management and the Audit Committee fully evaluate the services that have been provided against their expectations as well as assess the costs and benefits of alternatives to deliver the internal audit function. The following factors also need to be considered in the evaluation of the alternatives:

- the breadth of knowledge of the Corporation, its environment, and its culture;
- the role of internal audit in the organization; and
- the Corporation's requirement for, and access to, specialized skills.

70. **Recommendation.** The Board should

- ensure the implementation of an organization-wide approach for identifying, analyzing, managing, and reporting risks;
- ensure Board members submit their declarations of conflict of interest in accordance with corporate policy and enhance its conflict-of-interest and disclosure policies for management and employees;
- clarify with management the level and timing of the Board's involvement in strategic planning;
- define the level and quality of information it needs from management; and
- review the reporting relationship of the internal audit function to enhance the function's independence.

The Corporation's response.

- *A corporate-wide review of risks has been undertaken and the Board has examined the results. The Board further recognizes the importance of implementing a formal integrated corporate risk management framework to be updated on an ongoing basis.*
- *The Board is very aware in its governance practices of the importance of strong conflict-of-interest and disclosure policies for itself, management, and employees, and will ensure that this recommendation is addressed appropriately.*
- *As strategic planning is at the heart of the Corporation, the process will be adapted to involve the Board so as to incorporate its input properly.*
- *Because of its awareness of the importance of effective governance policies, the Board has already discussed with management the level and quality of information it requires and will revise it periodically as further needs arise.*
- *The Board will address the line of administrative reporting for Internal Audit in order to take the recommendation into consideration.*

Strategic planning

71. Strategic planning guides what an organization is, what it does, and why it does it, all with a focus on the future.

72. We expected the Corporation to have clear and measurable objectives and related strategies that take into consideration its mandate, the public interest, its operating environment, key risks and opportunities, and its financial capability. We also expected that these objectives and strategies would be clearly communicated throughout the organization and operationalized in a way that would guide management decisions in the achievement of the Corporation's mandate.

Significant progress in strategic planning has been made

73. In our 2000 Special Examination, we concluded that the Corporation needed a strategy to guide its operations, based on a balance between the results it expected to deliver and the resources available to the Corporation. We also noted then that concerns about clarity of role, rapid external change, and imbalances between expectations and resources had been part of the Corporation's reality for several decades. Successive parliamentary committees, task forces, and external reviews have called for improvements in these areas. The Corporation has evolved continuously and considerably over the years, but the same issues have reappeared.

74. Interpreting the mandate and defining the role of the Corporation has been a long-standing challenge. Since our previous report, the Corporation has gone through an important strategic exercise to set long-term objectives and priorities. The Corporation has identified key priorities and developed strategic directions that focus on the airing of distinctive high-quality programming, created and delivered by the most efficient means possible. This direction also involves increased communication and sharing of resources within the Corporation to achieve a change in the corporate culture.

75. We also noted that media lines have set long-term directions and strategies as well as annual business plans that clearly define where they are heading and how they will get there. Further, media and other corporate functions have developed strategic targets and measures to guide their decision making. In recent years, both French and English television have developed repositioning strategies for their programming schedules and the radio networks are focussing their strategies on building on success and attracting new audiences.

CBC needs to enhance its strategic planning for horizontal issues

76. CBC works in a complex and constantly changing environment where decisions made by the Board and management have far-reaching impacts across the Corporation over a number of years. While each of the business lines has established individual strategies, we found a number of major corporate-wide change initiatives where the strategies of the Corporation could have been more thoroughly articulated and communicated. These include the following:

- the multi-year transition to digital and high-definition television,
- content management for all forms of media,
- the impact of technology on the type of equipment needed for distribution,
- the replacement of aging transmission equipment to meet CBC's mandate requirements,
- the role of specialty channels, and
- overall financing strategies.

77. Each of these initiatives has an impact on many or all of the media and other corporate functions, and CBC tends to use informal processes to involve the various players in the Corporation. In our view, the Corporation needs to ensure that its corporate strategies are clearly articulated, communicated, and managed at a corporate level, with clear accountability for achieving expected results. Such strategies would include defined measures and targets as well as the resources required to ensure that the Corporation achieves its objectives. The Board, in its oversight role, would be in a better position to monitor corporate performance in managing these corporate-wide initiatives. Further, these strategies and measures would be communicated to the Minister and Parliament in the CBC Corporate Plan.

78. Overall, CBC has made good progress in strategic management. The Corporation now needs to enhance its strategic management at the corporate level through clearer articulation and communication of its strategies as well as the use of measures, targets, and resource estimates.

79. **Recommendation.** In order to enhance its strategic management, the Corporation's strategies for corporate-wide initiatives should be clearly articulated, communicated, and managed at a corporate level, with clear accountability for achieving expected results.

The Corporation's response. *Under the current leadership there has been a fundamental change in corporate structure and governance and this has created a "networked organization model" that is well suited to CBC/Radio-Canada with its many components. Each vice-president has two sets of responsibilities: one functional, that is, Finance or French Radio; and one corporate, as a member of the Senior Management Committee (SMC). As such, corporate-wide initiatives are the responsibility of the SMC, and the leaders of these initiatives are often media vice-presidents. Although the organization is partially decentralized from an operational perspective, the components are interdependent. Such transformational changes take a long time to implement. Management agrees with the recommendation and will increase its efforts to communicate and clarify the accountability for achieving results in corporate-wide initiatives.*

Performance measurement and reporting

80. Clear measurement and reporting of performance is essential to meeting public sector expectations for accountability and transparency in a Crown corporation. We consequently expected the CBC to use performance indicators that enable it to measure its corporate performance and the extent to which corporate objectives are being achieved. We also expected the Corporation to report on its performance in a way to enable senior management, the Board, Parliament, and other stakeholders to meaningfully understand and assess the Corporation's achievements and progress toward its corporate objectives.

Progress has been made on performance measurement, but more needs to be done

81. In our 2000 Special Examination, we noted that accountability and oversight of key management initiatives were constrained by the absence of a comprehensive, relatively simple framework for reporting performance—one that would show how programming results were linked to resources.

82. Since then, the Corporation has developed six key corporate performance indicators that include both quantitative and qualitative indicators to reflect its role as a public broadcaster. Exhibit 3 provides a listing and definitions of the performance indicators.

83. As well, a comprehensive and informative set of statistics on audiences, the changing media environments for listening and viewing, and measures of public value for CBC have been developed and presented to the Board annually for the past two years.

84. The media and other corporate functions have also made significant progress in the development and use of ongoing operational

Exhibit 3 CBC's performance indicators

Weekly reach. The number of different people who use a service each week.

Weekly share. The percentage of all listening (viewing) time captured by each service.

Canadian content (Television only). The percentage of CBC Television's and Télévision de Radio-Canada's whole day (6:00 a.m. to midnight) and prime-time (7:00 to 11:00 p.m.) schedule that is composed of Canadian programs.

Essential service. The percentage of the adult Canadian population who agree that it is essential that the service provided by the Corporation is available to Canadians.

Satisfaction. The percentage of the adult Canadian population who agree that they are satisfied with the programming offered by the Corporation's English and French television and radio services.

Distinctive service. The percentage of the adult Canadian population who agree that the Corporation's English and French television and radio services offer programming that is not available on other English and French television/radio stations.

performance measurement and reporting. They have developed a number of key performance indicators that form part of monthly management reports. We noted, however, that the development and use of targets to set performance expectations varies among the media lines and other corporate functions; some have clear and measurable targets, while others do not.

85. We noted that the six key corporate performance indicators developed by the Corporation mainly address the corporate objective related to programming and not the other five strategic areas and priorities identified in its Corporate plan—efficiency, creative human resources, strategic partnerships, collaboration, and strong stakeholders relationships. At the time of writing this report, management was developing a corporate "dashboard" of measures and indicators for each of these corporate objectives. The proposed approach would bring together information from across the Corporation that would be reported periodically to senior management. These measures would include market share by media type, efficiencies from initiatives, staff utilization, and facilities utilization, to name a few.

86. This corporate performance measurement framework is planned for implementation in the latter half of 2005. As part of the evolution of this framework, the CBC could, where appropriate, link resources used in its activities to the achievement of its strategic objectives, targets, and results.

Reporting to Parliament does not meet accountability expectations

87. The CBC publishes three key accountability reports a year: the Corporate Plan, the Annual Report, and the annual report to the Canadian Radio-Television and Telecommunications Commission (CRTC). They are the fundamental means by which the Corporation publicly discloses its commitments and objectives, conditions of licence, and the extent to which it is meeting them.

88. The annual report to the CRTC provides detailed information on the Corporation's compliance with the conditions set out in its licences. It provides information on the Canadian content in music and programming, the extent of national coverage, cultural diversity, drama programming, and regional news, among others. We noted that the CBC has systems and practices in place across the media lines to track and report the information required to meet the CRTC requirements.

89. The Corporate Plan outlines the CBC's strategic areas, priorities, and action plans, and it provides high-level financial information. However, we noted that there are no performance measures and targets.

90. One of the requirements of the *Broadcasting Act* is that the Corporation include in its Annual Report a statement on the extent to which it has met its objectives for the financial year, along with quantitative information on the Corporation's performance. The CBC Annual Report includes a discussion of activities during the year, a one-year view of performance against five indicators (essential, distinctive, trusted, comprehensive, and satisfaction), high-level financial highlights, and the annual audited financial statements. Since one of the objectives of the Annual Report is to present progress against the Corporate Plan, the absence of targets for planning reduces the meaningfulness of the information presented in the Annual Report. Further, we noted that the performance indicators presented in the Annual Report are not all consistent with the Corporation's six internal performance indicators listed earlier in this section.

91. Finally, the financial information in the Corporate Plan and the Annual Report are not aligned. Other than annual expenses for media and other corporate functions, the financial information in the Annual Report does not demonstrate the resources targeted and used to achieve the Corporation's objectives.

92. **Recommendation.** The Corporation should pursue the implementation of a corporate performance measurement framework and improve its internal and external reporting to better demonstrate to the Board and Parliament that the Corporation is making progress in achieving its objectives, managing its resources efficiently, and managing its key risks.

The Corporation's response. *We understand the importance of this recommendation and have clear plans to address it. We have enhanced performance measures in the 2004–05 Annual Report, and we are furthering our external reporting of our performance management framework. Many of these new measures will be introduced in the upcoming corporate plan for 2006–07 and the corresponding year's annual report. From an internal perspective we believe that much progress has been made. Both networks now produce a monthly performance dashboard that contains performance information about various aspects of their business deemed important to network management. At the corporate level, a dashboard intended for senior management is in the final phases of development and will be in production by the end of September 2005.*

Programming

93. As Canada's national public broadcaster, the CBC must provide a wide range of high-quality distinctive Canadian programming that informs, enlightens, and entertains. It also needs to leverage its financial resources and assets to generate maximum financial efficiencies.

94. Our examination looked at whether the Corporation had systems and practices in place to ensure that programming meets the needs of the audience and the requirements of its mandate in a cost-effective manner and whether programming is consistent with its long-term direction.

95. We expected that the Corporation would have effective systems and practices for

- making decisions on programming and production;
- evaluating programs;
- efficiently managing its program content, rights, and inventories;
- protecting cultural heritage; and
- ensuring compliance with its journalistic standards and practices.

Systems and practices are in place to support programming decisions

96. Over the past years, the Corporation has proceeded with in-depth analyses and reviews of its programming. Each media has developed repositioning strategies identifying goals and objectives. Overall, the Corporation has refined its public identity and strengthened and extended its relationship with its audience.

97. **Radio services**. CBC Radio, both the English and French language services, have increased reach and audience share over the previous year; over 1.1 million Canadians (aged 12 plus) listen to the French stations and more than 3.7 million Canadians listen to the English stations. English radio services are available to virtually all English-speaking Canadians, and French radio services are available to 90 percent of Francophones in Canada.

98. Radio services for the Corporation tend to be more local and regional, and their popularity is constantly increasing. Focus groups, surveys, and stakeholder meetings are regularly conducted at the network, regional, or local level to learn about the needs of the population and to tailor programs that will meet their expectations. Results are documented and integrated into the network programming or, if applicable, to regional programming only.

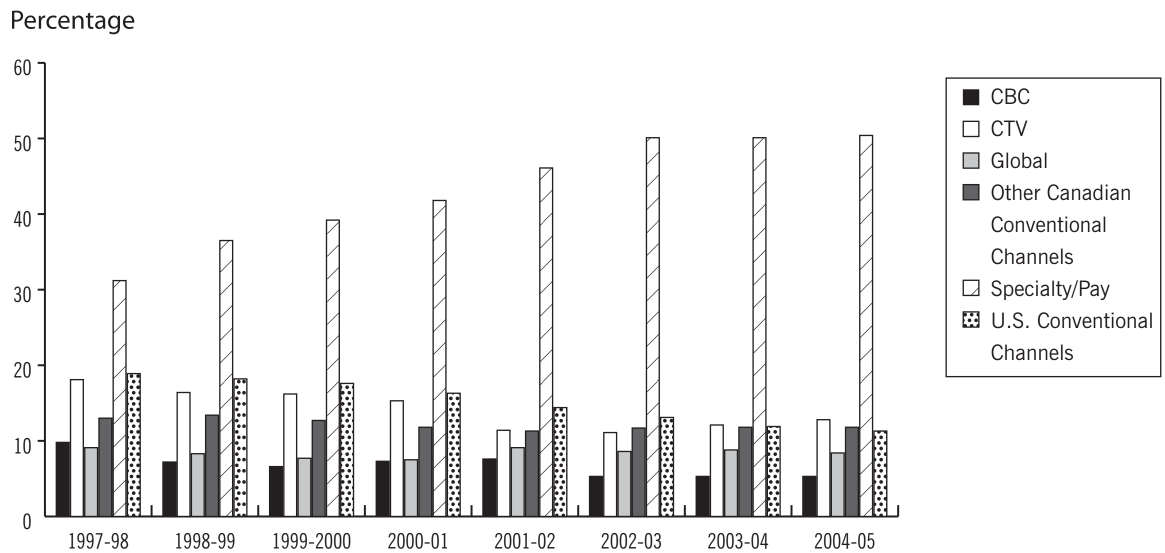
99. We also found that programs are guided by the strategies and targets set out in business or local plans. On an ad hoc basis, the programs are formally evaluated against expected program results and corporate network expectations for factors such as the quality of the language used. Where possible, performance data including "share" and "reach" is kept. Corrective measures are taken when necessary.

100. **Television services.** CBC English television contains a high rate of Canadian content; Canadian programs comprised more than 77 percent of the full broadcast day and over 86 percent of the prime time schedule in 2003–04. Despite the wide choices available to Canadians, CBC English television is trying to maintain its audience share. Exhibit 4 indicates the evolution of audience share since 1997–98.

101. French television is also a key player in the francophone market. La Télévision de Radio-Canada maintains a high level of Canadian content in both the full day (77 percent) and the prime time period (88 percent). Although the network's share progressively declined over the years, the introduction of its repositioned schedule had a positive impact on the prime time share. Exhibit 5 indicates the evolution of audience share since 1997–98.

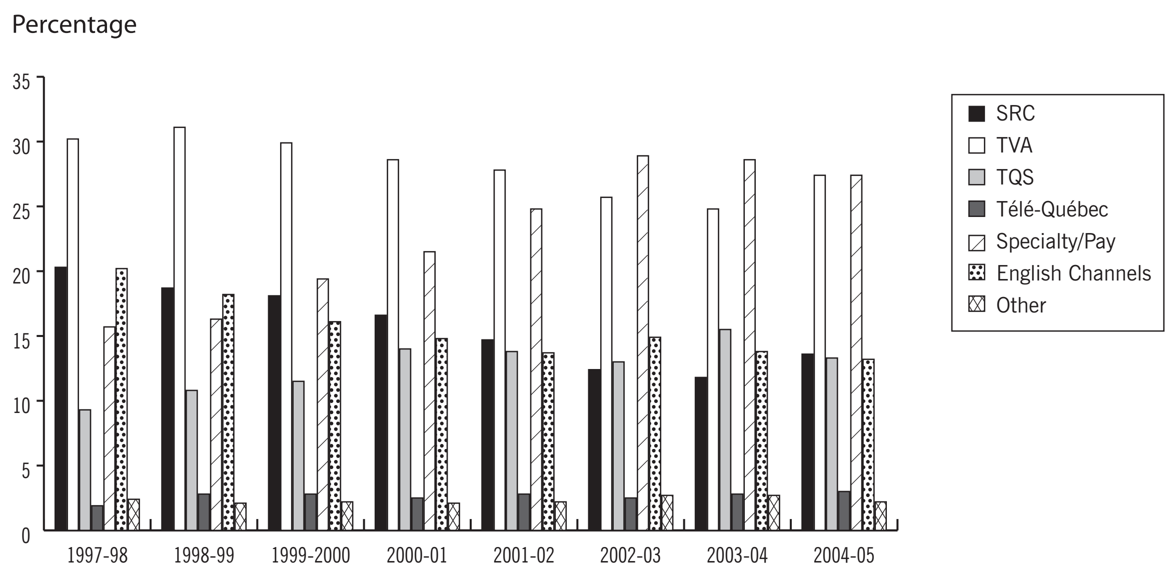
102. We noted that considerable research and analysis goes into selecting programs and developing the program schedules. We found

Exhibit 4 English television market all-day audience shares, 1997–98 to 2004–05



Source: Neilsen Media Research, All day—24 hours, September to March

Exhibit 5 French television market all-day audience shares, 1997–98 to 2004–05



Source: Neilsen Media Research, All day—24 hours, September to March that networks have processes in place to set their schedule, but we had difficulty assessing whether the content was fully in line with the overall network strategies or whether market shares and commercial revenues were the main drivers for content. Because of the breadth of the Corporation's mandate, the risk that program selection would not fall within the mandate is limited.

103. At the time of our examination, English television was formalizing its program selection process and developing a model for assessing the quantitative and qualitative aspects of its programs. French television has identified five key attributes of success for its programs but still has to determine how they will be used to systematically assess programming.

104. While program selection will always be somewhat intuitive, we believe it is important that all the media lines establish and monitor performance criteria for programs and for the schedule as a whole. Then the media lines can use this information to make any necessary changes for future programming decisions. This would also provide a clearer link between the individual program performance, the network strategies, and the corporate objectives.

A new regional and local programming strategy has been proposed

105. The CBC's mandate calls for a reflection of Canada and its regions to national and regional audiences, while servicing the needs of those regions. Over the years, the interpretation of this aspect of the CBC mandate has been the subject of much discussion by many stakeholders and still is. Expectations for regional presence vary and include delivering programs that reflect the regional differences in language and culture, building bridges between regions, offering regional and local broadcasting to regional and local audiences, producing programs in the regions, and ensuring reasonable access by communities to both regional and national programming.

106. As mentioned in paragraph 33 of this report, the June 2003 report of the House of Commons Standing Committee on Canadian Heritage called for the development of a strategic plan including estimated resource requirements for providing local and regional public broadcasting services.

107. In December 2004, the Corporation submitted its revised regional strategy to the Minister of Canadian Heritage, who shared it with the Standing Committee. The strategy addresses geographic and programming gaps in the Corporation's local and regional services.

More specifically, the strategy aims to enhance the services delivered to improve local and regional news coverage, support for culture, and current events. The plan is intended to be implemented over three years, with estimated annual costs reaching approximately $80 million in the third year.

108. The Corporation has indicated that it did not have the capacity to finance this strategy without additional funding from Parliament. At the end of our examination, there were no plans to incorporate elements of the strategy in the Corporation's activities for the coming years.

Management of program rights could be refined

109. As well as creating some programs in-house, the Corporation continually acquires programs to build a broad library to fill its schedules.

110. Acquired program rights are negotiated for a specified number of "airplays" over a defined time window and depending on the program genre (for example, children, drama, arts,). Industry practices generally set a standard number of airplays. Over the past few years, the Corporation has also negotiated rights in a way that ensures that the programs would be available for its use across various platforms, often by increasing the standard number of airplays that it negotiates.

111. Our benchmarking activities demonstrated that private and other public broadcasters generally air their programs in accordance with the number of airplays acquired. During our examination, we noted that numerous programs acquired or commissioned by the Corporation were still available for broadcast. At 31 March 2005, these programs represented at least **6,200** hours of programming for the French network and 5,800 hours of programming for the English network. Management informed us that the Corporation places little value on airing certain categories of programs more than once or twice even though it had acquired additional replay rights.

6,200—Figure corrected on 18 May 2007.

112. We understand that various factors have to be taken into account when comparing CBC's rights management practices with the industry. In our view, CBC could benefit from refining its approach to managing program rights to ensure that rights are used in an optimal manner.

113. **Recommendation.** The CBC should assess its management practices for program rights to ensure that rights are managed in an optimal manner.

The Corporation's response. *Management believes that the acquisition and use of telecast rights is, in the majority of cases, already optimized by the television networks. In general, this is achieved by acquiring the maximum number of potential telecasts at the minimum incremental cost. Having said this, we have noted the concerns and recommendation of the Office of the Auditor General and we will continue to ensure that our rights are managed in an optimal manner.*

114. **Management of royalties**. The Corporation is also responsible for compensating the creators of a program appropriately by paying royalties each time it airs the program. Annually, it spends approximately $20 million. This is expected to increase as the business changes and new royalties and collective agreements request increases to current fees.

115. Recently, the Corporation entered into a partnership to broadcast radio by satellite across Canada and the United States, for which the start date of operations has not yet been determined. The expansion of its broadcast reach accentuates the need to ensure that it understands and manages its royalty obligations well.

116. We noted that the Corporation has a number of separate systems for capturing and managing royalties, thereby increasing the risk of not complying with regulatory conditions. We were aware of at least one instance, which has since been rectified, where the Corporation did not pay adequate royalties to artists. The Corporation has informed us that improvements are being made to their processes with the implementation of the new VISION management system this year.

The quality of journalistic practices is managed well

117. The Corporation states that it recognizes its responsibility to provide consistent, high-quality information that the public can rely on, and it is committed to being accountable to the public it serves. We therefore expected CBC to have a quality assurance program that ensures effective and consistent application of the Corporation's values and journalistic policies.

118. In our 2000 Special Examination, we noted that given changes in the broadcasting environment, the Corporation needed to update and approve its handbook on journalistic standards and practices. The handbook is a framework of standards and practices designed to ensure that journalism meets the expectations and obligations of the Corporation.

119. Since then, the CBC has updated its journalistic standards and practices, and it reviews them continually to identify areas for improvement. Staff is kept current on standards and practices, and there is a structure in place to ensure that staff adheres to them.

120. Management of journalistic quality is supported by two ombudsmen who act independently and report to the Board annually. The report they present to the President and the Board summarizes the complaints and main issues over the past year and gives an account of how each media line has met the service standard established for the handling of complaints.

121. Overall, we are satisfied that the Corporation has appropriate systems and practices in place to manage the quality of its journalism.

Our cultural heritage is protected

122. Canadian programs form part of our cultural heritage and, as such, they need to be protected. The Corporation launched a major archives project in 1998 after a task force identified the risk that Canada's visual and audio legacy could be lost. The objectives of the project were

- to restore and preserve the Corporation's radio and television heritage,
- to store and catalogue this material in ways that enable the Corporation to realize its full historical and economic potential, and
- to make this historical and cultural legacy available to the people of Canada.

123. A selection and conservation policy was developed to guide the selection of archival material across all media platforms, services, and regions. As a result of this work, hundreds of thousands of hours of radio and television history have been restored, preserved, and catalogued for safekeeping and for the use of future generations. The public has access to selected historical material on the Corporation's French and English Web sites.

124. The Corporation is also taking steps to address the backlogs we noted in the conservation of program material. The evolution of archives management, maintenance, and access is part of a broader content management initiative at the CBC, which began in 2001 and continues today. Overall, we are satisfied that the Corporation has appropriate systems and practices for preserving Canadian cultural heritage.

Technology

125. As Canada's national public broadcaster, the Corporation has a mandate to offer radio and television services to all communities of 500 persons or more. To ensure this coverage, it uses a Canada-wide analog transmission network of about 2,470 transmitters on 960 transmission sites, distributing French and English radio and television programming to almost 99 percent of Canadians. This analog network has aged and is due to be replaced.

126. Technology plays a critical role at the CBC as it supports the production and editing of programs and the distribution of images and information, and it enables all aspects of the Corporation's business through a complex information technology infrastructure. Technological choices have long-term implications and must be aligned with the Corporation's future direction. We consequently expected the CBC to have plans and strategies to use the most appropriate technology to carry out its activities in a cost-effective manner.

Corporate planning for technology is progressing

127. In order to provide a focus for the strategic planning of technology, the President appointed a Chief Technology Officer in 2001 who is responsible for finding the best affordable technological solutions to the Corporation's short-term and long-term business needs. At the CBC, projects worthy of funding far exceed the available resources, and choices need to be made. Equipment and investment in technology represent the majority of capital funding needs.

128. At the time of our examination, the Corporation was about halfway through a five-year initiative to improve its capital planning and management of projects for acquiring and implementing technology. Improvements made include the creation of a corporate team representing all networks and divisions, the involvement of senior management in setting priorities for the selection of technology, and the preparation of a five-year capital plan.

129. We noted that the Corporation has assessed its current situation and identified the drivers that influence the desired technological infrastructure—such as the need to reduce costs and leverage assets as well as trends in technology and market conditions. In November 2004, the Chief Technology Officer prepared a draft version of a document, "IT Global Infrastructure and Strategic Planning Document," which includes elements of a corporate-wide technological plan. While progress has been made on some of the projects identified in the plan, we noted that, as of May 2005, the plan had not been formally finalized and approved.

130. In our view, by pursuing the development and approval of such an overall plan, the Corporation would be in a better position to direct information management, production, transmission, and distribution activities as well as prioritize projects and clarify roles and responsibilities of the players involved.

Capital funding remains a key challenge

131. At the time of our examination, much of the desired infrastructure for information technology systems had been determined, and strategic initiatives such as the implementation of Desktop TV and Radio, and the Vision project were ongoing. We also noted that the Corporation had prepared cost estimates for the replacement of its aging distribution network and was progressing on specific initiatives related to the transition to high-definition television programming and distribution. (Even though, unlike the United States, there is no firm deadline in Canada for the industry to switch to digital transmission, the change is inevitable.) In April 2005, the government requested the Corporation to develop a strategy and assess funding needs in order to address this transition.

132. As noted earlier, the Corporation needs to ensure its corporate strategies are clearly articulated, planned, and managed at a corporate level. This includes strategies on the use of technology. Further, large initiatives, such as the replacement of the aging distribution network and the transition to digital and high definition television, require significant multi-year funding. The Corporation needs to demonstrate and communicate the need for additional funding for these strategies to the Minister and to Parliament.

133. **Recommendation.** The Corporation should finalize its corporate strategy for technology infrastructure, establish priorities, and communicate its funding needs to relevant parties.

The Corporation's response. *The Corporation has a significant financial challenge in just renewing its existing assets at a rate consistent with realistic life cycles. As a consequence, most strategic investments, such as the transition to high-definition (HD) television, have been worked into the capital asset replacement cycle. The government has recognized that the Corporation cannot afford to make a timely transition to HD production and transmission without a significant infusion of additional capital. CBC/*

Radio-Canada is preparing a detailed presentation for the government, in response to its request, and does so on a number of capital asset files.

The Chief Technology intends to convene a Strategic Directions Working Group involving the four media vice-presidents to obtain high-level input of their respective services so that the strategic planning objectives are tied at the outset to programming initiatives.

The Corporation is facing significant delays and cost overruns in a critical project

134. Information technology infrastructure is also the underlying framework of support for corporate operations and enterprise-wide administrative functions, ensuring that employees have the technological applications they need to do their jobs.

135. We expected that the Corporation would manage and safeguard its information technology infrastructure in a way to meet its business needs. We also expected to see policies and procedures that optimize the use of information technology, limit the cost, and prevent unauthorized access.

136. With the creation of the Chief Technology Officer position, responsibility for developing and supporting information technology applications was combined with the distribution and transmission division. This has allowed for a more comprehensive view of potential solutions offered by technology. We saw evidence of good support provided by the technology infrastructure in the major financial system and in the newly installed corporate-wide news support system.

137. To achieve efficiencies in production and distribution, the Corporation is integrating more than 45 separate information systems into one application—VISION—for use in managing personal contracts, content acquisition, program rights, scheduling, sales, and revenue. This system will be used by English and French television and to a lesser extent by the radio networks. Since the Corporation considered that there was no single system available in the market to meet its needs, it decided to develop its own system. This customization combined with other factors, including the size, scope, and complexity of the VISION system, are making the project very risky.

138. The Corporation partnered with an external firm to develop and deliver this large and complex information technology project. A project management office has been set up to manage all aspects of development and implementation. We noted that since the inception of the project, significant changes in the scope of the future system have caused delays in its design and delivery at key milestones, as well as quality issues in the system versions provided for testing. In our view, the changes in scope were partly due to incomplete assessments of the needs of the Corporation. These issues have continually challenged the planned implementation schedule.

139. In March 2005, the Corporation had to postpone the implementation of the system to a later date. Moreover, at the end of our examination, the revised budget for the overall system implementation and project management exceeded the originally planned budget of $33 million by more than $18 million.

140. In our view, it is essential that the Corporation continue, from this point forward, to manage the implementation of this system in a way to minimize further cost increases, to incorporate quality management practices for testing and conversion, and to train staff to ensure its success. In addition, the Corporation would benefit from clarifying the roles and responsibilities of application owners along with accountability for the business data contained in the systems.

The Corporation has taken adequate steps to ensure continuity of its operations

141. The primary objective of planning for business continuity and resumption is to enable an organization to recover from short interruptions of services or real disasters and emergencies and to re-establish normal business operations. Whether news gathering, processing, or distribution is affected, critical activities have to resume to normal operations within a reasonable length of time.

142. We expected that the Corporation would have identified key activities that would need to remain available and the steps by which business continuity would be assured in the event of a disruption.

143. We found that the Corporation has the key elements of a business continuity plan for its information technology and broadcasting operations. The Corporation has done a risk and threat assessment of its systems. Recovery procedures have been established and generally tested.

144. On a broader front, the Corporation has established a national crisis response structure and decision-making mechanisms to deal with emergencies. Overall, we are satisfied that it has taken the necessary precautions to ensure its continued operation in the event of disruptions.

Financial management

145. Financial management is a key part of an organization's control, reporting, and decision-making process. An organization needs to know that funds are allocated to meet its objectives and that services are delivered with due regard to economy and efficiency. Financial management information includes the costs of activities carried out and supports the allocation of resources and restructuring of services in response to changing needs and priorities.

146. We expected the Corporation to produce accurate, relevant, and timely financial management information that would inform and support decisions by management, the Board, the government, and other stakeholders.

The Corporation needs better information to demonstrate it is well managed

147. We expected that the Corporation would measure and monitor the cost of its key products and activities, of its revenue-generating activities, and of other support activities. We also expected to find that standards were established to allow for the effective measurement and comparison of costs between the networks, as well as with external organizations.

148. In our 2000 report, we indicated that the systems and practices for cost control of both internally produced and acquired programs were sufficient to ensure the economical management of operations. Item-level budgeting and controls within programs were implemented to manage within budget. However, we noted the limited internal and external benchmarking and a wide variation of production costs between program genres and networks for similar activities. Part of the explanation for the limited analysis was a lack of the required financial information from the information systems then in place.

149. In 1999–2000, the Corporation implemented the SAP financial system. Since then, there has been progress in developing relevant financial information. We found that managers are regularly provided with data on the expenses and revenues under their direct control. This reporting focusses on actual spending compared to allocated budgets.

150. Moreover, a cost-allocation model has been developed to support activities and the media lines, and other corporate functions have developed some reports to monitor the use of financial resources. We noted, however, that senior managers do not have relevant costing information for programming and activities to assess the efficiency of the operations of the Corporation. More specifically, management reports do not break down the costs of activities by major categories, such as staff costs, operating costs, and facilities costs. This would allow for comparisons over time, as well as with similar activities within the Corporation and with external organizations. In addition, the formats and contents of the reports are not consistent within and between media lines and other components. As a result, it is difficult or, in some cases, not feasible to compare performance and costs between networks.

Internal and external benchmarking would benefit the Corporation

151. In our previous reports, we often stressed the importance of carrying out internal and external benchmarking of costs. In the current examination, we have seen no evidence that these activities have been carried out. The Corporation told us that it had attempted such internal analysis, but there were too many operating differences between the networks to make it feasible. As a result, it saw no benefits in such an exercise. While we recognize the differences in, for example, collective bargaining agreements, the Corporation needs to be able to perform such analyses to assure management and the Board that the Corporation has effective operations and uses resources economically and efficiently. Such analysis could identify potential efficiencies and economies and encourage the sharing of ideas and experiences in the Corporation. Improved financial information would provide a better basis for finding efficiencies, assessing the costs of programming schedules, and establishing future resource requirements.

Financial information for decision making is sometimes incomplete

152. We found that the quality of analysis provided to decision makers has improved over the years, although it can vary between the media and other corporate functions. However, we noted instances where the financial analyses presented to senior management and the Board were incomplete, and we are concerned that the corporate finance function did not sufficiently challenge the analysis. In addition, we noted that at the completion of six major initiatives, the Corporation did not compare the final costs incurred and benefits achieved against the initial proposal.

153. In our view, the Corporation needs to ensure that better information is available to understand the full financial implications of decisions and that mechanisms for financial accountability exist and are used.

154. The Corporation has improved its financial management and these efforts need to continue. Corporate Finance has overall responsibility for financial management and control of the Corporation and therefore needs the breadth of vision to oversee the reporting, its content, and the application of existing policies. To alleviate the problems noted above in financial reporting, costing, and financial analysis, Corporate Finance needs to ensure that the Corporation operates in an integrated way by challenging corporate reporting and setting standards. Moreover, it needs to assure the appropriateness of differences in financial results and practices between networks, and ensure the use of appropriate programming and activity costing and financial analytic techniques for key decision making.

155. Recommendation. The Corporation should

- improve costing information for programming and activities that would allow it to better demonstrate the level of efficiency of its operations;
- ensure that differences in financial practices and results between networks are justified; and
- ensure that the financial analysis presented in key project proposals is complete and sufficiently challenged.

The Corporation's response. *We understand the importance of being able to assess the level of efficiency of our operations. We also understand and share your concern about the need for comparability and benchmarking. Both networks are improving their costing and measurement systems, and corporate finance will work with them to improve the harmonization of costing information in order to enhance comparability between the networks and with other organizations.*

We also agree that analysis of key project proposals needs to be complete and sufficiently challenged. We believe the quality of our financial analyses has improved considerably over the past few years. Nevertheless, we will adopt a more consistent approach and we will challenge business cases even more rigorously. We will also improve the accountability of project managers by requesting final accountability reports at the conclusion of key projects.

Human resources management

156. The Corporation's most important asset is the creativity, inspiration, and diversity of its staff. It is therefore essential that the CBC have human resources policies and strategies in place to ensure that it can attract, develop, motivate, and retain staff with the appropriate competencies, skills, and experience to achieve its mandate. We also expected to see an effective performance management system, aligned with corporate objectives and priorities.

The Corporation has overcome many challenges in managing its people

157. In our last special examination, we noted that the Corporation had undergone considerable stress as a result of budget cuts, staff reductions, and reorganizations, which had reduced creative opportunities for staff and affected their morale and commitment. The culture change initiative under way at the time needed more visibility and more support from senior management.

158. Since our 2000 Report, the Corporation has reorganized its human resources division along with the key media operations. It has also invested significant effort in managing work relations and rebuilding a trusting and constructive relationship with labour unions. For the last two years, the CBC has been voted one of Canada's top 100 employers by MediaCorp Canada Inc.

159. About 90 percent of the Corporation's staff is unionized. Over the past few years, collective bargaining has been simplified through a reduction of the number of unions and bargaining units. Multi-tasking is now established, and managers have more flexibility in deploying staff. Management has also identified further changes needed to meet evolving operational requirements. The CBC has clearly recognized the importance of collective bargaining to achieve the desired change in corporate culture.

Employee surveys demonstrate improvements in people management practices

160. The CBC conducted a corporate-wide employee survey in 2001, and the various media and other corporate functions were assigned responsibility to follow up on issues raised by employees. A second survey conducted in 2003 noted improvements in almost all areas covered by both surveys.

161. Survey results noted improvements in the areas of communication with employees where more frequent discussions occur between board members, management, and employees to share views, overall direction, and concerns. The survey identified that the Corporation still needs to improve the performance management process, training programs, and its assessment of the impact of business decisions on employees.

162. Follow-up responsibility was again given to the various media and other corporate functions, but no formal action plan with timelines was developed; follow-up actions were ongoing at the time of our examination.

More efforts need to be devoted to succession planning and workforce renewal

163. We found that the CBC is currently able to attract the people it needs, and employee turnover rates are relatively low. With significant potential retirements over the next five years, succession planning is recognized as a priority at the CBC. At the senior executive level, succession plans are required and are subject to review by the Human Resources Committee of the Board of Directors.

164. At present, the nature and extent of succession planning varies, but its importance is recognized for managerial, supervisory, and highly skilled jobs. The French network has put workforce renewal plans in place, and plans are being developed for the English network.

165. The Board of Directors was given an update in September 2004 on the current status of succession planning, including what has been achieved and what needs to improve. The update identified the need for better linking of performance management, leadership/management development, and succession planning.

166. We encourage the Corporation to concentrate on identifying the desired competencies and developing training and recruiting plans that are aligned with the needs identified.

Performance management could improve

167. We found that staff performance objectives and expectations cascade down from the President. Performance expectations are generally aligned with objectives and activities that support strategic priorities and are structured to indicate the extent to which they address these priorities. Performance assessments are completed at year-end and usually take into account self-assessment and input from peers.

168. We found that while performance expectations and objectives are established and performance is reviewed against objectives, more rigour is needed in the process to help ensure that all performance objectives are addressed in performance assessments. The results of both surveys highlighted the need for the Corporation to clarify the purpose and use of this tool.

More attention is needed to assess the impact of change on employees

169. The CBC is presently engaged in more than 100 projects to improve its operations, generate revenues, and achieve efficiencies and cost savings across the country to free funds for reallocation to programming. All of these initiatives have an impact on work processes, staff requirements, training, corporate culture, and morale. This is especially the case with so many of the initiatives taking place over the same period of time.

170. We expected that the Corporation would have a holistic approach to assessing and managing the collective impact of these changes on its staff, systems and processes, culture, and leadership.

171. We noted that the President established a process for managing change by assigning individual responsibility, creating levels of decision making, and ensuring that the Senior Management Committee receives reports on key initiatives. However, we noted that accountability for corporate-wide initiatives had not been assigned clearly. We also found that while senior management and the Board have change management practices built into each large project, they track the progress of only four or five very large projects out of the list of more than 100.

172. The ability to change is critical for the Corporation. It is important that the CBC have the means to assess and communicate the full impact of all the change initiatives cutting across the entire Corporation. The Corporation needs to have plans to co-ordinate and manage change, the ability to take corrective action, and reports on the full range of initiatives that the Corporation. We encourage management to enhance its corporate-level perspective to increase its capacity for change and its ability to achieve its objectives.

Infrastructure management

173. The CBC owns and leases building space across the country to house its administrative, production, distribution, and transmission staff and facilities. It has two large production facilities, in Toronto and Montreal, and regional and local facilities across Canada. We expected that the Corporation would manage and safeguard its real estate portfolio in a way to meet its needs cost-effectively.

174. Our previous examinations, in 1995 and 2000, found that the Corporation had more facilities than it needed. We concluded that the excess infrastructure was a drain on resources, diverting management attention from core responsibilities. We supported the efforts of the Corporation's re-engineering task force to resolve the existing problem and find a way to manage real estate better in the future. We emphasized the need for solutions that are consistent with the Corporation's mandate and linked to other strategic issues, such as the future of regional news, the use of regional facilities for network programming, and the future of in-house production.

Substantial progress has been made in managing the real estate portfolio

175. In response to our observations, a real estate division was created in 2000 to act as the landlord of all of the Corporation's administrative and production facilities. It aims to optimize the use of space, safeguard corporate assets, and facilitate production activities through space planning and consolidation, property and facility management, rental or sale of surplus assets, and design and construction of new facilities.

176. Since our last examination, the Corporation identified its space requirements and consolidated its facilities in Edmonton, Quebec City, and Ottawa. A number of smaller space rationalization projects and the sale of unused land and buildings have also contributed to reducing the Corporation's space by about 1 million square feet, or 20 percent of the 5.3 million square feet it used in 2000. The broadcast centres in Montreal and Toronto now account for more than 75 percent of available space.

177. At the conclusion of our examination, the Real Estate division estimated that the Corporation's holdings still offered opportunities for rationalization. Plans and studies were under way to assess them.

The Corporation needs to continue to revisit its needs for production facilities

178. Production facilities and storage areas occupy approximately 33 percent of the Corporation's facilities.

179. Production studios are expensive because it is difficult to use them fully, and operating them requires highly specialized staff. At the end of our previous examination, the Corporation had not assessed whether it would continue using its production facilities or make alternative arrangements for production.

180. Since then the CBC has undertaken a number of initiatives to assess its needs for production facilities. The Corporation has closed five production studios in the Toronto Broadcast Centre. In Montreal, La Maison de Radio-Canada in Montreal added the Centre de l'information for its news, and closed and relocated its existing drama production studio while upgrading some other studios with newer equipment. With the exception of the Halifax, Winnipeg, and

Vancouver facilities, a number of regional facilities were consolidated, leaving mainly the production of local news in these production facilities.

181. Overall, the Corporation is moving to central production methods and facilities for radio and television operations. Digital technology is moving the industry toward highly automated, computer-based management of the image and sound components of production. Today, equipment offers many more capabilities, can be less expensive, requires less space, and provides more flexibility.

182. Considering all these changes, along with the transformation and repositioning strategies of the French and English networks, we expected that the Corporation would continue to assess its production facilities needs.

183. As in our last examination, we compared the usage of network television production studios with their total availability, excluding news. We found that, for network television services, the usage rate has increased from 60 percent in 2000 to about 70 percent in 2005. The usage rate for the English network regional facilities not dedicated to news programming is 46 percent (comparable figure not available for 2000). Studios for news production are used almost 100 percent of the available time in the major centres but considerably less in the regions for English television, where news is given less air time and little weekend coverage. We did not find a consistent method of calculating studio use and cost of operations between television networks; nor did we find corporate guidelines of what constituted cost-efficient use of studios. We did not assess the usage rate for radio studios because they occupy considerably less space.

184. At the time of our examination, English television had begun another assessment of its production facilities as well as an assessment of the market demand and supply of studios to identify areas for improvement. An external consultant was engaged to perform this complex analysis. Management informed us that in March 2005 the French television network initiated an internal study of studio use and of the comparative costs of internal and external production.

185. Our benchmarking activities showed that broadcasters are continually assessing their need for in-house production and are focussing on increasing optimal use of their facilities. When deciding to maintain existing facilities, broadcasters undertake a stringent monitoring of their cost and use in order to maximize efficiencies.

In our view, the CBC needs to continue to revisit its need for in-house production and determine whether to retain its current capacity based on the future direction of the Corporation.

186. **Recommendation.** The Corporation should continue to revisit its need for in-house production facilities and ensure that they are used in a cost-effective manner.

The Corporation's response. *As this section of the report makes clear, the Corporation has made it a priority over the past five years to manage its production facilities proactively. One way to do this is to use existing capacity more efficiently and effectively and to downsize where appropriate. Another is to investigate the potential for alternatives to in-house production. The Corporation has actively pursued both these approaches.*

Since the last special examination, the television services have conducted several studies on plant use, and studies in both networks are currently under way. The type of analysis and review being conducted by the Corporation is similar to that done by other major national public and commercial broadcasters, many of whom have made the decision to retain and make better use of their substantial in-house production capacity. The Corporation will continue to rigorously revisit this issue in light of current market realities.

Environmental and sustainable development

187. Sustainable development is defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Sustainable development is based on the efficient environmentally responsible use of all our scarce resources—namely natural, human, and economic resources. In order to put sustainable development into practice, organizations need to apply an integrated approach to planning and decision making that takes the environment into account in addition to economic and social considerations. At the operational level, it means taking steps to reduce the negative environmental impact of an organization's operations on the environment.

188. We examined whether the CBC had identified the main risks its activities pose for the environment and sustainable development, whether it effectively manages them, and whether it complies with environmental legislation and regulations.

189. We found that the Corporation has taken concrete steps to orient itself toward environmental management by identifying and prioritizing risks created by corporate activities, and by developing an environmental policy and environmental emergency measures.

The Corporation has also implemented energy management and cost reduction initiatives at a number of locations.

190. The Corporation has identified activities arising from its operations that have an impact on the environment, for example, waste generation, water and energy consumption, purchasing, and fleet management, and it has put forward some initiatives. It now needs to integrate "greening" best practices into the management of those activities in order to reduce its negative impacts and reap benefits for the environment.

191. Moreover, we noted that the Corporation has focussed its environmental compliance on federal legislation and regulations. It still needs to compile all of the provincial and municipal legislation and regulations that might have an important impact on its activities. To ensure compliance, it also needs to expand its environmental compliance audit program to include all of its sites across the country.

192. The Corporation expects to expand its strategy for managing the environment and sustainable development by implementing an environmental management process across the Corporation before the end of 2005. To ensure this initiative succeeds, it will have to better integrate the responsibilities of the various players who have a role in managing the environmental impacts of its operations; it will also have to address the fact that it has developed no action plan and set aside no funding for this initiative.

193. **Recommendation.** In implementing its environmental management process, the Corporation should better integrate the responsibilities of various players involved in environmental management and move beyond compliance by applying best practices to "green" its operations.

The Corporation's response. *The environmental effects of the Corporation's operations are primarily managed by the Real Estate, Fleet, and Transmission divisions, with the overall program managed by the Human Resources Health, Safety and Environment group. By applying the principle of continuous improvement, it is an objective of the Corporation to ensure that all responsibilities are integrated into one national strategy and that sustainable development is achieved. We understand the importance of ensuring a "green" legacy to future generations and we very much want to do our part. As with many of our other priorities, funding is an issue that will have to be addressed.*

Revenue-generating activities

194. A few years ago, the CBC set itself the challenge to operate as efficiently as possible by reviewing all of its operations, implementing significant cost-saving and revenue-generating measures, and reinvesting the proceeds in programming.

195. We expected the Corporation to have strategies and plans for revenue-generating activities that included targets and accountability for results. Reporting revenues and the cost of generating them would allow senior management and the Board to track the Corporation's progress against this objective and take corrective action where required.

Revenue-generating activities are expanding

196. Over the years, generating revenues from existing assets was the responsibility of each of the media and the other corporate functions. Revenues generated could be kept and used to increase current budget allocation.

197. Numerous initiatives were identified and launched such as the creation of the merchandising division and the real estate division for renting facilities. More recently, the Corporation has launched another initiative—a mobile division.

198. For 2005–06, the Corporation plans to earn net revenues of about $28 million from these initiatives. The Corporation now has a corporate business development division that is expected to provide a central focus for all of the activities. The division is developing policies and processes to ensure that accountability among the various media and other corporate functions is clear, understood, and consistent with the Corporation's strategy, values, and mandate. To support this corporate-wide perspective, the division is chairing a committee to communicate policies and processes and to manage the activities.

199. To ensure that revenue-generating opportunities are managed effectively, senior management and the Board need an overall view of all the related activities, including all their revenues and costs as well as expected results, whether they are quantitative or qualitative in nature. We noted that it was only in March 2004 that the Corporation compiled its first report on targets for revenue-generating activities. By November 2004, a follow-up report was presented to the Board. More systematic tracking and reporting of revenues generated and costs incurred by these activities across the Corporation are needed to ensure that the CBC meets its targets. The Business Development division also needs to ensure that costs and revenues are accounted for accurately and that progress toward targets is reported periodically to the Board. This reporting will enable the Corporation to take corrective action and periodically assess whether it should continue to pursue a given activity.

Traditional advertising activities are well managed

200. In 2004–05, CBC advertising generated about $304 million. The CBC begins the advertising sales cycle by analyzing upcoming program schedules to estimate potential viewership and by using internal comparisons and benchmarks to set advertising sales targets. Generally, the larger the audience size, the more the Corporation can charge for advertising. It manages available advertising space on a day-to-day basis and, through a commission structure, motivates the sales force to maximize sales. Throughout the year, advertising results are monitored daily for corrective action and tracked against overall sales targets. The CBC screens all commercials prior to airing them to ensure that they are consistent with its corporate values.

201. In our view, the Corporation has policies, procedures, and systems for managing traditional advertising sales in a way that is effective and consistent with its values and that maximizes the return from its advertising space.

The Corporation needs strategies for new forms of advertising

202. The Corporation has also explored strategies and tested concepts to supplement traditional forms of television advertising. New forms of revenue from programming, for example, include corporate sponsorships and the display of specific products for a fee in a television program. These new forms of advertising pose many challenges. For example, using the display of products in programs developed by independent producers could require changes in contracts and at times could affect the artists. Moreover, given that product placement in programs is still relatively new, its value to the advertiser and the broadcaster has not yet been established.

203. The CBC will need a way of ensuring that the products displayed in its programs and the sponsors of the programs are consistent with its corporate values and its mandate as a public broadcaster. The Corporation needs to identify and analyze the potential offered by the new forms of advertising and develop a strategy to manage these activities. Further, we encourage it to develop a policy to guide its use of these promotional vehicles and to establish systems and practices that maximize both the revenues they can generate and their consistency with the Corporation's mandate.

Appendix Systems and practices examined and related criteria

Areas for examination	Criteria	Key systems and practices
Governance	The Board of Directors clearly understands its roles and responsibilities and has a well-articulated and applied corporate governance framework that enables it to oversee the activities of the Corporation and protect its interests and those of the Canadian public. The Corporation has a well-performing internal audit function that adds value and improves the CBC's operations. It helps the Corporation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.	• Governance framework and functioning of the Board • Internal audit
Strategic management	The Corporation has clear and measurable objectives and related strategies that take into consideration its mandate, the public interest, its operating environment, key risks and opportunities, and its financial capability. These objectives and strategies are clearly communicated throughout the organization and are operationalized in a way to guide management decisions in the achievement of the Corporation's mandate.	• Strategic planning, approval, and decision-making processes
Performance measurement and reporting	The Corporation uses performance indicators that enable it to measure its corporate performance and the extent to which corporate objectives are being achieved. The Corporation reports on its performance in a way to enable senior management, the Board, Parliament, and other stakeholders to meaningfully understand and assess the Corporation's performance.	• Performance measurement framework and reporting • Appropriateness of the performance measures
Programming	The CBC programs meet audience needs, mandate requirements, and future long-term direction in a cost-effective manner. The CBC has a quality assurance program that ensures effective and consistent application of the Corporation's values and journalistic policies.	• Program selection • Content management and inventory management • Corporate quality management • Preservation of cultural heritage

Areas for examination	Criteria	Key systems and practices
Technology	The CBC has plans and strategies to use the most appropriate technology to carry out its activities in a cost-effective manner, taking into consideration the future directions of the Corporation. The CBC has contingency and business resumption plans that are up-to-date and tested for all critical functions of the Corporation. The CBC manages and safeguards its information technology infrastructure in a cost- effective manner that meets the needs of the Corporation.	• Strategic planning for technology • Systems under development • Change management in production, distribution, and transmission technology • Information technology infrastructure • Business resumption and emergency-readiness planning
Financial management	The Corporation produces accurate, relevant, and timely financial information that informs and supports management, the Board, its shareholders, and other stakeholders in their decision-making processes.	• Financial organizational structure and core competencies • Financial planning, budgeting, and reporting • Financial analytic techniques for decision making
Human resources management	The Corporation has human resources strategies and policies in place to ensure that it has staff with the appropriate competencies, skills, and experience to achieve its mandate.	• Human resources systems—recruiting, training, retention, and compensation • Succession planning • Employee performance management system
Infrastructure management	The CBC manages and safeguards its real estate portfolio and facilities in a cost-effective manner that meets the needs of the Corporation.	• Real estate portfolio and facilities management
Environmental and sustainable development	The CBC is aware of the risks its operations create for the environment. The main environmental risks are effectively managed in compliance with the applicable laws and regulations, and the Corporation's practices consider sustainable development.	• Environmental and sustainable development management strategies
Revenue-generating activities	The CBC has strategies to generate cash flow from its assets to help sustain quality programming and distribution in a manner consistent with its mandate.	• Corporate strategies for leveraging assets • Marketing and advertising sales