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# Trade Centre Limited

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## Department of Economic and Rural Development

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## Executive Summary

### Introduction

The Internal Audit Centre completed a review of Trade Centre Limited (TCL), a Provincial Crown Agency, accountable to the Department of Economic and Rural Development (ERD). Subject to a 1981 operating agreement, TCL manages the operations of the Metro Centre on behalf of the Halifax Regional Municipality (HRM).

### Audit Objective and Scope

A review was conducted of Trade Centre Limited (TCL) to determine whether key governance controls are designed and operating effectively. The review evaluated the governance processes and practices used by senior management and the Board of Directors of TCL to achieve the objectives of the organization, including the objectives of the Department of Economic and Rural Development (ERD). The engagement also included a review of the revenue/cost allocations and the related processes to ensure they are reasonable, accurate and align with the arrangements between TCL, the Halifax Regional Municipality (HRM) and ERD.

The engagement examined documentation for the fiscal period April 1, 2008 to March 31, 2009.

The review team executed a detailed plan including interviews, analysis and documentation review at TCL's offices.

### Summary of Findings

The following highlights our observations which have been organized by the following categories: Governance; Metro Centre Operating Relationship; Operating Deficits; Board Structure; and Accountability Reports.

#### Governance

TCL has a strong team of senior management professionals who are committed to the development and improvement of operational and governance processes. The management team, with the Board of Directors, have developed a comprehensive Governance Manual that is being used to establish effective oversight and guide the general management of TCL.

The manual is designed to expand on and supplement the governance principles outlined in the provincial publication *Governing in the Public Sector: A Guide for Province of Nova Scotia Government Agencies*. This presents an excellent opportunity for TCL to share information on best practices and governance controls, which could be adapted by government and shared with other Departments.

Several key components of a well-developed governance structure for TCL require updating. In particular, TCL does not currently have a formal risk management policy or a risk management



program for the identification, analysis and monitoring of risk to the organization. There is no code of conduct and conflict of interest policies for employees of the organization, and Board members are only required to review and sign the Conflict of Interest Policy upon their initial appointment to the Board.

#### Metro Centre Operating Relationship

TCL is a partner to several operating relationships with both the Provincial Government (the Province) and HRM. Currently, TCL payroll is processed by the Province's Department of Finance. They also receive an annual operating grant from ERD. There are no service level agreements in place to help ensure there is a common understanding with regards to services, priorities, and responsibilities.

The relationship with HRM is governed by a 1981 operating agreement that does not reflect changes in the organizational structure and operations that have occurred over the past 30 years. The focus of the original agreement was the construction of the Metro Centre. The original agreement needs to be updated to incorporate changes that have occurred over the past 30 years. Specifically, it should address the establishment of Ticket Centre Atlantic for ticket sales, distribution of commissions on ticket sales and the maintenance expenses needed to support the aging structure.

#### Operating Deficits

TCL does not have funding mechanisms in place for operating deficits. A significant payable to the Province of Nova Scotia (the Province) for TCL payroll related expenses (\$16,447,854 at March 31, 2009) has remained unpaid in order to assist in their operating cash flow. Future operating deficits will be impacted if the payable to the Province continues to increase. Senior management of ERD and TCL need to develop a strategy to repay the Province and keep the reimbursement to the Province current.

#### Board Structure

The current director nomination process does not formally provide an opportunity for TCL to have input into the appointment of directors to the Board. Although a nomination process has been developed by senior management and the Board that includes a skills gap analysis, this is not currently used by ERD to ensure that appointed Board members have the requisite knowledge and skills to help ensure an effective and informed Board of Directors. In addition, although the TCL Board has representation from HRM, there is no representative from ERD that currently sits on the TCL Board. Management of ERD and TCL need to determine mutually acceptable criteria for Board members and incorporate the criteria into the selection process.

#### Accountability Reports

The requirement to prepare annual accountability reports for the Province has been waived by the Treasury Board Office based on a review of their annual report prepared for stakeholders. However, the annual report lacks the information needed for ERD to determine that TCL has achieved their objectives and budget as outlined in the approved business plans. Working with



ERD, TCL should determine the information and format required, as well as the frequency of reporting needed to ensure that ERD is supplied with timely and appropriate information.

### **Conclusion**

Based on our review it was determined that the governance controls are designed and operating effectively, with exception of the above noted items. We also determined that revenue and cost allocations are reasonable and based on the actual usage between TCL and Metro Centre.

The detailed observations and recommendations for improvement are presented in Appendix A along with management responses. As a next step, management needs to create an action plan to address the recommendations to improve communications and governance. The action plan items need to consider costs, potential impacts and the amount of time to implement.

### **Follow-up**

Senior Management of TCL, ERD and the Department of Finance (as appropriate) reviewed the observations in Appendix A and provided comments in response to the observations. The Internal Audit Centre will follow-up with management two months after the issuance of the final report on the progress of the action plans. Six months after the issuance of the final report the Internal Audit Centre will request a response and/or status report in writing on the action plans, timelines and assigned responsibilities for implementing the recommendations.



## Appendix A - Detailed Observations, Recommendations and Management Comments

### Prioritization of Observations

The following findings have been prioritized by the significance and likelihood that, if not addressed by management, would potentially result in inadequate processes and internal controls necessary to achieve departmental objectives. The prioritization categories are defined as follows:



#### High priority:

The recommendation should be given immediate attention due to the existence of either a potentially significant internal control weakness or operational improvement opportunity.



#### Medium priority:

The recommendation should be addressed in the short to intermediate term to either improve internal controls or efficiency of the process.



#### Low priority:

The recommendation is not critical but should be addressed in the longer term to either improve internal controls or efficiency of the process. These issues were not included in the final report, however each was brought to the attention of the client in our audit of the Observations, Recommendations and Comments (ORC's) which were approved by management at that time.



## Governance

### Service Level Agreements

There is no Service Level Agreement (SLA) between the Province of Nova Scotia's Department of Finance and Trade Centre Limited (TCL). Currently, the Department of Finance processes payroll for TCL and invoices TCL for payroll expenses incurred. Since 2006 TCL has deferred payment of payroll related expenses to the Province in order to maintain cash flows for operations. TCL does not have a funding mechanism for operating deficits. In 2005-06, the balance due to the Province was \$581,262. This balance has substantially increased to \$16,447,854 as at March 31, 2009. The latest payment for \$7,493,441 was made to the Province in June 2009. Assuming no payroll increases from the previous year and if no more payments are made by TCL, the projected balance due to the Province at March 31, 2010 will be \$17,908,826. This amount includes \$2,028,445 for salaries allocated to the Halifax Metro Centre and transferred from the Metro Centre in 2008-2009 to TCL.

There is no service level agreement between ERD and TCL for the operating grant.

### Recommendation #1

A Service Level Agreement between TCL and the Department of Finance needs to be developed that defines the terms and conditions for payroll processing and reimbursement of payroll expenses on a go-forward basis. TCL and the Department of Finance must also develop a repayment plan for the outstanding balance owed to the Province for payroll-related expenses.

TCL needs to develop a Service Level Agreement in conjunction with ERD that outlines services, priorities, and responsibilities with regards to the operating grant.

### Management Response

(Finance) The Department of Finance acts as a service provider of payroll processing services for TCL. While there is no SLA between the Department of Finance and TCL, it would not be reasonable to expect in any SLA that a service provider would be responsible to carry this receivable. TCL needs to address their cash flow deficiencies with their funding department or the methodology to record this expense needs to change.

(TCL) Management acknowledges the observation and will continue to discuss potential funding mechanisms with respect to both the accumulated non-funded deficit to date and a go forward process for funding annual deficits with PNS Department of Finance.



During year end procedures, TCL reconciles and confirms the balance owed with PNS Department of Finance with respect to payroll arrears.

TCL made a payment to PNS with respect to payroll arrears in March 2010 reflecting amounts owed for calendar year ending December 31, 2008. TCL will make another payment by end of June 2010 to ensure all balances owed for fiscal 2008/09 are paid.

(ERD) ERD is interested in exploring mechanisms to establish services, priorities, and responsibilities as a condition of funding for TCL. It may be appropriate to include this as part of a Memorandum of Understanding, the subject of the observation below (Memorandum of Understanding / Operating Agreement).

### **Memorandum of Understanding / Operating Agreement**

TCL receives an annual operating grant from the Department of Economic and Rural Development (ERD). In 2008-2009, TCL received \$99,000 from ERD. There is no memorandum of understanding or operating agreement in place to support the grant or to ensure appropriate use of the funds. In addition, TCL does not have to submit annual accountability reports as per a memo from the Treasury Board Office. Without these reports, it is difficult to determine whether TCL has achieved the objectives and budgets as per their approved business plans.

### **Recommendation # 2**

TCL needs to expand its annual reporting to ERD to include an accountability report with respect to the achievement of the approved business plan (objectives and budgets). This will assist ERD in their assessment of the appropriate use of the operating grant and will be beneficial in the review and approval of future grant requests from TCL.

### **Management Response**

(TCL) TCL as a Crown Corporation annually prepares an Annual Report and as such the requirement for accountability report was waived by Treasury Board Office. TCL will explore enhancing its disclosure in its Annual Report to address concerns noted. Exploration of the enhanced reporting will commence in preparation of the 2009/10 annual report.

(ERD) ERD will explore the need for operating agreements and enhanced accountability reporting with TCL and Finance as part of an overall effort to develop better accountability mechanisms around the annual operating grant.



## **TCL / HRM Operating Agreement**

TCL manages the operations of the Metro Centre on behalf of the HRM. This arrangement is governed by a 1981 operating agreement between the parties. The agreement is out-dated as it does not incorporate changes to the structure, roles and responsibilities of TCL and HRM that have occurred in subsequent years. In particular, the agreement does not address the distribution of commissions received from Ticket Centre Atlantic.

### **Recommendation # 3**

TCL and HRM need to update the 1981 operating agreement to reflect current practices and operations. The agreement should also define the organizational fit for Ticket Centre Atlantic, the disposition of ticket sales and the distribution of commissions received from ticket sales. The operating agreement must include the level and nature of reporting that needs to be provided to HRM with respect to the Metro Centre operations.

### **Management Response**

(TCL) TCL acknowledges the observation and will begin exploratory discussions in the next months with HRM on their position with respect to updating the operating agreement between the parties.

(ERD) ERD concurs with Recommendation # 3.

## **Formal Risk Management Policy**

There is no formal risk management policy within TCL. As per the CEO, the risk management process is tied into each operational division. Financial, human resource and major operational risks are presented at each Board meeting by senior management. A formal risk management plan requiring Board approval is not prepared. Management has indicated that a formalized risk management process is a priority for the Board this year.

### **Recommendation # 4**

Senior management of TCL needs to develop and implement a risk management program which will include a corporate risk policy and processes for the identification, assessment, monitoring and reporting of risk. The program and policy should be reviewed regularly (i.e. annually) and be approved by senior management and the TCL Board.



### **Management Response**

(TCL) Management concurs with the observation which has also recently been identified by the Audit Committee as an area of focus.

TCL's business plan for 2010/11 includes the development of a comprehensive enterprise risk management program which will include a formal risk management policy and annual risk management plan as key priorities.

(ERD) ERD concurs with Recommendation # 4.

### **Code of Conduct / Conflict of Interest**

There is no code of conduct and conflict of interest policy for employees of TCL. Board members are required to read and sign the policies upon their first appointment to the Board only. Without a requirement for regular review of the policies by Board and staff members, TCL is at risk for unethical activities or behaviours that contradict the mission and values of the organization.

### **Recommendation # 5**

Senior management needs to develop a code of conduct and conflict of interest policy for all TCL employees.

The Board of TCL should regularly review and approve the policies.

The code of conduct and conflict of interest policies should be communicated annually to all board members and employees for review.

### **Management Response**

(TCL) Management will review and ensure appropriate response is taken in accordance with proactive best practice.

TCL currently has a statement of values that is distributed annually to every employee as well as being posted on our website.

There is a peer nominated award program to reinforce these values and to formally recognize TCL employees (including management) who exemplify our values in their everyday work.

(ERD) ERD concurs with Recommendation # 5.



## **Selection Criteria for TCL Board Members**

Currently, TCL Board members are selected and appointed by the Province and no input is provided by the TCL Board. TCL's Governance Manual contains criteria and a process for director nomination that would address the corporation's needs by means of a skills gap analysis to be performed annually by the Board. However, the criteria does not specify that members be knowledgeable about issues and trends affecting the government or possess any knowledge of government processes and key organizations.

The CEO and Board Chair are meeting with the Minister of Economic and Rural Development to ensure that the criteria established by the Board for the nomination of members be considered.

### **Note from ERD on above observation:**

The TCL Board members are selected and approved by the Province. There is no direct input provided by the TCL Board. However, the criteria used by ERD's independent screening panel in reviewing board applications, has been set by the TCL. These criteria are purpose specific to the business of the corporation. All eligible (not ranked) applications are forwarded on to the Minister.

### **Recommendation # 6**

It is recommended that ERD review the criteria for director nomination to the TCL Board currently contained in the Governance Manual. ERD and TCL should work together to determine mutually acceptable criteria for Board members and incorporate the criteria into the selection process.

### **Management Response**

(TCL) The recommendation to consider new selection criteria will be addressed with the Board through our governance agenda.

At present, the Board orientation process includes presentations from Executive Council on this topic as well the Governing in the Public Sector materials are incorporated in our Governance Manual to help ensure Directors understand their responsibility and relationship to the government and have opportunity to ask questions and hold open discussions on their role as it relates to government at the start of their appointment with the TCL Board.

At present an informal process and consultation occurs between the CEO, Board Chair and ERD with regards to Board appointments.



(ERD) ERD will work with TCL and the Executive Council Office to review the criteria for director nominations to the TCL Board.

### **Audit Committee Meetings**

The Audit Committee only met twice during the year although the full Board met eight times. In both of the meetings, the committee only addressed items related to the external audit of the financial statements. A draft Audit Committee Charter has been created by TCL that will empower and assign responsibility to the Committee for monitoring and reporting to the Board on internal controls and financial reports, including operational reports provided by senior management. The draft Charter does not include a provision for frequency of audit committee meetings and required reporting to the full Board.

### **Recommendation # 7**

The draft charter for the Audit Committee should be reviewed and approved by the Audit Committee and full Board of TCL. The charter should also be revised to include the frequency of meetings and the nature and frequency of required reporting to the full Board. The Charter should be reviewed and approved on an annual basis by both the Audit Committee and full Board of TCL.

### **Management Response**

(TCL) During the period under review (2008/09), TCL did not have a CFO until December 2008 and as such meetings of the committee were on an “as required basis” only. During the current fiscal year, the Audit Committee has met regularly (5 times) and has addressed all areas of its responsibility as detailed in the Committee charter.

The Audit Committee will review developing an annual calendar of meetings and objectives for each meeting to ensure that key responsibilities of the Committee are being achieved. In addition the Audit Committee will explore revising its charter to address the noted observation.

(ERD) ERD concurs with TCL’s proposed process to address Recommendation # 7.



### **ERD Representation on TCL Board**

The only representative of the Province on the TCL Board is the Deputy Minister of the Department of Tourism, Culture & Heritage who is now the Commissioner, Public Service



Commission. There is no term for the Deputy Minister appointee. ERD provides an annual operating grant to TCL, however there is no representation on the Board from ERD. A review of the board composition of Innova Corp and NSBI, two other Crown Agencies of the ERD, found that the Deputy Minister of ERD sits on their Board of Directors as a voting member. As indicated by ERD, the position of Deputy Minister on the Board is not specific to either a person or a department and can be changed by the Governor in Council.

### **Recommendation # 8**

It is recommended that the by-laws of the TCL Board of Directors be amended to include the Deputy Minister of ERD (or appointed delegate) to sit as a non-voting member of the Board of Directors.

The by-laws should also be revised to ensure that provincial representation on the Board of Directors is consistent with the position held rather than the appointment of an individual.

### **Management Response**

(TCL) The Governor in Council (GIC) may assign responsibility for TCL by issuing an Order in Council (OIC). The responsibility for Trade Centre Limited (TCL) is assigned to the Minister of Economic and Rural Development (ERD).

The sole Shareholder of TCL as such has the right and obligation to appoint Directors to the TCL Board. In accordance with TCL's Shareholder's Special Resolution, the Articles of Association specify the GIC may appoint a deputy minister to sit as a non-voting member of the Board. There is no requirement for the DM of Economic and Rural Development to be appointed the TCL Board.

Since the DM of Economic and Rural Development advises the Minister, this might, at times, present as a conflict of interest. As a policy issue there are definitely arguments for and against such an appointment.

Once Board appointments are made, every director has the same (fiduciary and legal) duties, responsibilities and accountabilities to the agency/incorporated body and the Minister of ERD.

In accordance with both TCL and the PNS governance, the Chair of the TCL Board is the main point of contact with the Minister although there is also interaction between TCL staff and the Minister's Office and other government departments.

There are reporting requirements and budget approval processes that ensure financial accountabilities with regards to any funding or grants to TCL. Generally in practice, the Shareholder as represented by the Minister approves budgets in accordance with government requirements.



It is our understanding that some other agencies of the crown have requirements in their establishing legislation that state the DM of Economic and Rural Development must sit as a member of the Board (i.e. NSBI Act and Innovation Corporation Act.) At present, this is not true for TCL.

TCL will review observation with ERD for feedback. If necessary we will pursue any changes to ensure continued accountability improvements and best practices.

(ERD) A Deputy Minister is appointed to the TCL Board through a Governor in Council Order. The named Deputy Minister is currently being explored with the Minister of Economic and Rural Development.

### **TCL Board Attendance**

There is no official policy for attendance at Board of Director meetings. Without sufficient attendance at meetings, strategic decisions may be made or information considered without proper due diligence on the part of the Board.

### **Recommendation # 9**

The Board should develop and approve an attendance policy. The policy should address the frequency and notification of meetings, meeting requirements, as well as outline the steps and responsibility for corrective action to be taken for non-adherence to the policy.

### **Management Response**

(TCL) The Board will establish an attendance policy.

The Board uses technology to assist with reviewing key decisions in a timely manner when necessary. TCL's practice is to ensure board material is provided in advance of a board or committee meeting. This is a practice to help ensure Directors are informed and have time for proper diligence and consideration prior to any meetings and decision-making.

(ERD) concurs with Recommendation# 9.

### **Policy Review**

TCL's senior management maintains a list of policies that must be approved by the Board. This list was obtained from TCL. There is no log or schedule of reviews kept to ensure that all policies are reviewed on a regular basis by either senior management or the Board.



### **Recommendation # 10**

The Board of TCL should develop a schedule of policy reviews to ensure that all policies are reviewed on a regular basis by senior management and approved by the TCL Board. The list should be maintained and updated by the Corporate Secretary or Governance Officer of TCL.

### **Management Response**

(TCL) TCL has reviewed current practice and will ensure regular policy updates are once again implemented as part of the overall management of TCL governance processes and work. Until recently, policies of the Board were on a rolling agenda of each Board Committee. When a policy was developed or reviewed it was automatically scheduled for consideration as part of the committee annual agenda and reviewed accordingly in a timely manner. Most policies have been reviewed within the past 18 months and/or have been scheduled for review as part of committee objectives in 2010/11.

(ERD) concurs with Recommendation# 10.



## **Financial**

### **Internal Control Processes**

TCL currently performs cash counts and periodic inventory counts in several of the business units of the organization. However, TCL needs to further develop processes that support the internal control environment and the management of financial and operational risk.

### **Recommendation # 11**

TCL needs to develop and expand internal control processes that support effective risk management. This should include identification and documentation of key controls that support mitigation of the risks identified in the assessment process (both financial and operational).

### **Management Response**

(TCL) As part of TCL's development of a comprehensive enterprise risk management program in 2010/11, a key focus will be ensuring that of enhanced financial and operational internal control processes are in place to support effective risk management. Formal and enhanced



documentation of key financial and operational controls and processes along with technology related risk mitigation activities will be priorities.

(ERD) concurs with Recommendation# 11.

### **Ticket Atlantic Summary Sales Report**

The ticket summary report produced by Ticket Atlantic for monthly ticket sales provided to TCL does not specify the venue of the events. The report only includes a breakdown of where tickets were purchased. The commission for the Metro Centre is a manual calculation performed by the Controller based on his knowledge of which events were held at the Metro Centre. Our review of a sample of summary reports did not indicate that any errors had occurred, however automation of this step would help create efficiencies in the process and eliminate the possibility of errors in the calculation.

### **Recommendation # 12**

TCL should determine if the ticket summary report parameters can be modified to include the venue of the event and whether the report can be sorted by venue to facilitate the calculation of commissions owing to the Metro Centre.

### **Management Response**

(TCL) TCL as a general practice looks for methods of improving efficiencies and minimizing error by leveraging technology. However, TCL is also committed to ensure appropriate cost/benefit on any investment. With respect to this particular item at this time, the cost/benefit is not there. TCL will explore this opportunity as it sources new ticketing software.

(ERD) concurs with TCL's proposed approach to Recommendation# 12.