

**GOVERNMENT RESPONSE TO THE 7<sup>TH</sup> REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS ENTITLED: SPECIAL EXAMINATION REPORT—REPORT OF THE JOINT AUDITORS TO THE BOARD OF DIRECTORS OF CANADA MORTGAGE AND HOUSING CORPORATION, OF THE 2018 FALL REPORTS OF THE AUDITOR GENERAL OF CANADA**

## **INTRODUCTION**

The Minister of Families, Children and Social Development, the Minister responsible for Canada Mortgage and Housing Corporation (CMHC), is pleased to respond to the 7<sup>th</sup> Report of the House of Commons Standing Committee on Public Accounts (the Committee): *Special Examination Report—Report of the Joint Auditors to the Board of Directors of Canada Mortgage and Housing Corporation, of the 2018 Fall Reports of the Auditor General of Canada* (the Report). The Minister agrees with the overall content of the Report and shares the Committee’s commitment to highlight the importance of good corporate governance systems and practices.

Four of the Committee’s recommendations relate to the competencies of CMHC’s Board of Directors. The other four spoke to CMHC’s stress testing practice, the corporate transformation initiatives and assessment and documentation on capital required to manage risk. The Minister is pleased to share that all recommendations are fully addressed.

The Minister has carefully reviewed the recommendations in the Committee’s Report and welcomes the opportunity to respond to each of the Committee’s recommendations in full.

**RECOMMENDATION 1: That, by 30 September 2019, CMHC should provide the House of Commons Standing Committee on Public Accounts with a report outlining how it engages with the responsible Minister to ensure the timely appointment of members to the Board of Directors and that they have the critical and desirable competencies as provided in the Board’s competency matrix.**

The Minister agrees that CMHC should continue to offer advice and support to the Minister responsible for CMHC on Board appointment and identifies competency and diversity gaps and ensure that future Board appointments address outstanding needs.

The new Governor in Council appointment process guides appointments to CMHC’s Board of Directors. The process is standardized across all government departments and Crown corporations, and allows the Chair to represent the Board on the selection committee alongside representatives of the Minister’s Office, the department, the Privy Council Office and the Prime Minister’s Office for limited involvement from the organization. The selection approach is designed to identify qualified candidates who will also help reflect Canada’s diversity in terms of linguistic, regional and employment equity groups (women, Indigenous peoples, persons with disabilities and members of visible minorities) as well as members of ethnic and cultural groups.

A selection committee, of which the Chair of the Board is CMHC’s only representative, provides a list of recommended candidates to the Minister responsible for CMHC, who then recommends

appointments to the Governor in Council. As part of the Board appointment process, CMHC proactively offers advice and support to the Minister in the selection of Board member.

The Charter for the Board's Corporate Governance and Nominating Committee has been updated to require the annual review of the Board competency matrix. This helps ensure Board competencies continue to be relevant and any gaps are addressed through training and/or external consultants as required. CMHC continues to identify gaps and recommends appropriate training to Board members as needed.

At the time of the special examination, there were four vacancies on the Board, and three appointments were soon expiring. In December 2017, the Government announced six new members appointed to CMHC's Board and filled the remaining vacancy in March 2019.

The new members enhanced the breadth and depth of knowledge on the Board through their diverse perspectives and wide range of skills. Their knowledge and expertise have been of great value in helping CMHC develop its strategy and lead the National Housing Strategy, a major initiative announced post-audit, as well as ensuring that Canadians benefit from stable and secure housing markets.

**RECOMMENDATION 2: That, by 30 September 2019, CMHC provide the House of Commons Standing Committee on Public Accounts with a report outlining how it ensures that the Board of Directors obtains additional training or external expertise in areas where gaps in competencies and knowledge are identified, particularly in information technology or other key areas that may be outsourced.**

The Minister agrees that CMHC should continue to provide new Board members with relevant training information. CMHC provides members with suggestions of appropriate courses designed to enhance competencies with respect to fulfilling their responsibilities on specific Board committees. This includes seminars and courses related to specific functional areas, relevant topics, corporate priorities, and activities.

In February 2019, the Board appointed a member with expertise in large IT transformation projects and strategies, filling the gap noted by the Committee.

Since the audit, the Board learning menu continues to be updated quarterly to include courses directly relevant to the Board members' role and duties and ensures that the Board is aware of, and has access to, all available internal and external learning opportunities.

On an annual basis, a list of suggested deep-dive topics is prepared and presented to the Board and Committees. These are incorporated into upcoming Board meetings.

The Board will continue to receive timely and comprehensive progress reports as well as enhanced training in key areas, including specific competencies and corporate priorities. This will help them in executing their responsibilities.

**RECOMMENDATION 3: That, by 30 September 2019, CMHC provide the House of Commons Standing Committee on Public Accounts with a report outlining how its Board of Directors**

**plays a more active role in setting the Corporation's strategic direction and monitoring performance in the area of assisted housing.**

The Minister agrees that CMHC should assist the Board in fulfilling its responsibilities related to oversight and monitoring of performance with respect to the effective implementation and application of assisted housing policies, programs, and initiatives, including the National Housing Strategy. This is accomplished through the newly formed Affordable Housing Committee and through the new, qualified Board members appointed by the Minister since the review.

Since the special examination, on an annual basis, the Board of Directors dedicates a meeting to discuss CMHC's strategic direction to ensure it continues to be aligned with its mandate and aspiration. CMHC also provides regular progress updates to the Board, as well as strategy sessions specific to various business activities.

The Affordable Housing Committee continues to receive quarterly updates on relevant matters, including copies of status reports provided to the federal government, performance reports and Indigenous housing activities. CMHC also provides regular updates on activities for Indigenous housing, including its support of initiatives led by Indigenous Services Canada.

**RECOMMENDATION 4: That, by 30 September 2019, CMHC provide the House of Commons Standing Committee on Public Accounts with a report outlining how the Board of Directors receives on a quarterly basis comprehensive information on all aspects of the Corporation's mandate as well as on all significant initiatives underway, such as large, transformative information technology projects, board appointments, and matters pertaining to the Corporation's budget.**

The Minister agrees that CMHC should continue to ensure the Board receives comprehensive, relevant progress reports, including on opportunities and issues on key initiatives, and other significant activities, on a regular basis.

As detailed in the previous recommendation, CMHC provides the Affordable Housing Committee with information on the affordable housing initiatives, and the National Housing Strategy at each meeting.

The Risk Management Committee is responsible for overseeing large and/or impactful projects. This includes capital spending, including all Technology and Business Transformation projects, Future of Work projects and any other projects with an expected cost in excess of \$10M. CMHC's Risk Committee continues to receive reports on significant risks related to large projects.

CMHC checks in to ensure the Board is satisfied with the information provided to do its work.

**RECOMMENDATION 5: That, by 30 September 2019, CMHC provide the House of Commons Standing Committee on Public Accounts with a report outlining how it enhances its assessment and documentation with respect to the capital it requires to cover all material risks, including its reputational and strategic risks.**

The Minister agrees that the CMHC should continue to enhance its Own Risk and Solvency Assessment (ORSA) documentation. Work was completed to include CMHC's assessment of capital requirements for reputational and strategic risks in its 2018 ORSA report, finalized by the end of the fourth quarter of 2018.

Furthermore, the Chief Risk Officer (CRO) sector developed processes and procedures to assess reputational and strategic risks and embedded these in the annual ORSA exercise. As part of the process, the CRO sector, in consultation with appropriate business lines, develops scenarios that could directly impact CMHC's reputational and strategic risks. Scenarios are selected based on severity. For each of the selected scenarios, the CRO sector, with the help of relevant stakeholders and economic capital tools, quantifies the loss exposure and respectively assesses capital requirements.

CMHC's ORSA report includes a risk assessment of scenarios and the capital requirements for reputational and strategic risks on an annual basis, approved by the Board.

**RECOMMENDATION 6: That, by 30 September 2019, CMHC provide the House of Commons Standing Committee on Public Accounts with a report outlining how it defines additional ad hoc stress tests to further explore its main vulnerabilities, better understand its risk profile in the event of extreme crisis, and ensure that management actions could be deployed to respond proactively to such extreme scenarios.**

The Minister agrees that CMHC should continue the work already underway to enhance its stress testing capabilities to support additional ad hoc stress tests.

In consultation with various business lines, the CRO sector develops ad hoc stress testing scenarios (e.g., Reputational, Operational). For the selected scenarios, the CRO assesses and documents plausibility and impact (strategic, financial and reputational) on the various business lines and overall mandate. For each scenario, the CRO assesses and documents the respective management actions and playbooks.

As part of this work, CMHC continued to strengthen its documentation with respect to management actions and readiness plans to proactively respond to extreme scenarios. This work was completed by the end of Q4 2018. A Readiness Crisis Plan, containing scenarios (ad hoc stress tests), management actions and playbooks, were presented to the Board.

A process to update the readiness plan on a periodic basis was developed, and includes processes in corporate risk policy documentation (Enterprise Risk Management framework or Operational Risk policy).

It is important to highlight that CMHC is the only Canadian financial institution to publish its stress testing results annually as part of its commitment to transparency.

**RECOMMENDATION 7: That, by 30 September 2019, CMHC provide the House of Commons Standing Committee on Public Accounts with a report outlining A) how it manages its transformation initiatives in an integrated way; B) how the Strategy and Organizational**

**Excellence Division oversees overall transformation projects and change management activities; and C) how it reports to the Board of Directors about the overall state of transformation initiatives.**

The Minister agrees that CMHC should manage its transformation initiatives in an integrated way, have a project management team to oversee overall transformation projects and change management activities, and report to the Board on the overall state of transformation initiatives.

Since the original OAG report, CMHC leveraged its existing enterprise portfolio management and organizational change management functions, both of which reside in the newly formed Strategy and Organizational Excellence Division (since renamed the Corporate Strategy Development division), to provide project and change management oversight and facilitate reporting to senior management and the Board on the transformation projects, as identified by the Corporation's Executive Committee. This new division acts as the conduit for all applicable business transformation offices (for example, the IT Transformation Office) to facilitate comprehensive transformation reporting.

Furthermore, in consultation with the Office of the Chief Information Officer, the Corporate Strategy Development division defined an enterprise-wide project performance reporting standard in support of an integrated project management approach and oversight, including change management indicators for the Risk Management Committee of the Board. This ensures integrated oversight which takes place quarterly.

CMHC also implemented the portfolio and project management policy guidelines and standards, including project reporting standards, and projects are reported on a quarterly basis using these standards, guidance and processes. The policy, guidance and processes are available to all employees on CMHC's internal website for ease of use and reference.

**RECOMMENDATION 8: That, by 30 September 2019, the Canada Mortgage and Housing Corporation provide the House of Commons Standing Committee on Public Accounts with a report outlining how it clearly defines objectives, outcomes, performance measures, and expected benefits for each transformation project and how it regularly reports on achievements.**

The Minister agrees that CMHC should clearly define and document the objectives, outcomes, performance metrics, and expected benefits associated with each of the transformation projects.

Beginning in 2018, CMHC included critical and high-complexity transformation projects as part of its initiative prioritization and assessment process. This process documents project objectives and expected outcomes for all business projects. It also requires the development and approval of a full business case, including the identification of the anticipated project value and benefits.

CMHC developed a benefit realization guidance and process to support the completion of business cases. The business case template includes detailed guidance on setting clear project

outcomes and benefits, including measurable benefits for high-complexity projects. To further support business case rigour, a business case proponent's guide is available to all employees and supports the end user in completing the business case. CSD reviews business cases prior to their submission to corporate governance committees to ensure that the project outcomes, benefits, costs are defined and governance has the information to approve or reject the proposed high-complexity project. Monitoring of benefits is in place and integrated benefits reporting for the portfolio of projects to corporate governance has started.

In consultation with the Office of the Chief Information officer, the Corporate Strategy Development division developed enterprise benefits realization methodology and supporting benefits reports for high-complexity projects, including transformation projects, as identified by CMHC's project complexity assessment tool.

As these projects progress, project value realization are regularly reported to senior management and the Board, as appropriate.

In support of developing effective performance measures, training on performance measurement (PuMP training) has been delivered enterprise wide to those involved with performance measurement related activities.

## **CONCLUSION**

The Minister of Families, Children and Social Development, the Minister responsible for CMHC, would like to thank the Committee for their study, and those that participated as witnesses. As all recommendations have been fully addressed, CMHC will focus its efforts on continuing to ensure that it has the systems and practices in place to safeguard and control its assets, manage its resources economically and efficiently, and carry out its operations effectively.