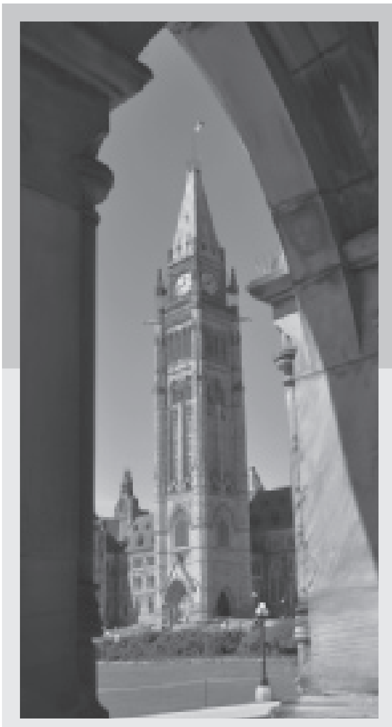

VIA Rail Canada Inc.

Special Examination Report—2016

This report reproduces the special examination report that the Office of the Auditor General of Canada issued to VIA Rail Canada Inc. on 4 March 2016. The Office has not performed follow-up audit work on the matters raised in this reproduced report.

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

Special examination reports

Special examinations are a form of performance audit that is conducted within Crown corporations. The Office of the Auditor General of Canada audits most, but not all, Crown corporations.

The scope of special examinations is set out in the *Financial Administration Act*. A special examination considers whether a Crown corporation's systems and practices provide reasonable assurance that its assets are safeguarded, its resources are managed economically and efficiently, and its operations are carried out effectively.

More details about the audit objectives, scope, approach, systems and practices examined, and criteria are in About the Audit at the end of this report.

The Report is available on our website at www.oag-bvg.gc.ca.

Ce document est également publié en français.

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

4 March 2016

To the Board of Directors of VIA Rail Canada Inc.:

We have completed the special examination of VIA Rail Canada Inc. in accordance with the plan presented to the Audit Committee of the Board of Directors on 27 May 2014. As required by Section 139 of the *Financial Administration Act* (FAA), we are pleased to provide the attached final special examination report to the Board of Directors.

We will also table this report in Parliament shortly after it has been made public by VIA Rail Canada Inc.

We will be pleased to respond to any comments or questions you may have concerning our report at your meeting on 17 March 2016.

I would like to take this opportunity to express my appreciation to the Board members, management, and the Corporation's staff for their excellent cooperation and assistance during this examination.

Yours sincerely,

René Béliveau

René Béliveau, CPA Auditor, CA
Principal

Attach.

1255 Peel Street, Suite 545, Montréal, Quebec H3B 2T9

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Special Examination Opinion

Opinion

To the Board of Directors of VIA Rail Canada Inc.:

1. In my opinion, based on the criteria established, there is reasonable assurance that during the period covered by the examination there were no significant deficiencies in VIA Rail Canada Inc.'s systems and practices that we selected for examination, except for the significant deficiency in governance, as described in the following paragraph. The systems and practices in all other areas we examined were maintained in a manner that provides VIA Rail Canada Inc. (VIA or the Corporation) with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

Findings that support the opinion

2. **Corporate governance.** Overall, we found that there was a significant deficiency in VIA's governance, despite the good practices identified in this area. We found that VIA had made efforts to define a long-term strategic direction. However, despite its efforts, the Corporation still had no long-term plan or direction approved by the federal government. For a number of years, VIA has received from the government only short-term approval of its funding and five-year corporate plan, and often late in the Corporation's fiscal year. In this context, VIA could not fulfill its mandate as economically, efficiently, and effectively as desired. The significant deficiency could also compromise the Corporation's medium- and long-term viability.

3. **Strategic planning, risk management, and performance measurement and reporting.** Overall, we found that VIA had systems and practices in place that clearly defined its strategic direction and its objectives. It also had the key elements of a risk management framework in place as well as a performance measurement process that allowed the Corporation to follow up on its operations and adequately communicate its results.

4. **Operations.** Overall, we found that VIA had operating procedures and systems and practices allowing it to meet the needs of its customers, mitigate safety risks, and ensure the reliability of its operations, the safeguarding and control of its assets, and the quality of its services. However, VIA did not succeed in increasing the frequency of departures of some of its trains as expected and had difficulty maintaining on-time performance, which has worsened significantly since 2010, thereby compromising the achievement of the Corporation's revenue- and ridership-increasing objectives. In addition, improvements could be made to better integrate fleet management and profitability analysis mechanisms into the revenue management system. We also found

that VIA needed to improve the documentation of its Safety Management System and that it did not yet have in place all of the necessary mechanisms to measure the effectiveness of the system.

5. **Capital investment program management.** Overall, we found that project management systems and practices had not adequately supported the implementation of certain projects under the Corporation's capital investment program. However, we noted that VIA had recently made or planned some improvements in this regard in order to address the main weaknesses.

Findings, recommendations, and responses

6. The rest of the report provides an overview of the Corporation and more detailed information on our findings and recommendations. The Corporation agrees with all of the recommendations. Its detailed responses follow the recommendations throughout the report.

What the Corporation is required to do

7. Under section 131 of the *Financial Administration Act* (FAA), VIA Rail Canada Inc. 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.

8. Section 138 of the FAA also requires the Corporation to have a special examination of these systems and practices carried out at least once every 10 years.

What the Office of the Auditor General is responsible for

9. Our responsibility is to express an opinion on whether there is reasonable assurance that, during the period covered by the examination—from November 2013 to September 2015—there were no significant deficiencies in the Corporation's systems and practices that we selected for examination.

Signature and date

Maurice Laplante, CPA Auditor, CA
Assistant Auditor General
for the Auditor General of Canada

4 March 2016
Montréal, Canada

Introduction

Background

Role and mandate

10. VIA Rail Canada Inc. (VIA or the Corporation) was incorporated in 1977 under the *Canada Business Corporations Act* as a subsidiary of the Canadian National Railway Company (CN). In 1978, VIA became a Crown corporation separate from CN. To date, the Corporation is not governed by any enabling legislation. VIA obtains the funding it needs through its corporate plan, which is approved once a year.

11. According to the latest approved corporate plan (2015–19), VIA's mandate is to operate a passenger rail service on behalf of the Government of Canada. Therefore, the Corporation provides inter-city and long-distance travel services, as well as services for regional and remote communities.

12. The Corporation's objectives are to manage and provide a safe, efficient, and reliable passenger rail service that meets the needs of travellers in Canada.

Nature of business and operating environment

13. VIA offers some 500 train departures per week over a 12,500-kilometre rail network. The Corporation serves 450 communities in all regions of Canada. In 2014, VIA carried nearly 4 million passengers.

14. VIA is governed by an independent Board of Directors. The President and Chief Executive Officer (CEO) as well as the directors are appointed by the **Governor in Council** on the recommendation of the Minister of Transport. The Corporation's business is conducted by seven leaders reporting directly to the President and CEO. VIA's commercial business is entrusted to four regional directors who are responsible for managing train operations in the Corridor in central Canada, in remote regions, and in western and eastern Canada.

15. Between the 2010 and 2014 fiscal years, the government funding needed to cover the Corporation's operating deficit increased from $261 million to $317 million. Exhibit 1 provides a summary of VIA's performance over the past five fiscal years.

Governor in Council—The Governor General, acting on the advice of the Privy Council, as the formal executive body that gives legal effect to those decisions of Cabinet that are to have the force of law.

Exhibit 1 Summary of VIA's performance over the past five fiscal years

Key financial indicators (in millions of dollars)	2014	2013	2012	2011	2010
Revenues	280	270	277	283	275
Total operating costs	597	578	556	544	536
Government funding—Operating	317	308	279	261	261
Government funding—Capital	82	96	170	237	269
Key operating statistics					
Passengers (in thousands)	3,800	3,891	3,923	4,130	4,153
Average passenger load factor (%)	60	56	54	55	57
Overall on-time performance (%)	76	82	83	84	82
Number of employees	2,608	2,662	2,800	2,899	2,937
Source: Adapted from 2014 Annual Report, VIA Rail Canada Inc.					

Focus of the audit

16. Our objective for this audit was to determine whether the systems and practices we selected for examination at VIA Rail Canada Inc. were providing it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively. We selected systems and practices based on our assessment of risks in the following areas:

- corporate governance;
- strategic planning, risk management, and performance measurement and reporting;
- operations; and
- capital investment program management.

17. More details about the audit objectives, scope, approach, systems and practices examined, and criteria are in **About the Audit** at the end of this report (see pages 23–26).

Findings, Recommendations, and Responses

Previous special examination

18. In 2008, we carried out a special examination on the systems and practices of VIA Rail Canada Inc. (VIA or the Corporation). In our report, we identified a significant deficiency with respect to strategic planning.

19. During that examination, we were unable to obtain reasonable assurance that VIA could meet the strategic challenges that it faced, which prevented the fulfillment of its corporate plan. In particular, we identified the following two issues:

- The 2007–11 corporate plan had been based on the successful completion of negotiations with the main railway track network provider. VIA was seeking to enhance its agreement at that time by obtaining greater access to railway tracks and improvements to the rail network in order to increase the on-time performance of its trains and improve its profitability. When the 2008 special examination report was drafted, the outcome of negotiations remained uncertain and the Corporation had not established any contingency plans to be put in place if negotiations failed.
- The 2007–11 corporate plan included a major capital investment plan that was intended to increase ridership by 40 percent and revenues by 39 percent within that five-year period. This represented another considerable challenge for VIA, as it had not been able to meet these types of objectives in the past.

20. During the present examination, we noted that VIA did not succeed in meeting the strategic challenges of 2008. On the one hand, VIA did not succeed in enhancing its rail services agreement, as it had wished to do. Given that it did not obtain greater access to railway tracks and that all the desired changes to the rail network were not made, VIA was unable to obtain the expected benefits.

21. On the other hand, we found that the planned projects under the capital investment program that were approved in 2007 required significant changes before they could be implemented. For this reason, during detailed planning for the implementation of certain projects, VIA had to modify the scope of the work, increase cost estimates, and review timelines in order to offset the strategic planning deficiencies.

22. We found that, since our last special examination, the Corporation had made progress and taken measures to correct its systems and practices to respond to our concerns. We noted that the assumptions in the latest corporate plans were more realistic. However, the consequences of the situation described in the previous paragraphs affected the Corporation's funding requirements and its ability to carry out its operations

economically, efficiently, and effectively. Exhibit 5 in the section on capital investment program management sets out examples of projects illustrating the negative impact of the deficiencies identified in the last special examination on the achievement of results.

Corporate governance

There was a significant deficiency in VIA's governance, despite the good practices identified in this area

Overall finding

23. Overall, we found that there was a significant deficiency in the Corporation's governance, despite the good practices identified in this area. We found that VIA had made efforts to define a long-term strategic direction. However, despite its efforts, the Corporation still had no long-term plan or direction approved by the federal government. For a number of years, VIA has received from the government only short-term approval of its funding and five-year corporate plan, and often late in the Corporation's fiscal year. In this context, VIA could not fulfill its mandate as economically, efficiently, and effectively as desired. The significant deficiency could also compromise the Corporation's medium- and long-term viability.

24. This finding is important because, in the absence of enabling legislation, VIA's corporate plan, once approved, is the main tool the Corporation has to clarify its mandate; define its strategic direction; establish its objectives; allocate its resources in the short, medium, and long term; and carry out its operations economically, efficiently, and effectively, based on the government's priorities.

25. Our analysis supporting this finding discusses

- corporate governance.

Recommendation

26. Our recommendations in this area of examination appear at paragraphs 28 and 29.

Analysis to support this finding

27. **Corporate governance.** Although the Corporation had in place a number of elements of a sound governance framework, we found a significant deficiency in this area because, since 2008, VIA has generally been unable to obtain government approval of its corporate plan in a timely manner. In addition, when approval was provided, it covered only a portion of the five-year planning period. This deficiency had an impact on the implementation of the strategic direction and the fulfillment of the corporate plan, as well as on the monitoring of the Corporation's

operations. Exhibit 2 outlines the strengths and weaknesses of the elements we examined that support our finding.

Exhibit 2 Governance—strengths and weaknesses

Elements examined	Findings
Structure, composition, and functioning of the Board of Directors	**Strengths** The structure of the Board of Directors (including its committees) and its governance process reflected the nature and complexity of the Corporation's operations and responsibilities. The Board had clearly defined its roles and responsibilities and its committees' terms of reference. The Board had established a profile which identified the specific skills, knowledge, and experience to be considered when filling vacant director positions. It ensured that it informed the government of this profile during appointment processes. Each year, Board members reviewed the skills and abilities required to fulfill their roles and responsibilities. If needed, directors could receive training. The Board had regularly assessed its own performance as well as the performance of its committees, Chairman, and the President and CEO. An action plan and follow-up measures had been put in place to implement the recommendations.
Values, ethics, and independence	**Strengths** The Board had the mechanisms in place to ensure it had the necessary independence to fulfill its tasks and responsibilities. It met regularly without management in attendance. Codes of conduct for directors, members of senior management, and executives required these individuals to submit annual confirmation of compliance.
Strategic direction and corporate plan	**Strength** VIA had systems and practices in place allowing it to clarify its mandate and to define its long-term strategic direction, its vision and objectives, and measures to be taken to achieve its objectives. **Weaknesses** Since 2008, VIA has been unable to obtain the government's approval of its corporate plan for the full five-year planning period. In addition, these plans have almost always been approved between September and December, just months before the end of the Corporation's fiscal year, leaving VIA very little time to implement these plans economically, efficiently, and effectively. We found that, in the absence of a long-term strategic direction approved by the government and a corporate plan approved for the full planning period, VIA had been kept in a reactive, short-term management mode. This had greatly limited VIA's capacity to meet its objectives and to make long-term commitments as well as timely decisions with respect to equipment, infrastructure, and other important operations-related elements.

Exhibit 2 Governance—strengths and weaknesses (continued)

Elements examined	Findings
Communications and shareholder relations	**Strength** VIA had participated in quarterly meetings with government officials concerned to present the key elements of its long-term strategic direction, corporate plan, and performance. **Weakness** VIA had not yet succeeded in having its long-term strategic direction approved through its five-year corporate plan.
Monitoring	**Strength** The Board of Directors had actively participated in defining the Corporation's strategic direction. **Weakness** The information shared with directors was often lengthy as well as overly technical and detailed for the required level of business monitoring and for the kinds of decisions to be made. In addition, despite the large amount of information shared with directors, we found that on a few occasions certain key pieces of information that were required for sound decision making were missing. For example, information on the risks and expected benefits that was collected for the review of capital investment projects was often missing from the information provided.
Pension fund management	**Strength** The Pension Investment Committee regularly reviewed the policy on investments and the risks related to the pension fund investment portfolio, and it adopted investment strategies according to the desired level of risk tolerance.

28. **Recommendation.** VIA Rail Canada Inc., in cooperation with government officials, should review its existing governance systems and practices to allow it to define, obtain approval of, and implement a long-term strategic direction in a timely manner so that the Corporation is able to fulfill its mandate economically, efficiently, and effectively.

The Corporation's response. *Agreed. The Corporation's planning and operational effectiveness would be greatly enhanced through multi-year approval and funding of its long-term plans. Management has worked with Transport Canada toward this objective and obtained a multi-year funding envelope ending in March 2017.*

Furthermore, the Corporation's management has begun working with Transport Canada to confirm its long-term strategy.

In 2015, management developed two strategic initiatives aimed at improving the Corporation's services and ensuring its long-term financial sustainability and at having the Corporation's corporate plan approved by government officials in a timely manner.

The first initiative is to renew its equipment fleet for services in the Québec City–Windsor corridor. Nearly 200 cars will need to be replaced. The second initiative is to mitigate issues resulting from having to share tracks with freight trains. A project to build dedicated tracks for the busiest segment of VIA's network, that is, the Toronto–Ottawa–Montréal corridor, is being examined. This four-year project could begin as early as 2016 and be completed in 2019. It showcases VIA Rail's current assets and the future new fleet in order to attract investment from outside the Government of Canada, thereby minimizing the Canadian taxpayer's burden.

The Corporation is optimistic that the various proposed initiatives will help to confirm a long-term strategy that will reduce dependence on government funding.

29. **Recommendation.** VIA Rail Canada Inc.'s management, together with the Board of Directors, should regularly review and define the nature, quantity, and relevance of the information to be provided to Board members in a timely manner to properly assess risks and to support decision making.

The Corporation's response. *Agreed. At the end of 2015, the Corporation's management, with the support of its directors, initiated a review to decrease the volume and enhance the relevance of information shared with directors to enable them to perform their oversight duties in a more effective manner.*

Management will work with its Board of Directors annually to assess the improvements put in place each year, starting in 2016.

Strategic planning, risk management, and performance measurement and reporting

Systems and practices in strategic planning, risk management, and performance measurement and reporting were adequate

Overall finding ➔

30. Overall, we found that VIA had systems and practices in place that clearly defined its strategic direction and its objectives. It also had the key elements of a risk management framework in place as well as a performance measurement process that allowed the Corporation to follow up on its operations and adequately communicate its results.

31. This finding is important because establishing a strategic direction with clear and realistic objectives allows the Corporation to optimize the allocation of its resources in the short, medium, and long term so that it is able to fulfill its mandate. An integrated risk management framework allows the Corporation to get consolidated information on the risks

inherent in its operations and on practices and controls that can mitigate these risks. Furthermore, performance measurement allows VIA to follow up on operations and objectives, rectify business strategies in a timely manner, facilitate decision making, and report on results obtained.

32. Our analysis supporting this finding discusses

- strategic planning, risk management, and performance measurement and reporting.

Recommendation

33. We made no recommendation in this area of examination.

Analysis to support this finding

34. **Strategic planning, risk management, and performance measurement and reporting.** We found that VIA had a strategic planning process in place that allowed it to clearly define its strategic direction and establish its objectives. We also noted that VIA had made significant progress in the area of risk management: risks are properly identified and assessed, and mitigation measures are in place to manage them appropriately. However, we found that corporate and operational risk management systems were not yet fully integrated (Exhibit 3).

Exhibit 3 Strategic planning, risk management, and performance measurement and reporting—strengths and weaknesses

Elements examined	Findings
Strategic, operational, and budget planning	**Strengths** The corporate plan allowed VIA to confirm its mandate and strategic direction and the measures it needed to take to meet its objectives. Each year, the Corporation held a strategic planning session with the Management Committee and the Board of Directors to establish VIA's planning assumptions and priorities. Operational and budget planning included goals and targets and had been integrated into the Corporation's strategic objectives. The plan had been communicated to the whole organization.
Human resource and succession planning	**Strengths** VIA's human resource planning process had been integrated into the Corporation's strategic planning. VIA had developed a succession plan for essential positions. As part of this planning, it had established its human resource requirements and created a development plan.

Exhibit 3 Strategic planning, risk management, and performance measurement and reporting—strengths and weaknesses (continued)

Elements examined	Findings
Corporate risk management	**Strengths** The main risks faced by the Corporation had been identified, assessed, monitored, and reported to management and to the Board of Directors. Mitigation measures were implemented for most of the risks. **Weaknesses** VIA had not yet completed training all key staff on the new corporate risk management process. Corporate and operational risk management systems had not yet been fully integrated.
Performance measurement and reporting	**Strengths** A reporting mechanism was in place to monitor the implementation of operational plans. VIA had developed a set of strategic and operational indicators that allowed it to measure results achieved against those expected using a management dashboard. Management carried out monthly budget follow-ups and reported to the Board of Directors every quarter. The annual report presented credible and balanced information on the Corporation's performance and results.

Operations

The Corporation had adequate operating procedures, but some aspects needed improvement

Overall finding ➔

35. Overall, we found that VIA had operating procedures and systems and practices allowing it to meet the needs of its customers, mitigate safety risks, and ensure the reliability of its operations, the safeguarding and control of its assets, and the quality of its services. However, VIA did not succeed in increasing the frequency of departures of some of its trains as expected and had difficulty maintaining on-time performance, which has worsened significantly since 2010, thereby compromising the achievement of the Corporation's revenue- and ridership-increasing objectives. In addition, improvements could be made to better integrate fleet management and profitability analysis mechanisms into the revenue management system. We also found that VIA needed to improve the documentation of its Safety Management System and that it did not yet have in place all of the necessary mechanisms to measure the effectiveness of the system.

36. This finding is important because VIA needs to have efficient operating systems and practices in order to ensure the safety of staff, passengers, and the public, as well as compliance with legislation and regulations; and to enable business continuity as well as equipment access and reliability.

37. Our analysis supporting this finding discusses

- safety and security management mechanisms,
- operational management mechanisms, and
- marketing and commercial management activities.

Context

38. **Railway safety and security management.** According to the *Railway Safety Act*, railway companies under federal jurisdiction must have a safety management system in place. Such a system would integrate the management of safety- and security-related risks into all of the organization's operations. Railway safety requirements changed recently, and new regulations on safety management systems came into effect on 1 April 2015. Railway companies had until 1 October 2015 to meet all the new requirements and until 1 April 2016 to demonstrate that they complied with all the new requirements.

39. **Access to tracks.** Rail freight carriers and other railway companies own and are responsible for the maintenance of 98 percent of the railway tracks used by VIA trains. Track use is defined by service agreements signed with these rail carriers. Provisions are made in these agreements for a specific use of the infrastructure based on pre-determined terms, conditions, and rates. If VIA wants to increase or change the frequency of train departures, it is required to renegotiate the terms and conditions of the agreements with railway track owners.

40. **On-time performance.** The on-time performance of trains is one of the key indicators of the effectiveness of VIA's services and is the main factor in customer satisfaction. However, in Canada, passenger trains do not have the right of way. Therefore, VIA's trains are frequently required to yield to freight traffic, which sometimes results in significant delays. From 2010 to 2015, the overall on-time performance rate of VIA trains varied between 84 percent and 63 percent.

Recommendations

41. Our recommendations in this area of examination appear at paragraphs 45 to 49.

Analysis to support this finding

42. **Safety and security management mechanisms.** We found that the Corporation had a number of safety management systems and practices in place to ensure compliance with current legislation and regulations, as well as with industry safety standards. However, VIA should improve

the mechanisms it uses to measure the effectiveness of its safety management system. It should also improve the system's documentation, including information supporting safety-related decisions concerning tracks owned by other railway companies as these tracks account for approximately 98 percent of the infrastructure used by VIA trains (Exhibit 4).

43. **Operational management mechanisms.** We found that VIA had operating procedures and standards that help it to provide high-quality services and to ensure compliance with legislation and regulations, as well as access to and the reliability of rolling stock. However, despite its efforts, VIA had difficulty maintaining the on-time performance of its trains, which has worsened significantly since 2010, varying between 84 percent and 63 percent. This poor result for its on-time performance stems primarily from the fact that rail service agreements with the main owners of railway tracks did not give VIA trains the right-of-way. We also found that VIA did not yet have an integrated documentation system for inspections and maintenance activities making it possible to obtain an overview of activities and to reinforce that procedures be applied and implemented consistently and that the recommended corrective measures be put in place (Exhibit 4).

44. **Marketing and commercial management activities.** We found that VIA had key processes in place to plan, carry out, and follow up on its marketing and commercial management activities; however, improvements could be made to enhance profitability (Exhibit 4).

Exhibit 4 Operations—strengths and weaknesses

Elements examined	Findings
Safety and security management	**Strengths** A Safety Management System was in place. VIA had put forward a major initiative to review its Safety Management System as a whole, to integrate the new regulatory requirements into the system, and to measure its effectiveness. VIA had identified, assessed, and developed mitigation mechanisms for operational risks. VIA had systems and practices in place for identifying and mitigating security risks. VIA had adopted a corporate security strategy and had developed an action plan to put in place the necessary mechanisms for its implementation. It also had a plan for emergency measures and response procedures. The plan and procedures have been tested and adjusted as necessary. VIA had established service agreements with the main track-owning railway companies to define access to tracks, compliance with current legislation, and the regulations and terms and conditions for infrastructure use. In addition, VIA had been kept informed of all elements related to security that could have an impact on train departures or cause delays.

Exhibit 4 Operations—strengths and weaknesses (continued)

Elements examined	Findings
Safety and security management (continued)	**Weaknesses** Although VIA showed due diligence in implementing all the elements of its Safety Management System, it was not yet able to demonstrate or fully measure the effectiveness of the system, for the following reasons: • The upgrade of this system has not been completed. • The Safety Management System has not yet been fully integrated into the corporate risk management system. • The documentation on processes, deficiencies, action plans, and results obtained following corrective measures was often lacking, incomplete, inconsistent, and not fully consolidated. In addition, safety-related decisions were not always documented. • VIA has not yet developed any audit strategies or plans for its Safety Management System based on a risk assessment, or carried out audits as prescribed by one of the existing standards. • VIA must rely in large part on the smooth functioning of the safety management systems of other railway companies to offset the lack of information. VIA had not completed the analysis of all its major information technology systems to identify risks and vulnerabilities of the systems.
Operational management	**Strengths** VIA had adopted a customer experience–based service approach to provide its customers with high-quality services and had systems and practices necessary for its implementation: • Employees had access to the main tools and guides they needed to perform their tasks. • Employees received the necessary training and obtained the required certifications to perform their tasks. • VIA had implemented an approach to follow up on training and periodically assess its on-board train staff. VIA had mechanisms for analyzing and monitoring the on-time performance of each of its trains. Corrective measures were taken when delays resulted from its operations. An inspection and maintenance program was in place for rolling stock and infrastructure. The maintenance strategy for rolling stock had been reviewed. VIA hired specialized firms to maintain and inspect the railway tracks it owns. **Weaknesses** The existing rail service agreements with the main track-owning railway companies did not give VIA trains the right-of-way. Because of this as well as rail network congestion, the on-time performance of VIA trains worsened significantly since 2010, varying overall between 84 percent and 63 percent. VIA did not yet have in place a standardized, integrated documentation system for inspections and maintenance activities allowing it to obtain an overview of its operations.

Exhibit 4 Operations—strengths and weaknesses (continued)

Elements examined	Findings
Marketing and commercial management	**Strengths** VIA's commercial plan was consistent with the strategic direction and the corporate plan. Regular follow-up on results obtained were done and reports on the implementation of the commercial plan and marketing initiatives were presented regularly to the Management Committee and the Board of Directors. Changes in customer patterns and profiles were monitored to ensure that products and services met customers' needs. Marketing campaigns had been launched in each market identified, and follow-ups were carried out. A customer satisfaction survey had been conducted on an ongoing basis. Follow-up on customer complaints and concerns was done. VIA had put in place a revenue management system, the purpose of which was to optimize revenues for each departure by offering a variety of fares. **Weaknesses** Profitability analysis mechanisms had not provided VIA with the necessary information in a timely manner to establish links between operating costs per trip and price structure in order to optimize revenues. Rolling stock fleet planning and management had not yet been integrated into the revenue management system to optimize ridership and revenues for each trip. Consequently, the passenger load factor of trains remained low, varying between 54 percent and 60 percent in the last five years.

45. **Recommendation.** VIA Rail Canada Inc. should finish upgrading its Safety Management System and measure its effectiveness. VIA should also finish integrating this system into the corporate risk management system to ensure that safety risks are maintained at an acceptable level.

The Corporation's response. *Agreed. The Corporation's management implemented a detailed action plan for upgrading its Safety Management System and integrating it into the corporate risk management system. The Corporation met the 1 October 2015 deadline by complying with the new federal legislation and has taken the necessary measures to be able to demonstrate the effectiveness of its new system by 1 April 2016.*

46. **Recommendation.** VIA Rail Canada Inc. should improve the documentation of its Safety Management System, including information supporting actions and decisions related to the safety of tracks owned by other railway companies.

The Corporation's response. *Agreed. The Corporation will upgrade its documentation by the end of 2016. However, VIA does not have any contractual or other rights providing it with access to information* *concerning actions and decisions related to the safety of track-owning railway companies' infrastructure. Therefore, its ability to document risks and take mitigation measures is limited. The Corporation will raise this issue during negotiations to renew each of the agreements it has with railway companies that own railway tracks.*

47. **Recommendation.** VIA Rail Canada Inc. should finish analyzing all of its major information technology systems so that it can identify risks and vulnerabilities and determine actions to be taken to mitigate them.

The Corporation's response. *Agreed. At the end of 2015, the Corporation's management completed an analysis of risks and vulnerabilities, and work is under way to implement mitigation measures by the end of 2016.*

48. **Recommendation.** VIA Rail Canada Inc. should, together with railway track-owning railway companies, ensure that it has mechanisms in place making it possible to maintain the on-time performance of its trains.

The Corporation's response. *Agreed. The Corporation is of the opinion that congestion on shared tracks remains a major issue for Canada and that the dedicated track project could make it possible for passenger trains to arrive on time 98 percent of the time on the Toronto–Ottawa–Montréal segment. The Corporation will therefore analyze this project.*

For long-distance services in western and eastern Canada and in remote regions, the Corporation will continue its efforts with track-owning railway companies to improve the on-time performance of its trains. The operational and financial frameworks of these two service types (freight and passenger) are intrinsically incompatible. Therefore, in the current contractual context, any possible improvement would be limited.

The Corporation will initiate discussions with its shareholder in order to identify possible alternatives to the current contractual framework.

49. **Recommendation.** VIA Rail Canada Inc. should integrate profitability analysis and rolling stock fleet management mechanisms into its revenue management system to optimize ridership and revenues.

The Corporation's response. *Agreed. In 2015, the Corporation worked on completing the implementation of a new system containing information on profitability per train. Information from this system will be incorporated into decision making that is based on the revenue management system in 2016.*

Capital investment program management

Weaknesses in capital investment program management prevented projects from being implemented, results from being achieved, and expected benefits from being obtained

Overall finding ➔

50. Overall, we found that project management systems and practices had not adequately supported the implementation of certain projects under the Corporation's capital investment program. However, we noted that VIA had recently made or planned some improvements in this regard in order to address the main weaknesses.

51. This finding is important because VIA is regularly required to commit large amounts of funding to capital projects in order to meet its service reliability and safety objectives. In addition, implementing such projects requires the Corporation to have systems and practices in place that allow for careful management and coordinated efforts and that assist in securing appropriate resources. This finding is all the more significant because, for a number of years, VIA has been unable to obtain the expected results.

52. Our analysis supporting this finding discusses

- review of a sample of projects under the capital investment program and the project management process.

Context

53. The capital investment program, undertaken in 2008, involved modernizing 54 locomotives, refurbishing 98 passenger cars, and improving some rail infrastructure. The improvements were made to strategic sections of the rail network to ensure a higher level of safety. As well, other investments were made to improve the effectiveness of certain operating activities. These $923 million investments, approved in 2007 and 2009[1], were intended primarily to

- substantially increase the on-time performance and frequency of trains,
- increase ridership by about 1.2 million passengers,
- increase revenues by $108 million,
- decrease operating costs,
- increase the reliability of rolling stock, and
- maintain the safety of various operations.

Recommendation

54. Our recommendation in this area of examination appears at paragraph 58.

[1] VIA's funding included $516 million under the medium-term capital investment plan, approved in 2007, and $407 million from Canada's Economic Action Plan, approved in March 2009.

Analysis to support this finding

55. **Review of a sample of projects under the capital investment program and the project management process.** We found that the significant deficiency identified in our previous special examination, described in paragraphs 20 and 21 of this report, gave rise to a number of capital investment program management issues. Despite the measures taken by VIA to offset these deficiencies, a number of the projects we examined incurred cost overruns and significant delays in relation to what had been planned, which prevented the expected benefits from being obtained. Exhibit 5 outlines examples of projects we examined to illustrate the negative impact that the deficiencies identified in the previous special examination had on the achievement of results.

Exhibit 5 Results and benefits expected compared with results and benefits obtained

Initial project Expected benefits set out by the Corporation in 2007	Revised project in light of Canada's 2009 Economic Action Plan	Project completed or in progress as of 31 December 2014 and results obtained
Improvements made to the Kingston Subdivision rail infrastructure (tracks belonging to freight carriers, not to VIA)		
Initial budget—$21 million	**Revised budget—$251 million**	**Cost—$318.5 million**
Planned scope of work Improvements made to tracks and station infrastructure.	**Revised scope of work** Additional $230 million to build 160 kilometres of triple tracks on Kingston Subdivision infrastructure, at an estimated cost of $1.6 million per kilometre.	**Work carried out** 70 kilometres of triple tracks, at a cost of $4.5 million per kilometre.
Expected benefits • 12 additional trains • Reduced travel time • Improved on-time performance, which stood at 82 percent • $32 million in additional revenues • 23-percent increase in ridership	**Revised expected benefits** • 14 additional trains • Reduced travel time • Improved on-time performance • $32 million in additional revenues • 23-percent increase in ridership	**Actual results obtained** • 8 additional trains • Increased travel time • Worsened on-time performance (average of about 65 percent) • Anticipated additional revenues not obtained • 17-percent decrease in ridership since 2009
Upgrading of HEP 1 cars (head-end power)		
Initial budget—$3 million	**Revised budget—$26 million**	**Project cost to date—$39 million**
Planned scope of work Building of a cabin prototype for a HEP 1 car.	**Revised scope of work** Additional $22 million to modernize HEP 1 cars at an estimated cost of $2.1 million per car. Cancellation of plan to build a cabin prototype for a HEP 1 car; the cost at the time was about $1 million.	**Work carried out** Work on HEP 1 cars was completed in 2015, at a cost of $3.3 million per car.

Exhibit 5 Results and benefits expected compared with results and benefits obtained (continued)

Initial project Expected benefits set out by the Corporation in 2007	Revised project in light of Canada's 2009 Economic Action Plan	Project completed or in progress as of 31 December 2014 and results obtained
Upgrading of HEP 1 cars (head-end power) (continued)		
Expected benefits (of the program) • Cars brought into compliance with accessibility standards for mobility-impaired persons • Improved safety of cars • Renovated 12-car fleet	**Revised expected benefits** • Cars brought into compliance with accessibility standards for mobility-impaired persons • Improved safety of cars • Renovated 12-car fleet	**Actual results to date** • Renovated cars in compliance with accessibility standards for mobility-impaired persons • Improved safety of cars • The 12 renovated cars were in service between June 2014 and September 2015
Upgrading of LRC cars (light, rapid, comfortable)		
Initial budget—$80 million (including costs for the 2007 prototype)	**Revised budget—$110 million**	**Project cost to date—$112 million**
Planned scope of work Upgrading of 98 LRC cars, at an estimated cost of $0.8 million per car.	**Revised scope of work** Additional $30 million for the upgrading of 98 cars, at an estimated cost of $1.1 million per car.	**Work completed** 57 cars have been upgraded to date, at an average cost of approximately $2 million per car.
Expected benefits • 15- to 20-year extension of the useful life of the cars • Savings compared with the cost to replace cars[2] • 10- to 15-percent decrease in maintenance costs • Increased ridership and revenues • Improved reliability of the cars • Improved esthetics	**Revised expected benefits** • 15- to 20-year extension of the useful life of the cars • Savings compared with the cost to replace cars • 10- to 15-percent decrease in maintenance costs • Increased ridership and revenues • Improved reliability of the cars • Improved esthetics	**Actual results obtained** • 10-year extension of the useful life of the cars • Savings compared with the cost to replace cars • The 10- to 15-percent decrease in maintenance costs remains to be seen • The anticipated increases in ridership and revenues were not obtained • The improved reliability of the cars remains to be seen • Improved esthetics

[2]VIA estimated the replacement cost at $5 million per car.

56. As part of this audit, we have applied judgment to select and examine 18 capital investment program projects. The projects examined had a total cost of over $650 million. Many projects had started in 2008 and were completed in full or in part during our examination period. We found that project management systems and practices had not adequately supported the planning and implementation of a number of the projects examined. These deficiencies had a significant impact on VIA's operations (Exhibit 6).

57. However, VIA has made a number of corrections to its systems in the last two years, and other adjustments are planned. Despite the fact that few new major projects have been started or carried out in the last two years, we found that these corrective measures had, overall, been beneficial, as the most recent projects we examined were carried out within planned budgets and timelines. Projects planned under the new $102 million capital program approved in July 2015 should therefore benefit from these new measures.

Exhibit 6 Findings from the review of a sample of projects under the capital investment program and the project management process—strengths and weaknesses

Elements examined	Findings
Project planning	**Strengths** The Corporation had a project management methodology and directives focusing mostly on project implementation. The projects examined received the appropriate approvals according to the required levels of authority. **Weaknesses** The project management processes and methodology had not been applied appropriately for a number of the projects. The capital investment program was planned and approved through the 2007–2011 and 2009–2013 corporate plans. However, project implementation began a number of months, or even years, later. We found that some information had to be updated at the time of final approval of the projects. Therefore, a number of forecasts on which VIA had relied to estimate costs and completion timelines had to be revised upward, while some benefits had to be reduced. We also found that several pieces of information in the project planning documentation were missing or incomplete: there was either a lack of consistency or a lack of information in the description of project objectives, anticipated costs, risks, expected results and the action to be taken to measure results.

Exhibit 6 Findings from the review of a sample of projects under the capital investment program and the project management process—strengths and weaknesses (continued)

Elements examined	Findings
Project completion, monitoring, and follow-up	**Strengths** In the past year, the Corporation put in place a governance structure to ensure project management follow-up and monitoring. Follow-ups were carried out on a regular basis. VIA undertook a post-mortem on the investment program. A number of internal audits were also conducted to identify the issues encountered in carrying out projects. Therefore, the Corporation was able to take corrective measures in this area. **Weaknesses** The project management methodology had been applied differently from project to project, particularly in the case of projects focusing on information technology. For some projects, we observed a lack of consistency and continuity with respect to identification, assessment, and risk management systems and practices. A number of projects examined had experienced delays and cost overruns or been subject to changes in the planned scope of the work, or both. VIA did not have any mechanisms in place for carrying out an analysis of the potential impact of project changes on achieving results and obtaining the expected benefits. In the absence of such an analysis, senior management and the Board of Directors did not always have timely access to information that could have contributed to decision making. Significant staff turnover within the IT group throughout implementation of the projects led to important project information losses owing to multiple transfers of knowledge among individuals. This resulted in efficiency losses in the completion of IT projects.
Measurement of project results and benefits	**Weakness** VIA did not have any indicators or systems and practices in place to systematically follow up on whether or not the projects' expected benefits were obtained.

58. **Recommendation.** VIA Rail Canada Inc. should continue implementing corrective measures concerning its project management systems and practices in order to ensure that, for its future capital investments, it is able to reliably estimate costs, risks, and expected results, as well as manage projects within established budgets and timelines.

The Corporation's response. *Agreed. In the last few years, the Corporation put in place a governance structure to ensure project management follow-up. In 2015, the Corporation set up a centralized project office. This office has already helped to standardize work practices and, in 2016, it will further standardize estimates and measures for risks and benefits.*

Conclusion

59. We concluded that, based on the criteria established, there is reasonable assurance that during the period covered by the examination there were no significant deficiencies in VIA Rail Canada Inc.'s systems and practices that we selected for examination, except for the significant deficiency in governance as described in paragraphs 23 to 27. The systems and practices in all other areas we examined were maintained in a manner that provides VIA Rail Canada Inc. with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

About the Audit

All of the audit work in this report was conducted in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Canada Handbook—Assurance. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

As part of our regular audit process, we obtained management's confirmation that the findings in this report are factually based.

Objective

Under section 138 of the *Financial Administration Act* (FAA), federal Crown corporations are subject to a special examination once every 10 years. Special examinations of Crown corporations are a form of performance audit where the objective is set by the FAA.

The Auditor General provides an opinion on the corporation's systems and practices examined. Special examinations answer the question: Do the Corporation's systems and practices provide reasonable assurance that assets are safeguarded and controlled, resources are managed economically and efficiently, and operations are carried out effectively?

A significant deficiency is reported when there is a major weakness in the Corporation's key systems and practices that could prevent it from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. The opinion for this special examination is found on page 1 of this report.

Scope and approach

Our audit work examined VIA Rail Canada Inc., a federal Crown corporation. The scope of the special examination is based on our assessment of the risks the Corporation faces that could affect its ability to meet requirements set out by the *Financial Administration Act*.

We examined key documents related to the systems and practices selected for examination. We interviewed members of the Board of Directors, senior management, other employees of the Corporation, and stakeholders. We also tested the systems and practices in place to obtain the required level of audit assurance.

Systems and practices examined and criteria

At the start of this special examination, we presented the Corporation's audit committee with an audit plan that identified the systems and practices, and related criteria, that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. These are the systems and practices and criteria that we used for our special examination.

These criteria were selected for this examination in consultation with the Corporation. They were based on our experience with performance auditing—in particular, with our special examinations of Crown corporations—and on our knowledge of the subject matter. Management reviewed and accepted the suitability of the criteria used in the special examination.

Systems and practices examined	Criteria
Corporate governance • Functioning of the Board and committees • Working relationship with shareholder • Competency profile, appointment and assessment of Board members • Strategic direction and oversight • Information provided to the Board • Values, ethics, and conflict of interest practices • Executive compensation, travel and hospitality expenses • Succession planning for senior management and specialized work-force	The Corporation has a well-performing corporate governance framework that meets the expectations of best practices in Board stewardship, shareholder relations, and communication with the public to maximize the Corporation's effectiveness and its ability to balance public policy objectives with its commercial objectives.
Strategic planning, risk management, and performance measurement and reporting • Strategic and operational planning processes • Budget setting, monitoring and reallocation processes • Commercial management activities • Identification, assessment, monitoring, and mitigation of risks • Corporate performance measurement framework and reporting processes (both internal and external) • Communication with Transport Canada and central agencies • Strategic planning processes for human resources	The Corporation has clearly defined strategic directions and specific and measurable objectives to achieve its legislative, commercial, and public policy mandate. Its strategic direction and objectives take into account government priorities, identified risks, and the need to control and protect its assets and manage its resources economically and efficiently.

Systems and practices examined	Criteria
Operations • Maintenance of equipment • Maintenance of infrastructure • Customer experience and staff management (on-board staff and station employees) • Official languages requirements management process • Network operations management • Implementation of train service agreements • Marketing • Revenue and cost management • Safety Management System • Safety plan • Information technology control environment • Environmental Management System • Human resource planning and management	The Corporation's operations • focus on the customer experience (needs compared with services); • aim to optimize the use of the Corporation's assets (capacity to provide services); • aim to maximize revenue and reduce costs (and dependence on government funding); and • achieve the desired level and quality of service. The Corporation ensures it has an effective safety and security management system to mitigate risks to keep its rail operations safe and secure for its employees, passengers, and the general public. The Corporation must • have policies and procedures for design as well as construction and inspection that are consistent with industry standards in effect; • conduct periodic and targeted inspections and audits are conducted in accordance with accepted industry standards; • have a security plan based on thorough risk analysis; and • have appropriate emergency response mechanisms to deal with safety and security incidents.
Management of capital investments • Project management (including information technology) • Procurement • Planning for human resources, specialized work-force, and project management capacity	The Corporation has in place systems and practices for managing its capital projects (equipment and infrastructure) to maintain and improve its capacity, taking into account its costs and objectives for growth.

Period covered by the audit

The special examination covered the systems and practices that were in place between November 2013 and September 2015. However, to gain a more complete understanding of the key systems and practices, we also examined certain matters that preceded the starting date of the special examination.

Internal audit

In carrying out the special examination, we relied on internal audits focusing on:

- the HEP 1 modernization program,
- the Safety Management System,
- the Enterprise Risk Management framework, and
- management of capital project benefits.

Audit team

Assistant Auditor General: Maurice Laplante
Principals: Régent Chouinard and René Béliveau

Sophie Bernard
Barbara Britt
Sébastien Bureau
Jan-Alexander Denis
Élisabeth De Passillé
Geneviève Hivon
Josée Maltais
Lucie Talbot

List of Recommendations

The following is a list of recommendations found in this report. The number in front of the recommendation indicates the paragraph where it appears in the report. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Corporate governance	
28. VIA Rail Canada Inc., in cooperation with government officials, should review its existing governance systems and practices to allow it to define, obtain approval of, and implement a long-term strategic direction in a timely manner so that the Corporation is able to fulfill its mandate economically, efficiently, and effectively. **(23-27)**	**The Corporation's response.** Agreed. The Corporation's planning and operational effectiveness would be greatly enhanced through multi-year approval and funding of its long-term plans. Management has worked with Transport Canada toward this objective and obtained a multi-year funding envelope ending in March 2017. Furthermore, the Corporation's management has begun working with Transport Canada to confirm its long-term strategy. In 2015, management developed two strategic initiatives aimed at improving the Corporation's services and ensuring its long-term financial sustainability and at having the Corporation's corporate plan approved by government officials in a timely manner The first initiative is to renew its equipment fleet for services in the Québec City–Windsor corridor. Nearly 200 cars will need to be replaced. The second initiative is to mitigate issues resulting from having to share tracks with freight trains. A project to build dedicated tracks for the busiest segment of VIA's network, that is, the Toronto–Ottawa–Montréal corridor, is being examined. This four-year project could begin as early as 2016 and be completed in 2019. It showcases VIA Rail's current assets and the future new fleet in order to attract investment from outside the Government of Canada, thereby minimizing the Canadian taxpayer's burden. The Corporation is optimistic that the various proposed initiatives will help to confirm a long-term strategy that will reduce dependence on government funding.
29. VIA Rail Canada Inc.'s management, together with the Board of Directors, should regularly review and define the nature, quantity, and relevance of the information to be provided to Board members in a timely manner to properly assess risks and to support decision making. **(23-27)**	**The Corporation's response.** Agreed. At the end of 2015, the Corporation's management, with the support of its directors, initiated a review to decrease the volume and enhance the relevance of information shared with directors to enable them to perform their oversight duties in a more effective manner. Management will work with its Board of Directors annually to assess the improvements put in place each year, starting in 2016.

Recommendation	Response
Operations	
45. VIA Rail Canada Inc. should finish upgrading its Safety Management System and measure its effectiveness. VIA should also finish integrating this system into the corporate risk management system to ensure that safety risks are maintained at an acceptable level. **(35-44)**	**The Corporation's response.** Agreed. The Corporation's management implemented a detailed action plan for upgrading its Safety Management System and integrating it into the corporate risk management system. The Corporation met the 1 October 2015 deadline by complying with the new federal legislation and has taken the necessary measures to be able to demonstrate the effectiveness of its new system by 1 April 2016.
46. VIA Rail Canada Inc. should improve the documentation of its Safety Management System, including information supporting actions and decisions related to the safety of tracks owned by other railway companies. **(35-44)**	**The Corporation's response.** Agreed. The Corporation will upgrade its documentation by the end of 2016. However, VIA does not have any contractual or other rights providing it with access to information concerning actions and decisions related to the safety of track-owning railway companies' infrastructure. Therefore, its ability to document risks and take mitigation measures is limited. The Corporation will raise this issue during negotiations to renew each of the agreements it has with railway companies that own railway tracks.
47. VIA Rail Canada Inc. should finish analyzing all of its major information technology systems so that it can identify risks and vulnerabilities and determine actions to be taken to mitigate them. **(35-44)**	**The Corporation's response.** Agreed. At the end of 2015, the Corporation's management completed an analysis of risks and vulnerabilities, and work is under way to implement mitigation measures by the end of 2016.
48. VIA Rail Canada Inc. should, together with railway track-owning railway companies, ensure that it has mechanisms in place making it possible to maintain the on-time performance of its trains. **(35-44)**	**The Corporation's response.** Agreed. The Corporation is of the opinion that congestion on shared tracks remains a major issue for Canada and that the dedicated track project could make it possible for passenger trains to arrive on time 98 percent of the time on the Toronto–Ottawa–Montréal segment. The Corporation will therefore analyze this project. For long-distance services in western and eastern Canada and in remote regions, the Corporation will continue its efforts with track-owning railway companies to improve the on-time performance of its trains. The operational and financial frameworks of these two service types (freight and passenger) are intrinsically incompatible. Therefore, in the current contractual context, any possible improvement would be limited. The Corporation will initiate discussions with its shareholder in order to identify possible alternatives to the current contractual framework.
49. VIA Rail Canada Inc. should integrate profitability analysis and rolling stock fleet management mechanisms into its revenue management system to optimize ridership and revenues. **(35-44)**	**The Corporation's response.** Agreed. In 2015, the Corporation worked on completing the implementation of a new system containing information on profitability per train. Information from this system will be incorporated into decision making that is based on the revenue management system in 2016.

Recommendation	Response
Capital investment program management	
58. VIA Rail Canada Inc. should continue implementing corrective measures concerning its project management systems and practices in order to ensure that, for its future capital investments, it is able to reliably estimate costs, risks, and expected results, as well as manage projects within established budgets and timelines. **(50-57)**	**The Corporation's response.** Agreed. In the last few years, the Corporation put in place a governance structure to ensure project management follow-up. In 2015, the Corporation set up a centralized project office. This office has already helped to standardize work practices and, in 2016, it will further standardize estimates and measures for risks and benefits.