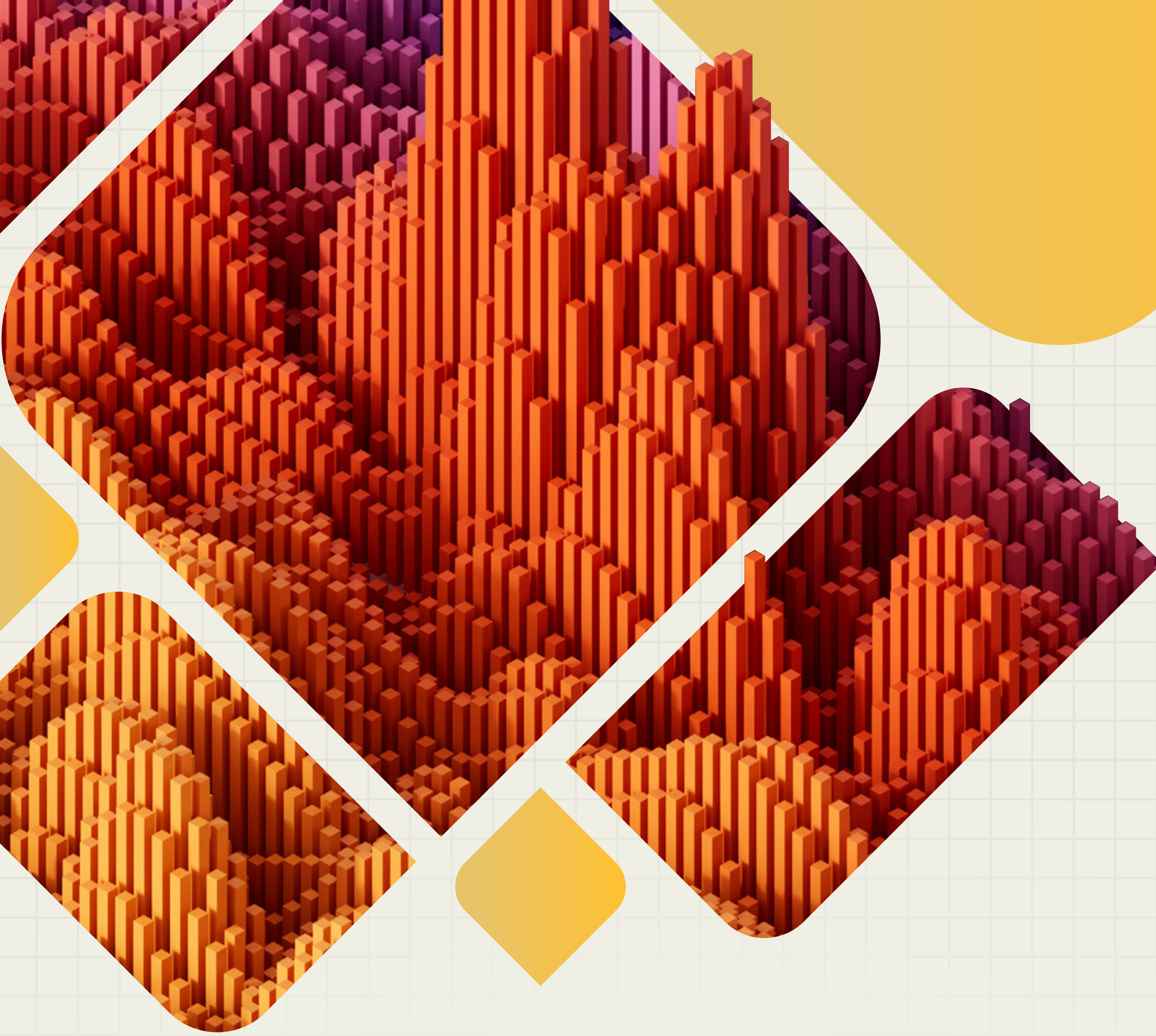


2026 SPECIAL EXAMINATION

Report of the Auditor General of Canada to the Board of Directors of Defence Construction Canada

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

INDEPENDENT AUDITOR'S REPORT

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 and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

More details about the audit objective, scope, approach, and sources of criteria are in About the Audit at the end of this report.

Cette publication est également offerte en français.

Cat. No. FA3-111/2026E-PDF

ISBN 978-0-660-99452-9

Cover photo: Eugene Mymrin/Gettyimages.ca

Table of Contents

Audit Summary

We examined how Defence Construction Canada implemented its corporate management practices and managed its operations during the period covered by the audit.

In examining the corporate management practices, we found that improvements were needed in the areas of governance and corporate risk management.

Despite the weaknesses, the corporation maintained reasonable systems and practices to carry out its mandate, and we found no significant deficiencies in the corporate management practices or in the management of operations of the corporation.

Introduction

Background

Role and mandate[1]

1. The principal mandate of Defence Construction (1951) Limited, operating as Defence Construction Canada, is to meet the infrastructure, real property, and environmental needs of National Defence, which is made up of the Department of National Defence and the Canadian Armed Forces. It does so by advising on, collaboratively planning, procuring, and managing defence infrastructure contracts. The corporation also provides contract management services to Communications Security Establishment Canada and Shared Services Canada.

2. The corporation was incorporated under the Companies Act in 1951 pursuant to the authority of the Defence Production Act and has continued under the Canada Business Corporations Act. The corporation reports to Parliament through the Minister of Government Transformation, Public Works and Procurement.

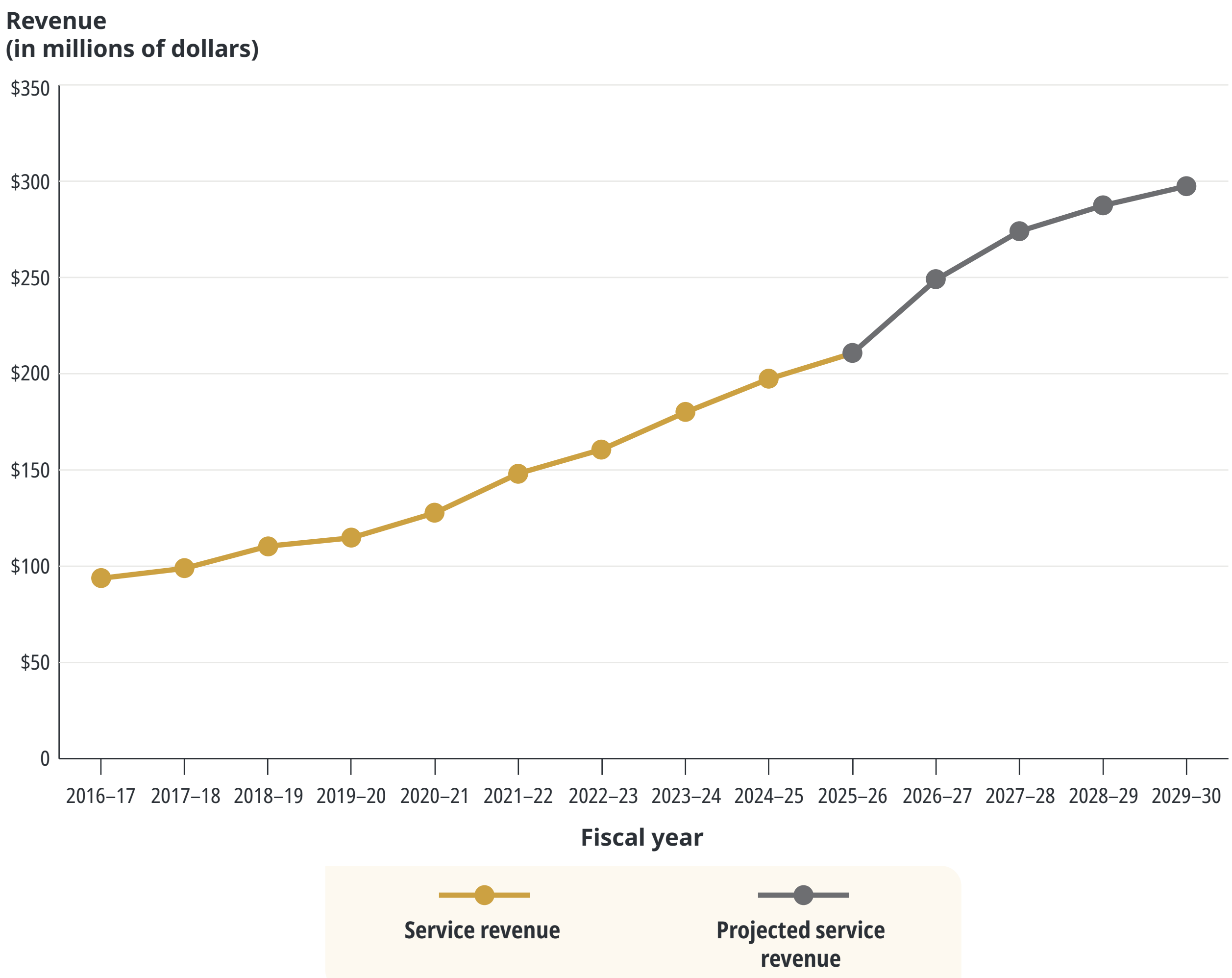
1 Bill C-31, A second Act to implement certain provisions of the budget tabled in Parliament on November 4, 2025, includes provisions that may have an impact on Defence Construction Canada—an impact that cannot be confirmed until Bill C-31 receives Royal Assent.

Nature of business and operating environment

3. The corporation is headquartered in Ottawa, Ontario, and has regional offices across Canada. It also operates site offices on Canadian Armed Forces bases and wings in Canada and internationally.

4. The corporation operates on a fee-for-service basis and receives no government appropriations (Exhibit 1). Fees are for management services in relation to advising on, collaboratively planning, procuring, and managing defence infrastructure contracts.

Exhibit 1—Defence Construction Canada's past and projected revenue from service fees

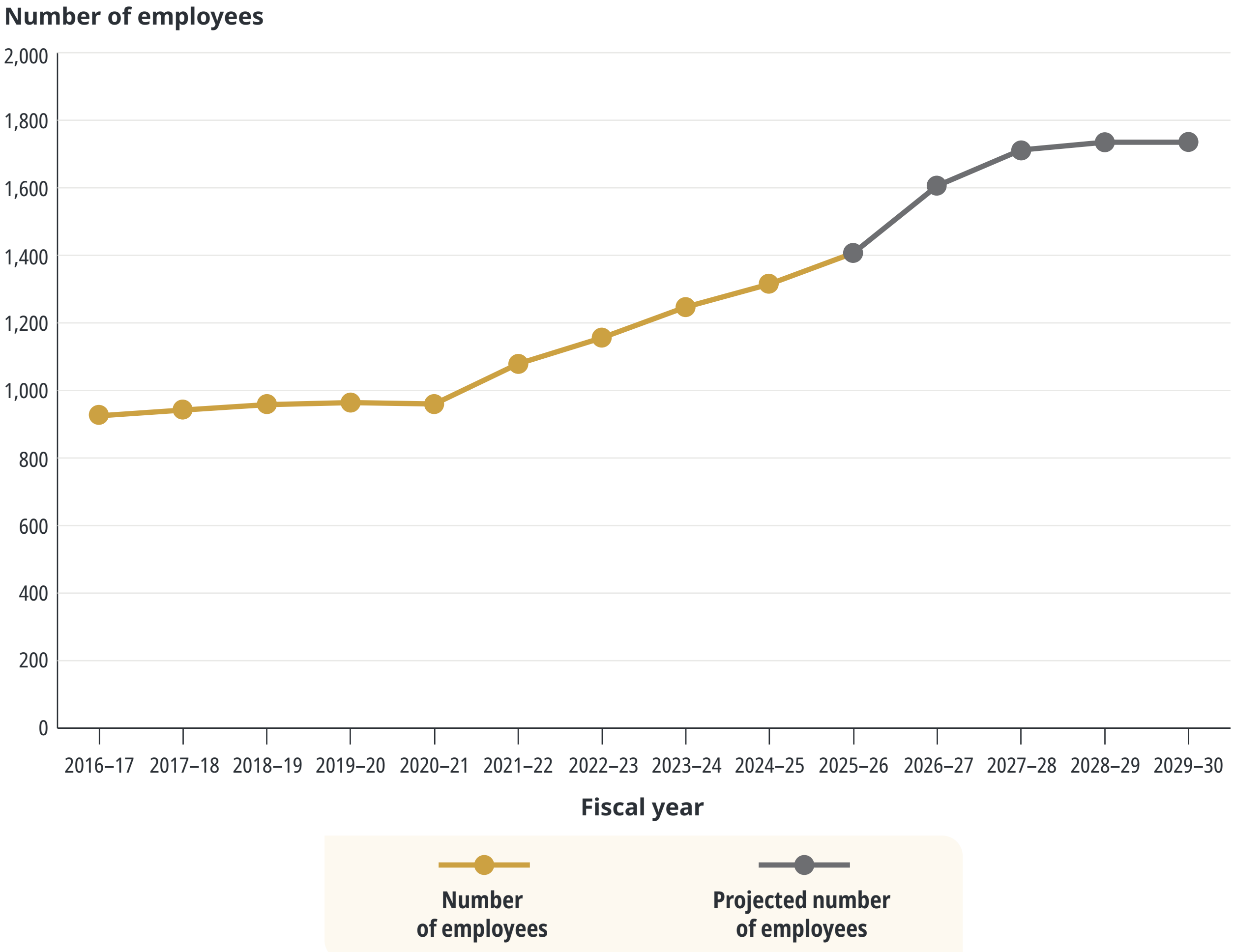


Source: Based on data from Defence Construction Canada's 2020–21 to 2024–25 annual reports and 2025–26 to 2029–30 corporate plan summary

Read the Exhibit 1 text description

5. Demand for the corporation's services is driven by the needs of its clients—most notably, the infrastructure requirements of the Canadian Armed Forces. Such requirements can vary significantly over time because of changing government priorities, which impact the extent and type of services the corporation is asked to provide. The corporation must also adjust its internal resources to meet demand, which is expected to increase in the coming years (Exhibit 2).

Exhibit 2—Defence Construction Canada's past and projected staffing levels

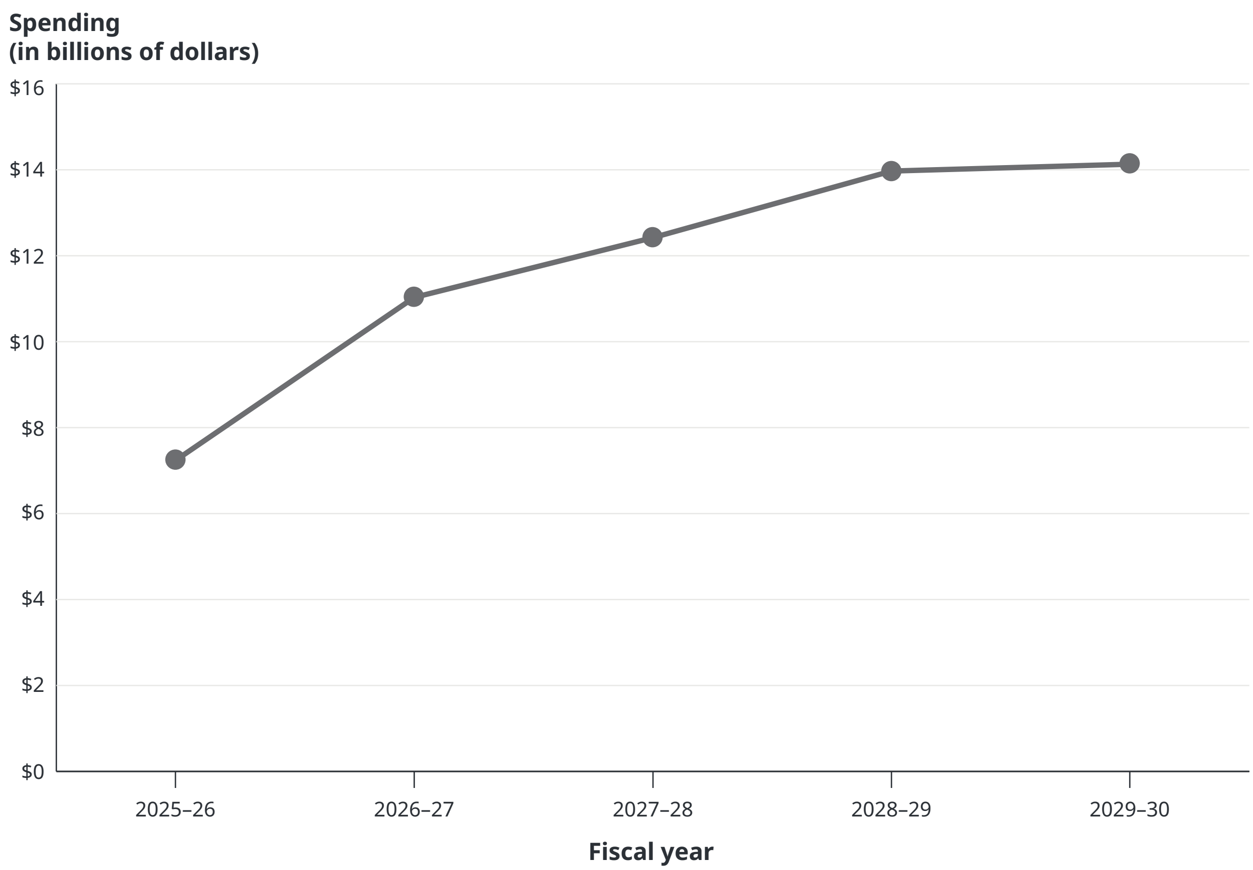


Source: Based on data from Defence Construction Canada's 2018–19 to 2024–25 annual reports and 2025–26 to 2029–30 corporate plan summary

Read the Exhibit 2 text description

6. Since the last special examination of the corporation, the demand for its services has risen steadily. It is expected to continue to rise in the coming years as the government plans to increase its investments in defence-related spending (Exhibit 3). For example, the government indicated in Budget 2025 that it will invest to repair and sustain Canadian Armed Forces capabilities and infrastructure. The budget also reaffirmed Canada's commitment to invest 5% of gross domestic product in defence by 2035 under the North Atlantic Treaty Organization's Defence Investment Pledge. The corporation will be expected to play a role in helping the government achieve these defence spending targets.

Exhibit 3—The Government of Canada's planned defence-related spending over the next 5 fiscal years



Source: Based on data from Canada Strong: Budget 2025

Read the Exhibit 3 text description

7. The government is also exploring new ways to tackle the housing crisis in Canada. As mentioned in the 2025–26 to 2029–30 corporate plan summary, the corporation is in the process of identifying opportunities to build more housing to

address the housing crisis. In particular, it is exploring its role in the redevelopment of National Defence properties in Halifax, Toronto, and Victoria that could be suitable for both military and civilian uses.

Focus of the audit

8. Our objective for this audit was to determine whether the systems and practices we selected for examination at Defence Construction Canada were providing the corporation with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively, as required by subsection 138(1) of the Financial Administration Act.

9. Also, section 139 of the Financial Administration Act requires that we state an opinion, with respect to the criteria established pursuant to subsection 138(3), on whether there was reasonable assurance that there were no significant deficiencies in the systems and practices we examined. We report significant deficiencies when, in our opinion, the corporation could be prevented 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.

10. On the basis of our risk assessment, we selected systems and practices in the following areas:

- Corporate management practices
- Management of operations

The selected systems and practices, and the criteria used to assess them, are listed in the exhibits throughout the report.

11. More details about the audit objective, scope, approach, and sources of criteria are in **About the Audit** at the end of this report.

Findings, Recommendations, and Responses

Corporate management practices

The corporation had good corporate management practices, but some improvements were needed in governance and corporate risk management

Context

12. The corporation is governed by the Board of Directors, consisting of 7 positions including the Chair and the President and Chief Executive Officer, who are appointed by the **Governor in Council**[2] on the recommendation of the Minister of Government Transformation, Public Works and Procurement. To fulfill its oversight functions, the board relies on 2 committees: the Audit Committee and the Governance and Human Resources Committee, each of which has its own charter.

13. The board meets quarterly. Board members attend all committee meetings as either members or observers. Directors are eligible for reappointment at the expiration of their terms of office, and the incumbent director may continue in office until a successor is appointed.

14. Management of the corporation includes the executive management group and the senior management group. The executive management group includes the President and Chief Executive Officer, 4 vice-presidents, and the General Counsel and Corporate Secretary, who are responsible for the overall strategic planning and corporate risk management activities of the corporation. The executive management group is supported by a 3-tiered senior management group. National directors lead the operations of the corporation's 5 service lines. Regional directors are responsible for the projects and activities within the domestic and international regions in which the corporation operates. Finally, corporate service directors lead the corporate service lines of the corporation, including the finance, human resources, and information technology functions.

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

15. The corporation has systems and practices that incorporate risk management and strategic planning activities, such as the development and monitoring of strategic objectives, corporate and operational risks, key performance indicators, and initiatives.

16. The strategic objectives in the corporation's 2025–26 to 2029–30 corporate plan summary are:

- People: To build and sustain a competent, engaged and diverse workforce
- Service Delivery: To deliver innovative, value-added services that meet its client requirements
- Business Management: To maintain a strong and responsive business management capability
- Leadership and Governance: To provide agile leadership and be responsive to Government of Canada objectives

17. As discussed in the corporation's 2025–26 to 2029–30 corporate plan summary, the government is exploring the redevelopment of National Defence properties in Halifax, Toronto, and Victoria that could be suitable for both military and civilian uses. The corporation is supporting this initiative by identifying opportunities to help address the housing crisis. During our period of examination, the corporation has contributed to this initiative at a preliminary level by engaging with various interested parties to perform feasibility assessments.

Corporate governance

18. **Findings.** We found that the corporation had good systems and practices in corporate governance but that improvements were needed in board independence—more specifically, within the independence declaration process (Exhibit 4).

Exhibit 4—Corporate governance—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board appointments and competencies	The board collectively had the capacity and competencies to fulfill its responsibilities.	The corporation established a board profile and identified the competencies required for the board to fulfill its responsibilities. Board members were provided with orientation sessions and ongoing training. The board solicited independent advice, when necessary, to fill gaps in its skills and expertise and to supplement its decision making. The board communicated with the responsible minister on a regular basis about board appointments, renewals, and vacancies.	
Board independence	The board functioned independently.	The Board of Directors completed annual conflict-of-interest declarations according to the corporation's Board of Directors Code of Conduct and ethical behaviour policy for directors. The corporation had a systematic process in place for board members to regularly declare conflicts of interest at board and committee meetings. The board made decisions independently of senior management. **Weakness** The conflict-of-interest declaration process for board members did not include an assessment of potential relationships with the companies, contractors, and consultants the corporation has business with.	
Providing strategic direction	The board provided strategic direction.	The board actively worked with management in setting a strategic direction that aligned with the corporation's mandate and governing legislation. The board was active in setting annual objectives for the President and Chief Executive Officer that aligned with the corporation's strategic direction and in assessing his performance.	

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board oversight	The board carried out its oversight role over the corporation.	The roles and responsibilities of the board and its committees were clearly defined, forming the basis for the preparation of work plans. The board and its committees received information, including the monitoring of achievements against the corporate plan, objectives, and risks, according to its work plans. The board and its committees were involved in assessing the President and Chief Executive Officer's performance and received appropriate information to carry out the assessment. Internal audits were performed regularly, and the results were presented to the board's Audit Committee.	Met the criteria

Legend—Assessment against the criteria

- Met the criteria
- Met the criteria, with improvement needed
- Did not meet the criteria

19. **Weakness—Board independence.** Board members are required to declare any real, apparent, or potential conflicts of interest annually and at board meetings in accordance with the Board of Directors Code of Conduct.

20. We found that the conflict-of-interest declaration process did not require an assessment of potential board member relationships with organizations or consultants that the corporation does business with. We also found that the conflict-of-interest declaration process for the corporation's employees did not require this type of assessment.

21. This weakness matters because not including such an assessment increases the risk of real, apparent, or perceived conflicts of interest being undisclosed and therefore not properly managed. Although this is important for directors and employees at all levels given the procurement and contracting focus of the corporation's activities, it is particularly important for those employees directly involved in the procurement process.

22. **Recommendation.** To strengthen its ability to manage any real, apparent, or potential conflicts of interest, the corporation should review its Board of Directors and employee

conflict-of-interest declaration processes and include an assessment of possible relationships with organizations or consultants it engages with in its business dealings.

The corporation's response. Agreed. The corporation will review its declaration processes for both its Board of Directors and employees to clarify expectations. As part of the anticipated clarifications, the corporation will better articulate the requirements related to conflict-of-interest declarations and include an assessment of possible relationships with organizations or consultants the corporation engages with in its business dealings. This review is expected to be completed by March 31, 2027.

Strategic planning

23. **Findings.** We found that the corporation had good systems and practices in strategic planning (Exhibit 5).

Exhibit 5—Strategic planning—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Strategic planning	The corporation established a strategic plan and strategic objectives that were aligned with its mandate.	The corporation had a strategic planning process in place, which included analyzing its strengths, weaknesses, and opportunities, as well as key risks and threats. The corporation established measurable strategic objectives that aligned with its letters patent, its legislative mandate, and government priorities. The corporation took into consideration its internal and external environments when preparing its corporate plan. The corporation communicated strategic objectives to employees, performance objectives were set for management that tied to strategic objectives, and the corporation set budget and key performance indicators with measurable targets.	

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Performance measurement, monitoring, and reporting	The corporation established performance indicators in support of achieving its strategic objectives and monitored and reported on its progress against those indicators.	The corporation monitored and reported on key performance results against its strategic objectives through its annual report and its annual general meeting. The corporation regularly monitored progress toward achieving strategic objectives, which supported timely decision making. On a quarterly basis, the executive management group formally assessed the financial and operational performance of the corporation and presented the results to the board.	

Legend—Assessment against the criteria

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

Corporate risk management

24. **Findings.** We found that the corporation had good systems and practices in corporate risk management but that improvements were needed in risk identification and assessment and in risk mitigation (Exhibit 6).

Exhibit 6—Corporate risk management—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Risk identification and assessment	The corporation identified and assessed the risks to achieving its strategic objectives.	The corporation had a risk management framework, which described the roles, responsibilities, and risk management activities. The corporation identified its strategic and operational risks, which were assessed according to their likelihood of occurrence and potential impact. **Weakness** At both strategic and operational levels, the corporation did not clearly state its risk appetite or its risk tolerance levels.	

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Risk mitigation	The corporation defined and implemented risk mitigation measures.	The corporation defined and implemented action plans to mitigate strategic and operational risks. In doing so, it considered government priorities and used cross-functional working groups to mitigate risks arising from internal and external factors. The corporation assessed risks related to how it managed its relationships with National Defence. It mitigated these risks by defining and implementing various measures. **Weakness** Some of the corporation's risk mitigation measures did not include specific timelines and links to specific corporate initiatives.	!
Risk monitoring and reporting	The corporation monitored and reported on the implementation of risk mitigation measures.	The corporation presented quarterly reports on risk management activities to the board. These included a description of the strategic risks it faced, emerging issues, significant risk events, and progress on risk mitigation initiatives. The corporation periodically revised its list of strategic risks to address changes to risk assessments and mitigation measures.	✓
Information management and information technology (IT) framework, cybersecurity, and artificial intelligence	The corporation had an information security management program; protected the confidentiality, integrity, and availability of information assets; prevented, detected, and responded to security breaches; and mitigated the risk of damage to its reputation or the reputations of its clients.	The corporation had IT, security, and cybersecurity standards and policies in place to address IT security; preserve the confidentiality, integrity, and availability of information; protect assets in cyberspace; and assess new IT tools. The corporation had systems and practices in place that aligned with its IT security response requirements, to prepare for possible cyberattacks. The corporation used its security requirements checklist to assess security requirements for projects. The corporation monitored compliance with its policy on information management through yearly verifications. Depending on the results, action plans were prepared and reported to the board on a quarterly basis.	✓

Legend—Assessment against the criteria

✓ Met the criteria

! Met the criteria, with improvement needed

✗ Did not meet the criteria

25. **Weakness—Risk identification and assessment.** The corporation's risk management framework provides for a 4-step process to manage risks. These 4 steps are identify the risk, assess and prioritize the risk, respond to the risk, and monitor and evaluate the risk. When reviewing the corporation's list of strategic and operational risks, we noted that the corporation did not clearly state its risk appetite or its tolerance level for each risk.

26. Risk appetite is the amount and type of risk that the corporation is prepared to accept in order to meet its corporate objectives and strategic priorities. Risk tolerance level, typically communicated in quantitative terms, is the willingness of an organization to accept a particular level of risk in relation to its risk appetite.

27. This weakness matters because clearly defined risk appetite and risk tolerance levels will better focus strategic discussions and guide decision making by helping the corporation identify risks that require additional mitigation measures or monitoring.

28. **Recommendation.** The corporation should clearly define its risk appetite and risk tolerance levels in order to more effectively manage its strategic and operational risks.

The corporation's response. Agreed. In the fall of 2025, the corporation commenced a review of its risk management framework and related processes and tools. The review is expected to be completed by March 31, 2027. As part of this review, the corporation will clearly define its risk appetite and risk tolerance levels in a way that better aligns risks with the corporation's strategic objectives.

29. **Weakness—Risk mitigation.** As discussed in paragraph 25, the corporation has a 4-step process to manage risks. When reviewing the corporation's list of strategic and operational risks, we noted that the corporation's risk mitigation measures had imprecise descriptions and did not directly include defined target dates for completion. For example, mitigation action plans related to strategic and operational risks referred to the overall corporate plan without providing more detail as to which specific initiatives were mitigating the risk.

30. This weakness matters because without such details in its risk management documents, the corporation will have less effective risk mitigation practices, and its corporate initiatives may not achieve their objectives.

31. **Recommendation.** To improve the oversight and effectiveness of risk mitigation, the corporation should have more specific mitigation measures with target dates to address its strategic and operational risks that are clearly linked to specific corporate initiatives.

The corporation's response. Agreed. As noted in the corporation's response to the recommendation in paragraph 28, the corporation is currently reviewing its risk management framework and related processes and tools, with an expected completion date of March 31, 2027. As part of this review, the corporation will revise its risk mitigation measures and align them with specific corporate initiatives, where appropriate, with target dates to address its strategic and operational risks.

Management of operations

The corporation had good operations management practices

Context

32. The corporation provides project management services in relation to contracting, construction, infrastructure, and environmental services and life-cycle management for its clients (National Defence, Communications Security Establishment Canada, and Shared Services Canada) under the terms of each project.

33. The corporation's principal client is National Defence. When the department decides to initiate a project, it contacts the corporation to procure and manage the associated project contracts on its behalf.

34. The corporation fulfills its project management requirements through the operation of its 5 service lines:

- Contract services: Planning and procurement for goods and professional, environmental, real property, construction, and maintenance services
- Contract management services: Creation, renovation, and maintenance of facilities for the infrastructure and environment community at National Defence, and management of complex public-private partnership agreements
- Environmental services: Activities to help National Defence meet environmental performance targets, comply with regulatory requirements, and manage due diligence and risk
- Project and program management services: Advice on matters such as infrastructure requirements, project and program planning, and schedule and document control
- Real property management services: Efficient maintenance of National Defence's infrastructure, from needs planning to facility decommissioning

Business planning, performance measurement, monitoring, and reporting

35. **Findings.** The corporation had good practices in business planning, performance measurement, monitoring, and reporting (Exhibit 7).

Exhibit 7—Business planning, performance measurement, monitoring, and reporting—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Business planning	The corporation's business planning aligned with the strategic objectives.	The corporation had policies and procedures in place for the development of operational business plans. The operational business plans for the business lines included key performance indicators and business process indicators with specific performance targets. The plans aligned with the corporation's strategic objectives, government priorities, and mandate. Additionally, the plans were detailed enough to guide management's actions. The operational business plans had clearly defined roles and responsibilities, timelines, budgets, and performance indicators. The corporation had a process for monitoring its business activities in relation to overall strategic objectives and identified risks. Performance appraisals of management with responsibilities for the business lines were linked with the strategic objectives of the corporation.	✓
Implementation of the business plan	The corporation implemented the business plan to deliver results in accordance with the expected outputs.	The corporation implemented key initiatives from its operational business plan.	✓

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Business performance measurement, monitoring, and reporting	The corporation established performance indicators to measure and monitor business performance and reported on progress.	The corporation had policies and procedures in place to ensure that budgets, key performance indicators, and business process indicators tied to the corporate plan were measured, monitored, and reported to the executive management group and the board on a quarterly basis. Management and the executives were informed on the progress of initiatives relating to operational objectives. The corporation reported on internal and external assessments of business performance. When corrective measures were identified, the corporation developed action plans.	✓

Legend—Assessment against the criteria

- ✓ Met the criteria
- ! Met the criteria, with improvement needed
- ✗ Did not meet the criteria

Management of human resources

36. **Findings.** The corporation had good practices in human resources (Exhibit 8).

Exhibit 8—Management of human resources—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Human resources	The corporation ensured that its workforce had the knowledge, diversity, skills, and competencies needed to carry out required work and meet its corporate objectives.	The corporation identified its workforce needs as part of its annual strategic planning process and incorporated them into its corporate objectives, training requirements, and operational business plans. In doing so, the corporation considered forecasted client needs. Aligning itself with client and government expectations, the corporation undertook diversity, equity, and inclusion initiatives (such as diversity training) focusing on gender, employment equity, and Indigenous people. The corporation monitored and reported on workforce diversity targets relating to women, members of racialized groups, persons with disabilities, Indigenous people, and 2-spirit, lesbian, gay, bisexual, transgender, queer, intersex, and additional sexually and gender-diverse (2SLGBTQI+) individuals. The corporation included human resource–related objectives in operational business plans and monitored performance through key performance indicators and business process indicators on a quarterly basis.	

Legend—Assessment against the criteria

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

Management of service delivery and procurement

37. **Findings.** The corporation had good practices in service delivery and procurement (Exhibit 9).

Exhibit 9—Management of service delivery and procurement—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Service delivery, business management, and procurement	The corporation managed its service delivery, business management, and procurement processes to ensure that contracts and service-level arrangements were carried out according to deadlines, budgets, client requirements, and industry standards.	The corporation established and implemented policies on values, ethics, behaviour, and conflicts of interest that applied to employees and contractors. Additionally, the corporation had procedures to declare conflicts of interest, and it analyzed fraud risks. The executive management group and the board used data analytics and third-party channels to monitor fraud risks on a quarterly basis. While issuing security clearances to contractors is not its responsibility, the corporation worked with Public Services and Procurement Canada to guide private-sector contractors and consultants through the security clearance process. The corporation conducted project performance surveys and used a quality management program to assess contract performance. Doing so ensured that projects were meeting client requirements and relevant industry standards. Furthermore, the corporation developed action plans, when necessary, to address any identified issues. The corporation established and applied policies for procurement, contract services, contract management, health and safety, records management, and invoicing. Management monitored adherence to these policies throughout project life cycles using performance indicators at operational and strategic levels and reported on the results to the executive management group and the board on a quarterly basis.	

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Environment and sustainable development integration within service delivery and procurement	The corporation ensured that project-related environmental risks identified by its clients were appropriately assessed and managed to reduce or eliminate potential environmental impacts and/or liabilities and achieved compliance with environmental requirements.	The corporation's environment framework focused on meeting government expectations and client needs related to the environment and sustainability. The corporation established the Greening and Sustainability Working Group to provide support and guidance on sustainability risks within the organization and on client projects. The corporation provided services such as environmental assessments, hazardous material surveys and verifications during construction, groundwater quality monitoring, contaminated site remediation, species-at-risk surveys, and the remediation of sites containing unexploded explosive ordnances. The corporation provided staff training on sustainable development goals and environmental requirements.	✓

Legend—Assessment against the criteria
- ✓ Met the criteria
- ! Met the criteria, with improvement needed
- ⊗ Did not meet the criteria

Conclusion

38. In our opinion, on the basis of the criteria established, there was reasonable assurance that there were no significant deficiencies in the corporation's systems and practices we examined. We concluded that Defence Construction Canada maintained its systems and practices during the period covered by the audit in a manner that provided the reasonable assurance required under subsection 138(1) of the Financial Administration Act.

About the Audit

This independent assurance report was prepared by the Office of the Auditor General of Canada on Defence Construction Canada. Our responsibility was to express:

- an opinion on whether there was reasonable assurance that during the period covered by the audit, there were no significant deficiencies in the corporation's systems and practices we selected for examination
- a conclusion on whether the corporation complied in all significant respects with the applicable criteria

Under section 131 of the Financial Administration Act, the corporation is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that:

- its assets are safeguarded and controlled
- its financial, human, and physical resources are managed economically and efficiently
- its operations are carried out effectively

Also, subsection 138(2) of the act requires the corporation to have a special examination of these systems and practices carried out at least once every 10 years.

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001—Direct Engagements, set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook—Assurance.

The Office of the Auditor General of Canada applies the Canadian Standard on Quality Management 1—Quality Management for Firms That Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements. This standard requires our office to design, implement, and operate a system of quality management, including policies or procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we complied with the independence and other ethical requirements of the relevant rules of professional conduct applicable to the practice of public accounting in Canada, which are founded on fundamental principles of integrity and due care, objectivity, professional competence, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from the corporation:

- confirmation of management's responsibility for the subject under audit
- acknowledgement of the suitability of the criteria used in the audit
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided
- confirmation that the audit report is factually accurate

Audit objective

The objective of this audit was to determine whether the systems and practices we selected for examination at Defence Construction Canada were providing the corporation with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively, as required by subsection 138(1) of the Financial Administration Act.

Scope and approach

The scope of this special examination was based on our assessment of risks the corporation faced that could affect its ability to meet the requirements set out in the Financial Administration Act and its key management and business activities.

The systems and practices selected for examination for each area of the audit are listed in the exhibits throughout the report.

As part of our examination, we interviewed the board directors, executives, management, and other employees throughout the corporation to gain insights into its systems and practices. In performing our work, we reviewed key documents related to the systems and practices selected for examination. We also travelled to the corporation's offices in Petawawa, Ontario, and Esquimalt, British Columbia, where we met with regional staff and visited project sites.

On the basis of our professional judgment, we reviewed evidence provided by the corporation in relation to the systems and practices selected for testing. This included selecting a sample of contracts managed on behalf of its clients to conclude on relevant criteria.

In carrying out the special examination, we did not rely on any internal audits.

Sources of criteria

The criteria used to assess the systems and practices selected for examination are listed in the exhibits throughout the report.

Corporate governance

Code of Business Conduct, Defence Construction Canada

Board of Directors Code of Conduct, Defence Construction Canada

Conflict of Interest Act

Board of Directors Profile, Defence Construction Canada

Defence Production Act

Financial Administration Act

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Letters patent incorporating Defence Construction (1951) Limited and related amendment

Practice Guide: Assessing Organizational Governance in the Public Sector, The Institute of Internal Auditors, 2014

Strategic planning

Corporate Performance Management Framework, Defence Construction Canada

Business Management Framework, Defence Construction Canada

Defence Production Act

Financial Administration Act

Guidance for Crown Corporations on Preparing Corporate Plans and Budgets, Treasury Board of Canada Secretariat, 2019

Letters patent incorporating Defence Construction (1951) Limited and related amendment

Recommended Practice Guideline 3, Reporting Service Performance Information, International Public Sector Accounting Standards Board, 2015

Corporate risk management

COBIT 2019 Framework, Information Systems Audit and Control Association (ISACA)

Enterprise Risk Management—Integrating with Strategy and Performance: Executive Summary, Committee of Sponsoring Organizations of the Treadway Commission

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission

ISO 31000:2018—Risk Management—Guidelines, International Organization for Standardization

ISO/IEC 27002:2022, Information Security, Cybersecurity and Privacy Protection—Information Security Controls, International Organization for Standardization and International Electrotechnical Commission

ISO/IEC 27032:2023, Cyber Security—Guidelines for Internet Security, International Organization for Standardization and International Electrotechnical Commission

ISO/IEC 27001:2022/Amd 1:2024, Information Security, Cybersecurity and Privacy Protection—Information Security Management Systems—Requirements, International Organization for Standardization and International Electrotechnical Commission

ITSG-33—IT Security Risk Management: A Lifecycle Approach, Canadian Centre for Cyber Security

Framework for Improving Critical Infrastructure Cybersecurity Version 1.1, National Institute of Standards and Technology

Policy on Service and Digital, Treasury Board, 2020

Directive on Service and Digital, Treasury Board, 2020

Policy on Government Security, Treasury Board, 2025

Management of operations

Accessible Canada Act

Budget 2021

Budget 2024

Canadian Human Rights Act

Operations Manual—Contract Services, Defence Construction Canada

Operations Manual—Contract Management, Defence Construction Canada

Business Management Framework, Defence Construction Canada

Conflict of Interest Act

Defence Production Act

Directive on Identity Management, Treasury Board, 2019

Directive on the Management of Procurement, Treasury Board, 2025

Employment Equity Act

Federal Prompt Payment for Construction Work Act

Financial Administration Act

Improving Environmental Performance and Compliance: 10 Elements of Effective Environmental Management Systems, Commission for Environmental Cooperation, 2000

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

ISO 14001:2015—Environmental Management Systems, International Organization for Standardization

ISO 26000:2010—Guidance on Social Responsibility, International Organization for Standardization

Letters patent incorporating Defence Construction (1951) Limited and related amendment

Managing the Business Risk of Fraud: A Practical Guide, The Institute of Internal Auditors, The American Institute of Certified Public Accountants, and Association of Certified Fraud Examiners

Meeting the Expectations of Canadians: Review of the Governance Framework for Canada’s Crown Corporations, Treasury Board of Canada Secretariat, 2005

National Defence Act

Policy on Service and Digital, Treasury Board, 2020

Directive on Service and Digital, Treasury Board, 2020

Policy on Gender-Based Analysis Plus: Applying an Intersectional Approach to Foster Inclusion and Address Inequities, 2022

Policy on People Management, Treasury Board, 2021

Directive on Security Screening, Treasury Board, 2025

The Ten Principles of the United Nations Global Compact

Global Reporting Initiative Standards, 2016

Transforming Our World: The 2030 Agenda for Sustainable Development, United Nations, 2015

Period covered by the audit

The special examination covered the period from August 1, 2024, to July 30, 2025. This is the period to which the audit conclusion applies. However, to gain a more complete understanding of the significant systems and practices, we also examined certain matters that preceded the start date of this period.

Date of the report

We obtained sufficient and appropriate audit evidence on which to base our conclusion on April 20, 2026, in Ottawa, Canada.

Date of the presentation of the report to the Board of Directors

The report was presented to the Board of Directors of the corporation on June 11, 2026.

Audit team

This special examination was completed by a multidisciplinary team from across the Office of the Auditor General of Canada led by Dennis Fantinic, Principal. The principal has overall responsibility for audit quality, including conducting the audit in accordance with professional standards, applicable legal and regulatory requirements, and the office’s policies and system of quality management.

Recommendations and the Corporation's Responses

In the following table, the paragraph number preceding the recommendation indicates the location of the recommendation in the report.

Recommendation	Response
22. To strengthen its ability to manage any real, apparent, or potential conflicts of interest, the corporation should review its Board of Directors and employee conflict-of-interest declaration processes and include an assessment of possible relationships with organizations or consultants it engages with in its business dealings.	**The corporation's response.** Agreed. The corporation will review its declaration processes for both its Board of Directors and employees to clarify expectations. As part of the anticipated clarifications, the corporation will better articulate the requirements related to conflict-of-interest declarations and include an assessment of possible relationships with organizations or consultants the corporation engages with in its business dealings. This review is expected to be completed by March 31, 2027.
28. The corporation should clearly define its risk appetite and risk tolerance levels in order to more effectively manage its strategic and operational risks.	**The corporation's response.** Agreed. In the fall of 2025, the corporation commenced a review of its risk management framework and related processes and tools. The review is expected to be completed by March 31, 2027. As part of this review, the corporation will clearly define its risk appetite and risk tolerance levels in a way that better aligns risks with the corporation's strategic objectives.
31. To improve the oversight and effectiveness of risk mitigation, the corporation should have more specific mitigation measures with target dates to address its strategic and operational risks that are clearly linked to specific corporate initiatives.	**The corporation's response.** Agreed. As noted in the corporation's response to the recommendation in paragraph 28, the corporation is currently reviewing its risk management framework and related processes and tools, with an expected completion date of March 31, 2027. As part of this review, the corporation will revise its risk mitigation measures and align them with specific corporate initiatives, where appropriate, with target dates to address its strategic and operational risks.

Appendix—Text Descriptions of Exhibits

Here are the text descriptions of the exhibits.

Exhibit 1—Defence Construction Canada's past and projected revenue from service fees—Text description

This line chart shows Defence Construction Canada's past revenue from service fees for the 2016–17 to 2024–25 fiscal years and the projected revenue from service fees for the 2025–26 to 2029–30 fiscal years. It shows an annual increase in service revenue:

- In 2016–17, the service revenue was $93,711,000.
- In 2017–18, the service revenue increased to $98,858,000.
- In 2018–19, the service revenue increased to $110,389,000.
- In 2019–20, the service revenue increased to $114,731,000.
- In 2020–21, the service revenue increased to $127,710,000.
- In 2021–22, the service revenue increased to $148,157,000.
- In 2022–23, the service revenue increased to $160,682,000.
- In 2023–24, the service revenue increased to $179,952,000.
- In 2024–25, the service revenue increased to $197,298,000.
- In 2025–26, the service revenue is projected to increase to $210,642,000.
- In 2026–27, the service revenue is projected to increase to $248,818,000.
- In 2027–28, the service revenue is projected to increase to $273,983,000.
- In 2028–29, the service revenue is projected to increase to $287,365,000.
- In 2029–30, the service revenue is projected to increase to $297,423,000.

Source: Based on data from Defence Construction Canada's 2020–21 to 2024–25 annual reports and 2025–26 to 2029–30 corporate plan summary

Back to Exhibit 1

Exhibit 2—Defence Construction Canada's past and projected staffing levels—Text description

This line chart shows Defence Construction Canada's past staffing levels for the 2016–17 to 2024–25 fiscal years and the projected staffing levels for the 2025–26 to 2029–30 fiscal years. It shows an annual increase in the number of employees except in 2020–21 and 2029–30:

- In 2016–17, the number of employees was 925.
- In 2017–18, the number of employees increased to 942.
- In 2018–19, the number of employees increased to 958.
- In 2019–20, the number of employees increased to 964.
- In 2020–21, the number of employees decreased slightly to 960.
- In 2021–22, the number of employees increased to 1,079.
- In 2022–23, the number of employees increased to 1,156.
- In 2023–24, the number of employees increased to 1,247.

- In 2024–25, the number of employees increased to 1,315.
- In 2025–26, the number of employees is projected to increase to 1,407.
- In 2026–27, the number of employees is projected to increase to 1,606.
- In 2027–28, the number of employees is projected to increase to 1,712.
- In 2028–29, the number of employees is projected to increase to 1,735.
- In 2029–30, the number of employees is projected to stay at 1,735.

Source: Based on data from Defence Construction Canada's 2018–19 to 2024–25 annual reports and 2025–26 to 2029–30 corporate plan summary

Back to Exhibit 2

Exhibit 3—The Government of Canada's planned defence-related spending over the next 5 fiscal years—Text description

This line graph shows the Government of Canada's planned defence-related spending for the 2025–26 to 2029–30 fiscal years. It shows that the government plans to increase its spending annually as follows:

- In 2025–26, the government plans to spend $7.24 billion.
- In 2026–27, the government plans to increase its spending to $11.03 billion.
- In 2027–28, the government plans to increase its spending to $12.42 billion.
- In 2028–29, the government plans to increase its spending to $13.97 billion.
- In 2029–30, the government plans to increase its spending to $14.13 billion.

Source: Based on data from Canada Strong: Budget 2025

Back to Exhibit 3

Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada