

Report 1: April 2012

DEVELOPMENT INITIATIVE TRUSTS: AN AUDIT OF
LEGISLATIVE COMPLIANCE AND PUBLIC ACCOUNTABILITY
PRACTICES IN THE THREE STATUTORY TRUSTS

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The Honourable Bill Barisoff
Speaker of the Legislative Assembly
Province of British Columbia
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Dear Sir:

I have the honour to transmit to the Legislative Assembly of British Columbia my 2012/2013 Report 1: *Development Initiative Trusts: An Audit of Legislative Compliance and Public Accountability Practices in the Three Statutory Trusts*.

The *Auditor General Act* authorizes my Office to audit the government reporting entity (GRE). However, the Act also allows for audits outside of the GRE when public funds are involved. This report represents the first time my Office followed public funds that were provided to organizations outside of government control.

The three statutory trusts we audited received government funding under a new model, which leveraged local government and provincial representatives to make decisions in local areas. Overall, we found good practices in place, as well as room for improvement – and some potential topics for additional work by my Office.

Other arms-length organizations may benefit from the recommendations in this report, which I will follow-up on through my Office's usual process.

John Doyle, MAcc, CA
Auditor General

Victoria, British Columbia
April 2012

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AUDITOR GENERAL'S COMMENTS



JOHN DOYLE, MAcc, CA
Auditor General

THE AUDITOR GENERAL ACT authorizes my Office to audit the government reporting entity (GRE). The GRE includes ministries, Crown corporations and other public sector organizations such as universities, colleges, school districts, health authorities and similar organizations that are controlled by, or accountable to, the provincial government. These audits and examinations represent the majority of my Office's work.

However, the Act also allows for audits outside of the GRE when public funds are involved. This report represents the first time my Office followed public funds that were provided to organizations outside of government control. It brings together three audits of not-for-profit corporations that are independent of government: the Northern Development Initiative Trust, the Southern Interior Development Initiative Trust and the North Island-Coast Development Initiative Trust.

Under a new funding model, these three statutory trusts received a total of \$285 million in start-up funding from the Province (in part from the sale of BC Rail) between 2004 and 2006. The funds were to be used to support economic development in their respective rural areas. This new model leveraged local government and provincial representatives to make investment decisions in local areas.

Our audits found that all three statutory trusts are substantially meeting the key requirements of their legislation. Additionally, we found that the strategic plans and annual reports produced by all three statutory trusts reflect some good practices for public accountability reporting, although there is always room for improvement. I commend the boards for their openness to further improving their public accountability over the coming years.

We also heard concerns from the trusts' boards with respect to the timeliness of board member appointments by the Board Resourcing and Development Office. These concerns parallel our findings in a recent governance audit, to be released this spring: my Office will consider conducting additional work regarding board appointments.

Other arms-length organizations may also benefit from the recommendations made in this report. I will consider undertaking additional work in this area to further encourage good governance and public accountability.

My thanks to the boards of each trust for their cooperation and receptiveness to these audits. In the formal responses from the three statutory trusts, they accept the report's recommendations and note that some of the recommendations are already being implemented. I look forward to seeing their progress when I follow up with all three trusts in one year and report publicly on the status of the recommendations.



John Doyle, MAcc, CA
April 2012

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EXECUTIVE SUMMARY

THE PUBLICLY FUNDED Northern, Southern Interior and North Island-Coast Development Initiative Trusts were enacted in 2004 and 2006 to support economic development and job creation in the respective regional communities.

These three statutory trusts are not-for-profit corporations that are not part of the government reporting entity. However, as the three statutory trusts were funded through grants from the government of British Columbia, all three audits were carried out under section 11(6) of the *Auditor General Act*, which empowers the Auditor General to audit an individual or organization concerning a grant received from the government, to ensure that any of the grant's terms and conditions have been fulfilled.

We carried out this audit to determine whether the three statutory trusts are complying with the requirements of their respective Acts, and meeting public accountability reporting standards.

We developed our audit criteria based on the statutory trusts' governing legislation that they are required to follow and on recognized good practices that exist, yet were not legislated requirements. Our examination focused on determining whether the statutory trusts:

- ◆ comply with all sections of their respective legislation, and
- ◆ demonstrate sound public accountability reporting practices, namely:
 - incorporate the BC Reporting Principles into their annual reports;
 - use stakeholder consultation; and
 - audit their non-financial performance information.

We concluded that all three statutory trusts are substantially meeting the key requirements of their legislation. We also concluded that the strategic plans and annual reports produced by all three statutory trusts reflect some good practices for public accountability reporting, although several improvements could be made.

WE RECOMMEND THAT ALL THREE STATUTORY TRUSTS:

- 1** Include discussion in their public accountability reports about how they are complying with legislated requirements.
- 2** Incorporate the BC Reporting Principles into their annual reports.
- 3** Develop and report annual goals, as well as key performance indicators that can be used to monitor progress in achieving those goals.

NORTHERN DEVELOPMENT INITIATIVE TRUST

Northern Development appreciates the efforts of the Office of the Auditor General of British Columbia in their audit of Northern Development in accordance with section 11 (6) of the Auditor General Act and thanks your staff for their diligent work.

The Northern Development Initiative Trust is an independent regional economic development corporation focused on stimulating economic diversification and job creation in central and northern British Columbia. As such, Northern Development recognizes feedback from all stakeholders as important to the future of the Trust. This audit report, while not binding on Northern Development's activities, provides useful insight that will aid in Northern Development's public reporting.

Northern Development will endeavor to implement the three main recommendations contained in the report. At the same time, Northern Development recognizes that it is not bound to follow these suggestions. Stakeholder responses to Northern Development's implementation of these recommendations will ultimately determine their long-term impact, whether or not Northern Development will continue to follow them, and to what degree they are implemented. Northern Development does consider the BC Reporting Principles to be a helpful guide to public reporting, and is appreciative of the feedback that the Office of the Auditor General provided.

Northern Development's responses to the three recommendations contained in the Office of the Auditor General's report are:

1. Northern Development will include discussion in its annual report about how it is complying with legislation. This involves some references to the legislation in the body of the report, and a more detailed analysis of investment by legislated area.
2. Northern Development will incorporate relevant elements of the BC Reporting Principles into its 2011 Annual Report, and test stakeholder responses to the format revisions to aid in development of the 2012 Annual Report.
3. Northern Development has goals developed by stakeholders prominently featured in its annual report. These goals can be reported with a year over year comparison, actual to target comparison, and with some discussion of key performance indicators.

Northern Development appreciates the report's inclusion of 'good practices now followed.' In addition, we would like to point out some additional areas of excellence in practice that were not highlighted in the review. Northern Development's highly effective funding delivery has seen the disbursement of \$88 million toward 929 approved projects valued at \$103.8 million, and leveraging over \$1 billion over a period of six years since operations commenced. Northern Development has done this while maintaining a balance of investments and community loans of \$192 million, which is more than the original \$185 million deposit from the Province of British Columbia, and with annual operating costs of roughly .82% of this capital balance. There are comprehensive project management, internal audit and financial business systems in place. Our stakeholder survey results have verified a 99% overall approval rating for our programs, client service and business practices. Northern Development has also participated in several audits and reviews over the past eighteen months, generating very positive results, and always welcomes feedback from all stakeholders.

Since the Auditor General audit was conducted, Northern Development has proceeded with implementation of the three main recommendations. This includes the addition of a year over year comparison and comparison of target and actual to more of the statistical analysis contained in Northern Development's annual report. Northern Development has also developed a comprehensive work plan document as part of its strategic plan that includes a three year forecast on measurable performance numbers, aiding in the reporting of key performance indicators.

In conclusion, Northern Development believes that the Auditor General's report provides another perspective that will help shape our future public reports.

Evan Saugstad
Chair

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

The Southern Interior Development Initiative Trust (SIDIT) appreciates the efforts of the Office of the Auditor General of British Columbia (OAG) in their audit of SIDIT's compliance with the requirements of its Act and its integration of public accountability reporting standards.

The mission of the Southern Interior Development Initiative Trust is to support regionally strategic investments in economic development projects that will have long-lasting and measurable regional benefits for the Southern Interior.

The Southern Interior Development Initiative Trust's goal is to maintain the Trust so that it is sustainable, providing continual support for economic initiatives for the southern interior and increasing the value of the Trust over time through return on investments. Based on projected returns from market investments and return of principal, interest and investment gains on project funding, it is anticipated a continuous income stream will be created and an endowment will be established.

The findings of the report have highlighted challenges that SIDIT has encountered relating to appointment of Directors and regional advisory committee membership and engagement. We expect to resolve most, if not all, of these issues in the near term.

The SIDIT Board of Directors held its strategic planning sessions in October of 2011 and substantially revised its goals and objectives to create specific annual and cumulative targets for the next three years and beyond. The Board's strategic goals are: creation and preservation of jobs; leverage; investment in support of community economic initiatives; regional economic diversification; investment in support of trades, technology, academic, innovation and entrepreneurship programs; and trust sustainability. Each strategic sector identified in the SIDIT Act is represented in SIDIT's funding; however, the Board has not created specific funding allocations in each sector and intends to continue supporting applications which show the promise of greatest economic success.

While non-financial performance indicators are not independently verified, we believe that by periodically using independent external reviewers to monitor the trust's impacts and programming we will be able to provide accurate reporting on the effectiveness of the trust without incurring significant annual costs in the process.

In conclusion, we believe that the recommendations presented by the OAG provide useful guidance on how to improve our public accountability reporting practices and create clarity for stakeholders. We are pleased to advise that, at a Board meeting held March 7, 2012, SIDIT Directors approved the adoption of all three recommendations of the OAG.

Mayor Ron Hovanes, SIDIT Chair
Luby Pow, CEO

ISLAND COASTAL ECONOMIC TRUST

On behalf of the Board of Directors of the Island Coastal Economic Trust, I am pleased to submit our comments in response to Report 1: April 2012, *Development Initiative Trusts: An audit of Legislative Compliance and Public Accountability Practices in the Three Statutory Trusts*, prepared by your office.

The Board of Directors of the Island Coastal Economic Trust (ICET) welcomes the recent initiative by the Auditor General's Office to undertake a legislative compliance and public accountability practice audit of the three Statutory Trusts. We are pleased to report that we accept the findings and recommendations of the Auditor General's office. We also wish to acknowledge the dedication, insight and collegiality of the Auditor General's staff members who worked assiduously and positively with ICET staff and directors throughout the audit review process.

ICET's role in the Vancouver Island and Sunshine Coast region since 2006 has been well established as a catalyst and agent of economic growth in the region. It is an excellent example of how locally based decision-making and governance has created an effective regional vehicle for reviewing and approving financial support to local and regionally relevant economic development.

The regular involvement of our stakeholders, at inception and on an ongoing basis, has created a regionally sensitive process and structure. This full participation of local and regional government, as well as other stakeholders, has resulted in economic infrastructure which is tailored to our communities' needs and provides effective support to key economic sectors of the provincial economy.

We are pleased that the Auditor's findings in Objective 1 illustrate that ICET is fully compliant, with its enabling legislation. Our organization takes its legislated obligations seriously and has done everything in its power to observe those requirements. We are also pleased with the finding that our current reporting meets good practice standards for public accountability.

We accept your office's recommendation to adopt the BC Reporting Principles as guidance for preparing future annual reports. While this was never a requirement of our legislation, our Board acknowledges the importance of transparency and is receptive to implementing suggestions to improve communications with its stakeholders and the general public. Your office has assessed our past reporting in relation to this new criteria and has given us very detailed suggestions to apply in our future reports. We will be implementing as many of these

recommendations as possible in the 2011-2012 Annual Report and expect to have them fully implemented by the following year. We will also ensure that these reports include discussion about compliance with legislation, as per the Auditor General's recommendation.

We also accept the recommendation to develop key performance indicators to monitor the progress of our annual goals, which we already develop and publish. In fact, the 2012-2014 Strategic Plan, to be published shortly, will include key performance indicators.

ICET takes note of the Auditor General's suggestion to have its non-financial performance information verified. Our organization will diligently investigate the costs and benefits of implementing such a process, in the context of our financial priorities and organization values. We would like to add that independent third party assessment of various aspects of ICET operations have been practiced since inception.

Finally, we would like to note that this audit, limited to legislative compliance and public accountability reporting, does not consider some of the essential elements of public responsibility and accountability practiced by ICET. Our organization is very proud of its strong due diligence review process and strict financial management of public funds. We are also very proud of the economic impacts we have achieved on the ground, by investing in legacy infrastructure which will continue to leverage public and private investment and benefits for years to come. Through this process our mandate area has developed a regional vision and mechanism to facilitate the transfer of knowledge and economic development best practices that would not have been possible without this visionary governance model and investment vehicle.

Phil Kent, Chair
Board of Directors

BACKGROUND

IN OCTOBER 2004, British Columbia introduced legislation to establish the Northern Development Initiative Trust as a means of supporting economic development and job creation in the province's northern communities. Then, in April 2005, the government announced its intention to create two more statutory trusts of a similar nature: the Southern Interior Development Initiative Trust and the North Island-Coast Development Initiative Trust.

The Northern Development Initiative Trust was established in 2005 with funding of \$135 million from the sale of BC Rail in 2004, and an additional \$50 million received in 2005.

The other two statutory trusts were established in 2006 with government funding of \$50 million each.

Although the statutory trusts were established through grants by government, they are independent entities, outside the government reporting entity. This means they do not report to, nor are they controlled by, government. However, government can at any time amend the provincial legislation that created the statutory trusts. In addition, local Members of the Legislative Assembly participate in the governance of each of the three statutory trusts.

The Government reporting entity (GRE) is composed of ministries, Crown corporations, advisory boards, tribunals and organizations such as schools, universities, colleges and health authorities.

Note about terms used in this report:

While North Island-Coast Development Initiative Trust is the entity's legal name, it has branded itself as the Island Coastal Economic Trust. The latter is the term we use in this report.

Because the three trusts were created through legislation and established not as actual trusts but as incorporated not-for-profit organizations, we refer to them in this report as statutory trusts.

The purpose of the three statutory trusts

The three statutory trusts were set up to give regional communities the "funding, control and ability to identify and pursue new opportunities for stimulating sustainable economic growth and job creation in their regions."

The statutory trusts decide how best to allocate their funds through local decision making. According to those we interviewed at all three statutory trusts, decision making at the local level is a significant benefit of the statutory trust governance models. The statutory trusts have contributed to improved regional relations among the individual regional advisory committee members, who are also elected representatives of their communities. For instance, when committee members assess a proposed project, they consider the implications for their region as a whole and commonly consult with colleagues from other communities within their region. Interviewees at the statutory trusts all told us that they see themselves as being a catalyst for projects that might otherwise not have materialized, or that would have been only partially funded.

How the statutory trusts are governed

The three Acts governing the statutory trusts are the:

- ◆ [*Northern Development Initiative Trust Act*](#)
- ◆ [*Southern Interior Development Initiative Trust Act*](#)
- ◆ [*North Island-Coast Development Initiative Trust Act*](#)

DETAILED REPORT

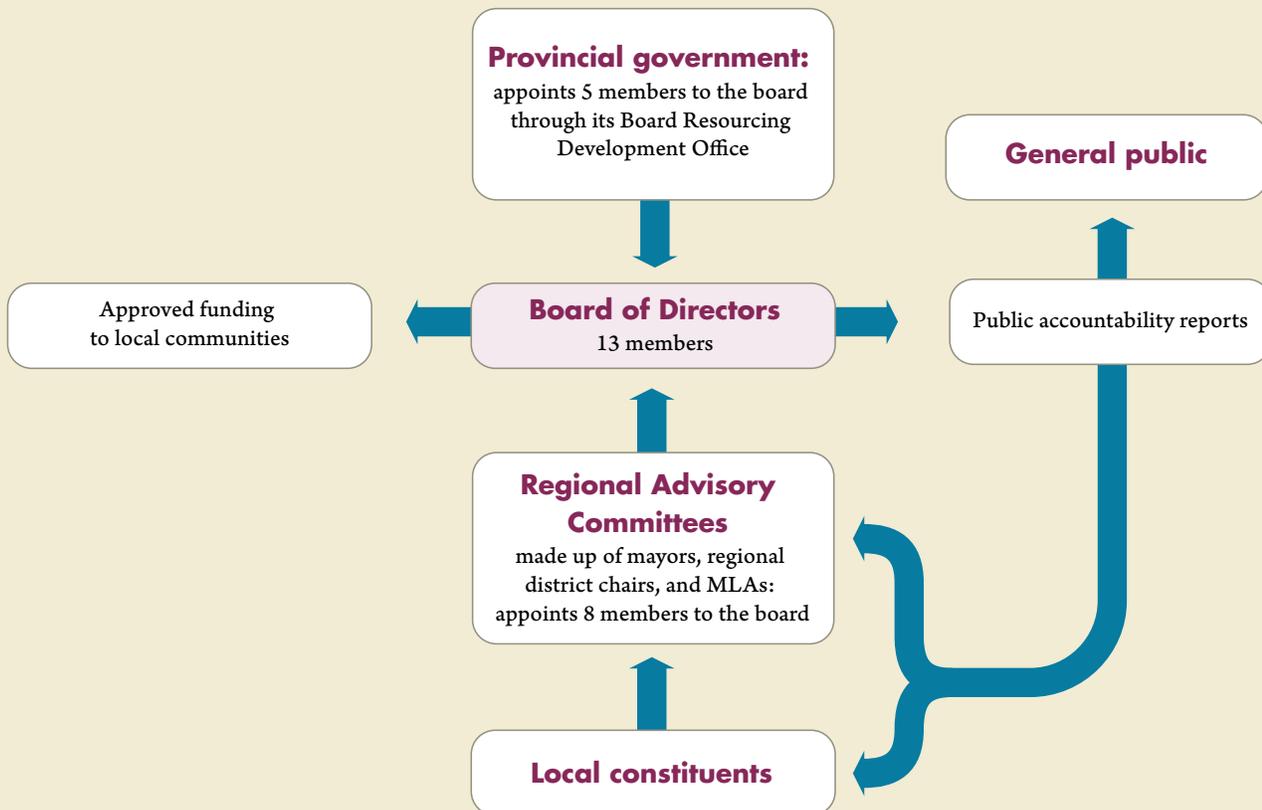
The governance structure of each of the statutory trusts is shown in Exhibit 1.

Each statutory trust is governed by a board of directors, which in turn is advised by its regional advisory committees made up of elected local government officials and Members of the Legislative Assembly from the region. The regional advisory committees are established and defined in each statutory trust's legislation.

Each board has 13 members: five appointed by the province's Lieutenant-Governor-in-Council as recommended by the Board Resourcing Development Office; and eight selected from and appointed by the regional advisory committees.

Every five years, each statutory trust must appoint an independent committee to review the statutory trust's Act and evaluate how the statutory trust is functioning. The results of the statutory trusts' first five-year reviews are summarized in Appendix A.

Exhibit 1: Governance structure of each of the three statutory trusts



Source: Office of the Auditor General of British Columbia.

Funding models used by the statutory trusts

As mandated by their legislation, the three statutory trusts can invest in such areas as transportation, tourism, mining, small business, economic development, energy, agriculture, forestry, Olympic opportunities and pine beetle recovery (the Island Coastal Economic Trust is not mandated to invest in pine beetle recovery). They invest in these sectors primarily by making grants and loans to third parties.

While all of the statutory trusts were created under similar enabling legislation, we found that they have each adopted different strategies to maximize economic development opportunities and best meet the needs of their respective regions. Exhibit 2 shows how their funding approaches compare.

The main difference between the statutory trusts' funding models is that the Island Coastal Economic Trust has chosen to draw down its funds (using both its principal and interest from investing) and has made a number of large project contributions. In contrast, the Northern and the Southern Interior statutory trusts have chosen to leave the principal portion of their funds intact, making project contributions while looking to sustain themselves through the long term.

We did not assess the merits of the different funding approaches in this audit.

Exhibit 2: Comparison of funding strategies taken by the three statutory trusts

Statutory Trust	Initial funding	Fund balances	Amount disbursed	
			Grants/Education Awards ²	Loans ²
Northern Development Initiative Trust	\$185 million	\$190 million	\$61.2 million	\$25.2 million
Island Coastal Economic Trust	\$50 million	\$33 million ¹	\$30.8 million	n/a
Southern Interior Development Initiative Trust	\$50 million	\$49 million	\$6.6 million (\$4M to Education Awards \$2.6M to grants)	\$21.3 million

Note: Figures have not been audited by the Office of the Auditor General.

Source: For fund balances: Northern Development Initiative Trust 2010 annual report, and Southern Interior Development Initiative Trust and Island Coastal Economic Trust 2011 annual reports. For grants and loans: the statutory trusts.

1 As of December 31, 2011 ICET had \$3.4 million unallocated. Unallocated funds are those that are not yet allocated to an investment or project and which are therefore available for the statutory trust to disperse.

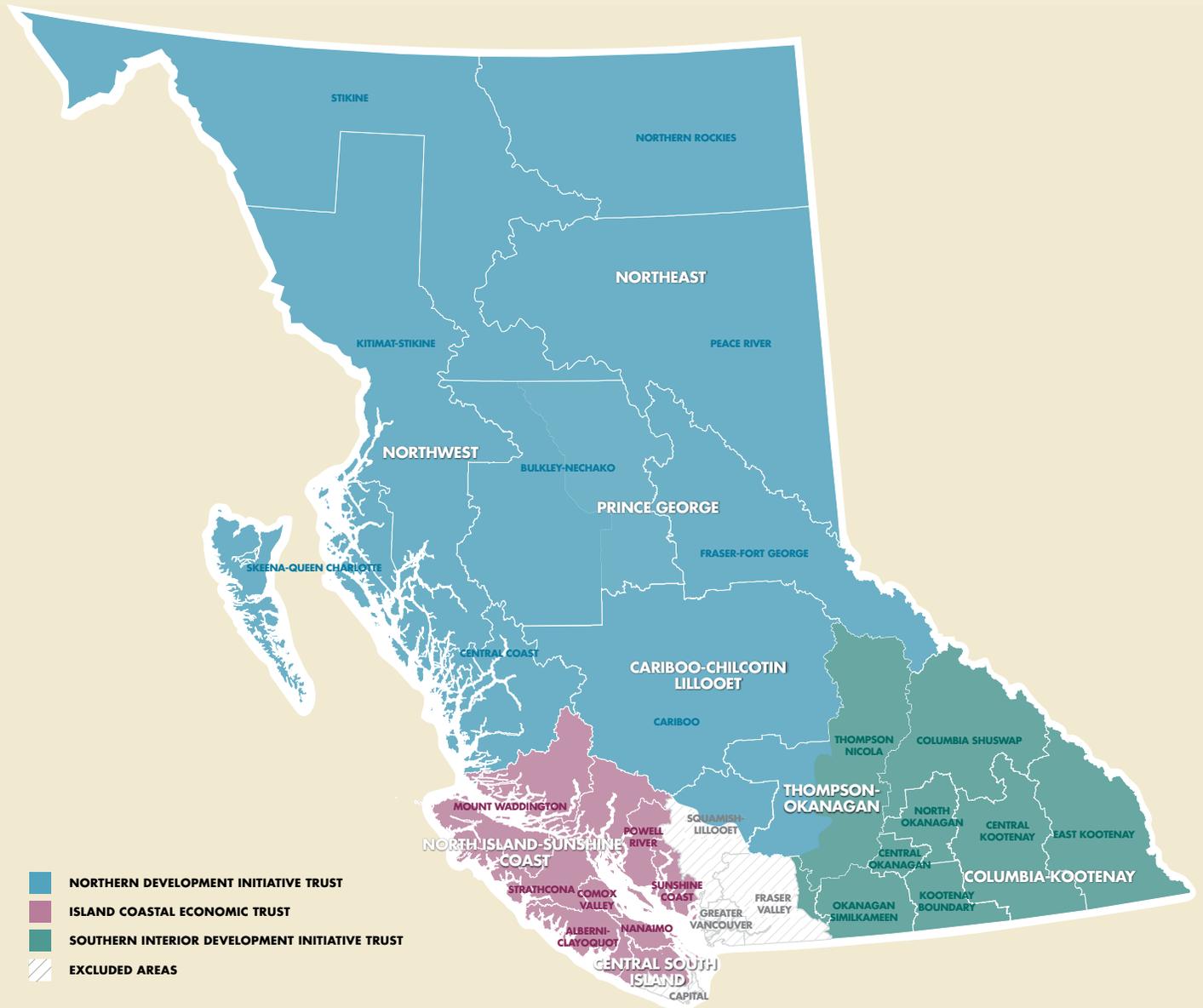
2 As of December 31, 2011.

DETAILED REPORT

Overview profile of the three statutory trusts

Each of the statutory trusts covers a substantial geographical area (see Exhibit 3).

Exhibit 3: Regional boundaries of the three statutory trusts



Source: Office of the Auditor General of British Columbia.

Northern Development Initiative Trust

The Northern Development Initiative Trust (NDIT) supports economic development in the central and northern regions of British Columbia. It is the largest of the three statutory trusts in terms of established funding, disbursements and geographic region.

The NDIT contributes to its region's economies through grants and loans. In addition to its contributions to infrastructure projects, the statutory trust funds a variety of development initiatives such as grant writing, feasibility studies and workforce training.

Examples of projects funded by the Northern Development Initiative Trust

- ◆ \$1,200,000 (\$1,079,868 grant and \$120,132 loan) to the Town of Smithers for Smithers Regional Airport runway expansion
- ◆ \$39,000 grant to the Tumbler Ridge Museum Foundation for the expansion of the Peace Region Palaeontology Research Centre
- ◆ \$10,000 grant to the Misty Isles Economic Development Society for the creation of a destination marketing website

Source: Northern Development Initiative Trust. (Note: Grant figures have not been audited by the Office of the Auditor General.)

For more information about the NDIT, go to www.northerndevelopment.bc.ca

Southern Interior Development Initiative Trust

The Southern Interior Development Initiative Trust (SIDIT) supports economic development in the southern Interior of British Columbia, a region that includes the Columbia-Kootenay and Thompson-Okanagan areas.

The SIDIT contributes to its region's economies through grants, loans and, to a lesser extent, partial ownership. The majority of SIDIT's grants are education awards. In addition, the statutory trust partners with funders such as the Business Development Bank of Canada and Enterprising Non-Profits to support regional economic initiatives.

Examples of projects funded by the Southern Interior Development Initiative Trust

- ◆ \$100,000 grant to the Kimberly Conference and Athlete Training Centre, to create a year round economic opportunity
- ◆ \$50,000 grant to the South Kootenay Business Centre, an organization that supports high-tech businesses in the start-up phase
- ◆ \$50,000 grant to the Harrop-Procter Community Co-operative, which manages the Harrop-Procter Community Forest. The grant contributed to the development of a wood products manufacturing operation

Source: Southern Interior Development Initiative Trust 2011 Annual Report. (Note: Grant figures have not been audited by the Office of the Auditor General.)

For more information about the SIDIT, go to www.sidit-bc.ca/.

Island Coastal Economic Trust

The Island Coastal Economic Trust (ICET) – whose legal title is the North Island-Coast Development Initiative Trust – supports economic development in the Vancouver Island and southern coastal areas, excluding the Greater Victoria and Lower Mainland areas.

Unlike the other two statutory trusts, the ICET used its principal funds to make contributions to regional projects. Also unlike the other two statutory trusts, the ICET contributes to its region's economies by providing grants only; it has not issued any loans.

The statutory trust has partnered with a number of organizations to support infrastructure projects throughout its regions.

Examples of projects funded by the Island Coastal Economic Trust

- ◆ \$5 million grant to the Nanaimo Airport expansion, with the purpose of improving and expanding air services. This grant was the ICET's largest project contribution
- ◆ \$1.7 million grant to the Cowichan Valley Trail Initiative, a project to restore the Kinsol Trestle and improve trail sections as part of a broader tourism strategy
- ◆ \$118,500 grant to the Denman Island Community Dock Project, a project that provided public docking facilities to the Island

Source: Island Coastal Economic Trust 2011 Annual Report. (Note: Grant figures have not been audited by the Office of the Auditor General.)

For more information about the ICET, go to www.islandcoastaltrust.ca.

AUDIT OBJECTIVES AND SCOPE

We carried out this audit to determine whether the statutory trusts are in compliance with the requirements of their respective Acts, and meeting public accountability reporting good practice standards.

We examined whether the statutory trusts:

- ♦ comply with all sections of their respective legislation, and
- ♦ demonstrate sound public accountability reporting practices, namely:
 - incorporate the BC Reporting Principles into their annual reports;
 - use stakeholder consultation; and
 - audit their non-financial performance information.

We developed our audit criteria based on the statutory trusts' governing legislation and on published information about recognized good practice in public sector governance. Because the statutory trusts are not required to follow, nor were made aware of, the BC Reporting Principles (BCRP), stakeholder consultation guidance or the BCRP practice of providing assurance on non-financial performance information, we confirmed with the statutory trusts their acknowledgement of the suitability of our criteria before we began the audit.

We conducted the Northern Development Initiative Trust audit during August and September 2011, and the audits of the Southern Interior Development Initiative Trust and Island Coastal Economic Trust concurrently during November and December 2011. We focused our audits on the statutory trusts' most recent annual reports and strategic plans from 2010/11.

All three audits were carried out under section 11(6) of the *Auditor General Act*, which empowers the Auditor General to audit an individual or organization concerning a grant received from the government, to ensure that any of the grant's terms and conditions have been fulfilled. We report under section 11(8) of the *Auditor General Act*. For more information about this authority, see Appendix B.

We conducted the audit in accordance with assurance standards established by the Canadian Institute of Chartered Accountants.

AUDIT CONCLUSION

We concluded that all three statutory trusts are substantially meeting the key requirements of their legislation. We also concluded that the strategic plans and annual reports produced by all three statutory trusts reflect some good practices for public accountability reporting, although several improvements could be made.

KEY FINDINGS AND RECOMMENDATIONS

Compliance with legislation

We assessed each statutory trust's compliance with all aspects of its enabling legislation to determine whether the statutory trust was established and operating as government intended. We summarize our findings about how well each statutory trust is complying with its legislation in Exhibit 4.

We found that all three statutory trusts are substantially in compliance with the key aspects of their legislative requirements. That is, they have all:

- ♦ established their legislated governance structures,
- ♦ created and managed their accounts within their legislated purposes, and
- ♦ produced the required strategic plans and annual reports.

RECOMMENDATION 1: *We recommend that all three statutory trusts include discussion in their public accountability reports about how they are complying with legislated requirements.*

DETAILED REPORT

Exhibit 4: Legislative compliance performance by each statutory trust relative to our audit criteria

Objective 1: To determine if the statutory trusts are in compliance with their enabling legislation.			
Criteria	Northern Development Initiative Trust	Southern Interior Development Initiative Trust	Island Coastal Economic Trust
1.1: Strategic Plan Section:			
<ul style="list-style-type: none"> ◆ Goals for all 3 years ◆ Goals linked to strategic sectors ◆ Timely publication 	<ul style="list-style-type: none"> ◆ Published and distributed its 2011 Strategic Plan. ◆ Established performance measures. ◆ Did not specify goals for each of the 3 years of the plan. ◆ Goals do not directly link to the strategic sectors. ◆ Strategic plan was issued after the fiscal year-end. 	<ul style="list-style-type: none"> ◆ Published and distributed its 2012 Strategic Plan. ◆ Did not specify goals for each of the 3 years of the plan. ◆ Goals do not directly link to the strategic sectors. 	Compliant
1.2: Annual Report Section:			
<ul style="list-style-type: none"> ◆ Report on goals and link to strategic sectors ◆ Timely publication 	Compliant	<ul style="list-style-type: none"> ◆ Reports generally on its activities in relation to each of its goals. However, insufficient detail was provided to indicate how those achievements link to the strategic sectors. ◆ Did not compare actual results with expected results. 	Compliant
1.3: Other Sections			
<ul style="list-style-type: none"> ◆ Review of trust Act ◆ Reappointment of board members ◆ Board vacancies ◆ Timely appointment of auditor 	<ul style="list-style-type: none"> ◆ Largely compliant with the remaining sections of its Act. ◆ Did not fully review its Act until October 2011. ◆ Has not formally reappointed the directors appointed by the regional advisory committees. ◆ Board has two vacancies that it is actively working to fill. ◆ Experienced delays to the timely replacement of board members through the Board Resourcing Development Office's process. 	<ul style="list-style-type: none"> ◆ Largely compliant with the remaining sections of its Act. ◆ One of the two regional advisory committees does not entirely meet all of the statutory trust's bylaw membership requirements. ◆ Has not formally reappointed some directors appointed by the regional advisory committees. ◆ Board has two vacancies that it is actively working to fill. ◆ Experienced delays to the timely replacement of board members through the Board Resourcing Development Office's process. ◆ Did not appoint its financial auditor for fiscal 2011 before the end of fiscal 2010.¹ 	Compliant

¹ The statutory trusts recognize that the financial auditor appointment requirements set out in their Acts are restrictive and should be amended through the five-year legislative review process.

Public accountability

In addition to the responsibility to comply with all aspects of their legislation, the three statutory trusts were funded through public funds and are therefore accountable not only to their regional stakeholders but to all British Columbians.

Public accountability is achieved through the timely communication of comprehensive and appropriate information relevant to each statutory trust's planned and actual activities.

To be publically accountable, each statutory trust issues annual three-year strategic plans and annual reports that address goal-setting and progress made through the year. We summarize our findings about each statutory trust's public accountability in Exhibit 5.

Exhibit 5: Public accountability performance by each statutory trust relative to our audit criteria

Objective 2: To determine if the statutory trusts' current reporting meets good practice standards for public accountability			
Criteria	Northern Development Initiative Trust	Southern Interior Development Initiative Trust	Island Coastal Economic Trust
2.1: BC Reporting Principles	The statutory trusts have not been using the BC Reporting Principles as guidance for preparing their annual reports. As a result, their public accountability reports do not fully incorporate the principles.		
2.2: Stakeholder Involvement	<ul style="list-style-type: none"> Established processes and extensive knowledge of its stakeholders that helps the statutory trust set goals that are significant to its stakeholders. Stakeholders said that the goals and key performance indicators could be updated based on performance to date and that improvements could be made in informing the public. 	<ul style="list-style-type: none"> Performed a collaborative strategic planning process with its identified key stakeholders and maintains ongoing communication with them through various mediums. Stakeholders said that the amount of information presented around the goals does not fully inform a member of the public of the statutory trust's strategies to achieve its goals. 	<ul style="list-style-type: none"> Established long-term goals in consultation with wide group of external and internal stakeholders including the board and the regional advisory committee chairs. Short-term goals established annually with the Board and regional advisory committee chairs. Stakeholders said that further improvements can be made in consulting and informing the public (i.e. residents).
2.3: Audited Annual Report	<ul style="list-style-type: none"> Does not have its non-financial performance information independently verified. Uses internal processes and audits to monitor performance reporting on program statistics. 	<ul style="list-style-type: none"> Does not have its non-financial performance information independently verified. Uses independent external reviewers to monitor its economic impacts and programming effectiveness, and publicly reports this information. 	<ul style="list-style-type: none"> Does not have its non-financial performance information independently verified. Uses both internal and independent external reviewers to prepare and review its statistical reports and economic analysis. Has participated in third-party reviews.

BC Reporting Principles

In November 2003, [*Performance Reporting Principles for the British Columbia Public Sector*](#) was published jointly by the Province of British Columbia and the Office of the Auditor General. Known as the “BC Reporting Principles,” the document was endorsed by the Legislative Assembly’s Select Standing Committee on Public Accounts as guidance for the preparation and assessment of service plans and annual service plan reports.

Legislators also encouraged ministries and Crown agencies to work towards the goal of incorporating the principles into contracts with service delivery agencies. While the statutory trusts were never required to incorporate the BC Reporting Principles into their public accountability reporting, the guidance is available for all organizations to improve their public reports. Because the statutory trusts were created by legislators and funded through public dollars, it is important that the statutory trusts’ public reporting meets all stakeholders’ needs.

An organization that incorporates the BC Reporting Principles into its public accountability reporting will:

- ♦ achieve transparency and accountability;
- ♦ have clear targets;
- ♦ communicate what it has achieved; and
- ♦ be in a position to learn from its performance.

We found that none of the three statutory trusts were required to use, nor have been using, the BC Reporting Principles as guidance for preparing their annual reports. As a result, while the statutory trusts’ are transparent and accountable, their public accountability reports do not fully incorporate the principles.

In Exhibit 6, we summarize our findings of the statutory trusts’ strengths in meeting the principles and of areas where the statutory trusts could improve. In our view, the statutory trusts would, by adopting the BC Reporting Principles, enhance the quality, completeness and comparability of their public reports.

BC Reporting Principles

1. Explain the public purpose served
2. Link goals and results
3. Focus on the few, critical aspects of performance
4. Relate results to risk and capacity
5. Link resources, strategies and results
6. Provide comparative information
7. Present credible information, fairly interpreted
8. Disclose the basis for key reporting judgments

RECOMMENDATION 2: *We recommend that all three statutory trusts incorporate the BC Reporting Principles into their annual reports.*

DETAILED REPORT

Exhibit 6: Good practices and areas for improvement in all three statutory trusts' use of the BC Reporting Principles in their annual reports

BC Reporting Principle	Good practices now followed in the statutory trusts' annual reports	Ways the statutory trusts can improve in their annual reports
1. Explain the public purpose served		
<p>Public performance reporting should explain why an organization exists and how it conducts its business, both in terms of its operations and in the fundamental values that guide it.</p>	<ul style="list-style-type: none"> ◆ Include vision, mission and priorities to show what they are working towards. ◆ Refer to enabling legislation. ◆ Identify investment areas. ◆ Provide overview of programs and other core business areas. ◆ Identify primary stakeholders and communities. ◆ Identify governance model, including the board of directors and their appointment process. 	<ul style="list-style-type: none"> ◆ Explain public purpose served – that is, describe the effect of funded projects on goals. ◆ Disclose values, guiding principles and behaviour standards that guide conduct.
2. Link goals and results		
<p>Public performance reporting should identify and explain the organization's goals, objectives and strategies and how they relate to the results achieved.</p>	<ul style="list-style-type: none"> ◆ State intentions and actual achievement. ◆ Present direct goals associated with visions, missions, priorities and mandates. ◆ Include objectives suited to external audience. ◆ Include product or service quality (immediate outcome), efficiency (output linked to resources), timeliness (output linked to time) and immediate outcomes (output quality). 	<ul style="list-style-type: none"> ◆ Describe how short-term performance impacts long-term goals and objectives. ◆ Explain relevance of individual measures and meaning of results achieved. ◆ Clarify updated goals in relation to reported results and explain adjustments. ◆ Explain how goals and key performance indicators will be achieved.
3. Focus on the few, critical aspects of performance		
<p>"Few" means that the goals, objectives and performance measures described are limited in number. Critical aspects of performance address significance, relevance and results focus.</p>	<ul style="list-style-type: none"> ◆ Focus on goals, objectives and performance measures relevant to external audience. ◆ Explain why results are relevant to stakeholders. ◆ Include clear key financial and non-financial results. 	<ul style="list-style-type: none"> ◆ Include results of a test of goals and of objectives' relevance with stakeholders. ◆ Include environmental scan that establishes context and challenges. ◆ Explain how environment impacts achievement of goals and objectives. ◆ Provide more detail when helpful to readers' understanding.

DETAILED REPORT

Exhibit 6: Good practices and areas for improvement in all three statutory trusts' use of the BC Reporting Principles in their annual reports

BC Reporting Principle	Good practices now followed in the statutory trusts' annual reports	Ways the statutory trusts can improve in their annual reports
4. Relate results to risk and capacity		
<p>Good performance reporting should report results in the context of an organization's risks and its capacity to deliver on its programs, products and services.</p>	<ul style="list-style-type: none"> ◆ Note where capacity strengthened. ◆ Inform readers of available resources (funding and staff). 	<ul style="list-style-type: none"> ◆ Identify types of risks faced, management strategy and overall tolerance. ◆ Explain how risks influence the goals, objectives and program/service delivery strategies chosen. ◆ Discuss internal capacity (where capacity is needed for long-term success). ◆ Discuss whether necessary funds, infrastructure and people are in place to meet objectives.
5. Link resources, strategies and results		
<p>Public performance reporting should link financial and performance information to show how resources and strategies influence results. Also shown is how efficiently the organization achieves its results.</p>	<ul style="list-style-type: none"> ◆ Identify initial funding sources and their revenue-generating activities. ◆ Include key financial trend information. ◆ Explain financial performance. ◆ Describe strategic choices in the context of available funding. ◆ Include measures of efficiency. ◆ Explain funding changes that affected achievement of performance targets. ◆ Include current and previous funding. 	<ul style="list-style-type: none"> ◆ Provide more information on funding partners (levels of government, other sources). ◆ Discuss the costs of each performance measure. ◆ Include forecasted expenditures. ◆ Include management discussion and analysis section.
6. Provide comparative information		
<p>Public performance reporting should provide comparative information about past and expected future performance and about the performance of similar organizations when that would significantly enhance a reader's ability to use the information.</p>	<ul style="list-style-type: none"> ◆ Include performance results vs. goals and objectives for five years of operations (and sometimes provide results for each of the five years). 	<ul style="list-style-type: none"> ◆ Ensure consistency (format, structure) of strategic plan and report. ◆ Include annual performance targets, not just long-term targets. ◆ Indicate the year-over-year performance and describe current performance. ◆ Explain any significant year-over-year data inconsistencies. ◆ Include strategic context section (with environmental scan).

DETAILED REPORT

Exhibit 6: Good practices and areas for improvement in all three statutory trusts' use of the BC Reporting Principles in their annual reports

BC Reporting Principle	Good practices now followed in the statutory trusts' annual reports	Ways the statutory trusts can improve in their annual reports
7. Present credible information, fairly interpreted		
Public performance reporting should be credible – that is, based on quantitative and qualitative information that is fairly interpreted and presented.	<ul style="list-style-type: none"> ◆ Provide efficiency and effectiveness measures for key performance areas. ◆ Contain balanced key performance indicators of interest to external audiences. ◆ Include useful, understandable charts and exhibits. 	<ul style="list-style-type: none"> ◆ Discuss how performance measures are used to manage performance. ◆ Identify where performance measures have changed and why. ◆ Identify how performance information is measured and determined. ◆ Discuss planned response to performance results. ◆ Identify where strategies need to be revised. ◆ Interpret results (e.g. provide comparisons between planned and actual results; trend analyses; comparisons with other organizations or industries).
8. Disclose the basis for key reporting judgments		
Public performance reporting should disclose the basis on which information has been prepared and the limitations that should apply to its use.	<ul style="list-style-type: none"> ◆ Explain why performance measures have been chosen. 	<ul style="list-style-type: none"> ◆ Disclose changes to goals, objectives or performance measures. ◆ Describe why reported data is relevant and reliable. ◆ Explain significance of achieving performance level targets. ◆ Explain how measures are derived. ◆ If applicable, identify data acquired from third parties. ◆ Have non-financial performance information independently verified.

Stakeholder consultation and development of annual goals

Each statutory trust's legislation requires the statutory trust to develop annually a three-year strategic plan, with specific goals set for every year in the plan. To meet public accountability reporting good practices, each statutory trust's goals and related measures of performance – known as key performance indicators (KPIs) – should be relevant to stakeholders.

In December 2010, our Office published the [Guide for Developing Relevant Key Performance Indicators for Public Sector Reporting](#). This guide shows public sector organizations how to develop relevant public accountability measures, such as KPIs, and also describes good practices around stakeholder consultation (see sidebar). For the purposes of this audit, we added to the original five guidelines the practice of involving stakeholders in the goal-setting process. We did this because of the level of community representation integrated in the governance model of the statutory trusts.

Setting relevant goals and KPIs is critical to effective public sector performance reporting and public accountability. The most useful KPIs are specific, measurable, attainable, reliable and timely (“SMART”).

When performance is tracked, measured and reported in annual reports and other performance documents, stakeholders are able to see how well the organization is reaching its goals and how well public services are being delivered.

In assessing the statutory trusts against the six guidelines, we found that all three demonstrated many good practices in their approach to annual goal-setting, but needed improvement in other areas (see Exhibit 7). In most instances, we found that the statutory trusts had developed and used practices that enabled them to meet their unique needs. However, by working to develop a set of SMART KPIs, the statutory trusts will be in a better position to measure and improve the significance and usefulness of their goals – which in turn will help the statutory trusts improve their public accountability reporting.

RECOMMENDATION 3: *We recommend that all three statutory trusts develop and report annual goals, as well as key performance indicators that can be used to monitor progress in achieving those goals.*

KPI relevancy guidelines – stakeholder consultation

1. Stakeholders are clearly identified
2. Stakeholders are adequately consulted
3. KPIs reflect aspects considered significant to stakeholders
4. Stakeholders use the KPIs
5. KPIs are meaningfully presented
6. Stakeholders are involved with the goal-setting process

Audit of non-financial performance information

Having non-financial performance information independently audited helps confirm its validity.

None of the three statutory trusts are legally required to have such audits carried out, and we noted that none have opted to. However, we did find that all three statutory trusts use internal processes and independent external reviews to monitor performance reporting on program statistics.

Additionally, all three refer to these review processes within their annual reports and guide readers to their respective websites for more information.

The statutory trusts should consider the costs and benefits of having an independent party verify key non-financial performance information and attest to its validity in each statutory trust's published annual report.

As a starting point, the statutory trusts should identify objectives and indicators they see as critical for the organization, and have those results verified independently.

DETAILED REPORT

Exhibit 7: Good practices and areas for improvement in all three statutory trusts' use of our key performance indicator (KPI) relevancy guidelines

Stakeholder consultation best practice	Good practices now followed in the statutory trusts' annual reports	Ways the statutory trusts can improve in their annual reports
1. Stakeholders are clearly identified		
<p>A formal stakeholder analysis can help a reporting organization clearly identify and understand its key stakeholders. As well, an organization can use an analysis like this to determine what aspects of the organization's performance are of most interest to its key stakeholders.</p>	<ul style="list-style-type: none"> ◆ Regional advisory committee chairs said statutory trusts are aware of each community and region's interests and priorities. ◆ Statutory trust executives see all residents and businesses as stakeholders and maintain ongoing communication. 	<ul style="list-style-type: none"> ◆ Complete and maintain a formal stakeholder analysis of internal and external stakeholders to best understand their power, influence and interests.
2. Stakeholders are adequately consulted		
<p>Effective, ongoing consultation with stakeholders is essential if the reporting organization is to understand and meet its information needs. During consultation, stakeholders gain an understanding of the organization's business priorities and timelines; and the reporting organization can also learn how its key stakeholders would like to receive performance information.</p>	<ul style="list-style-type: none"> ◆ Regional advisory committee chairs said they are frequently consulted to identify their interests, and they are comfortable raising concerns. ◆ Statutory trust executives said they consult with stakeholders. They meet regularly with the regional advisory committees, they have an open portal for incoming communication and they meet regularly with stakeholders and representative groups. 	<ul style="list-style-type: none"> ◆ Continue to consult regularly with key stakeholders in various ways and report back to confirm understanding.
3. KPI reflect aspects considered significant to stakeholders		
<p>Stakeholders must be able to determine whether their performance expectations of the organization have been met and should be able to hold management accountable for results achieved.</p>	<ul style="list-style-type: none"> ◆ Regional advisory committee chairs said goals and performance measures are important and reflect their performance expectations. They also said, however, that performance measures would ideally be revisited and revised or expanded based on performance achievements. 	<ul style="list-style-type: none"> ◆ Continue to ensure performance measures provide information that is significant to key stakeholders. ◆ Follow BC Reporting Principles guidance to help stakeholders understand the context in which results were achieved. ◆ Explain when not able to report on a performance measure that key stakeholders have identified as significant.

Exhibit 7: Good practices and areas for improvement in all three statutory trusts' use of our key performance indicator (KPI) relevancy guidelines

Stakeholder consultation best practice	Good practices now followed in the statutory trusts' annual reports	Ways the statutory trusts can improve in their annual reports
4. Stakeholders use the KPIs		
<p>Key stakeholders need to understand the reported results if they are to use the performance measures effectively to evaluate the organization's performance and hold management accountable for results achieved.</p>	<ul style="list-style-type: none"> ◆ Regional advisory committee chairs said they do not often use the performance measures. They assume statutory trusts are working to ensure the measures' success. ◆ Regional advisory committee members said short-term goals would help track long-term objectives. ◆ Statutory trust executives said stakeholders use performance measures. 	<ul style="list-style-type: none"> ◆ Ensure performance measure results are clearly worded, timely and presented with enough information for key stakeholders to understand results. ◆ Communicate results to key stakeholders through reporting tools that stakeholders find convenient. ◆ Maintain contact with key stakeholders. ◆ Demonstrate performance measures' use to help stakeholders understand and value the measures.
5. KPIs are meaningfully presented		
<p>Key stakeholders need to understand the reported results if they are to use the performance measures effectively to evaluate the organization's performance and hold management accountable for results achieved.</p>	<ul style="list-style-type: none"> ◆ Regional advisory committee chairs said performance measure information does not help the public understand the statutory trusts' strategies to achieve their goals. ◆ Statutory trust executives present performance measures in numerous ways. However, we found that additional context would benefit readers. 	<ul style="list-style-type: none"> ◆ Ensure performance measure results are clearly worded, timely and presented with enough information for key stakeholders to understand results. ◆ Communicate results to key stakeholders through reporting tools that stakeholders find convenient. ◆ Maintain contact with key stakeholders. ◆ Demonstrate performance measures' use to help stakeholders understand and value the measures.
6. Stakeholders are involved with the goal-setting process		
<p>The activities of a public sector organization have a significant impact on its key stakeholders. Involving stakeholders in the goal-setting process ensures that the goals represent what is important to the stakeholders.</p>	<ul style="list-style-type: none"> ◆ Regional advisory committee chairs said they are involved in setting goals and performance measures (the strategic planning process is completed annually and involves committee input). ◆ Statutory trust executives said the goal-setting process involves key stakeholder representatives through the board and regional advisory committees, although only through informal discussion. 	<ul style="list-style-type: none"> ◆ Document discussion and consultation with stakeholders to maintain a record of decisions for the selection of goals and performance measures.

WE ISSUED MANAGEMENT LETTERS to each statutory trust, detailing our findings against the audit criteria and providing additional recommendations for improvement. We will follow up on the implementation status of the three recommendations in our April 2013 follow-up report.

As part of our planning for future work, we will also consider the possibility of auditing similar entities that are outside the government reporting entity but come under section 11(6) of the *Auditor General Act*.

THE STATUTORY TRUSTS' enabling Acts require that each statutory trust appoint a committee of qualified individuals every five years to review their respective Acts and evaluate the legislation.

All three statutory trusts completed reviews of their legislation in 2011.¹ The reviews produced a wide range of recommendations for government to consider. A summary of recommendations specific to each statutory trust are provided below.²

Northern Development Initiative Trust (NDIT)

The NDIT review committee recommended modifications to the NDIT Act to require:

- ♦ sustainable funds and a steady income stream;
- ♦ timely board appointments;
- ♦ board chair remuneration;
- ♦ adequate First Nations representation on the regional advisory committees and boards;
- ♦ expansion of investment sectors to include intellectual property and applied research;
- ♦ regular accountability auditing by the Province; and
- ♦ timely release of the annual report.

Southern Interior Development Initiative Trust (SIDIT)

The SIDIT review committee reached consensus on one recommendation: that legislation be modified to permit remuneration to board and regional advisory committee members required to travel. The committee discussed but did not reach consensus on other concerns, including:

- ♦ insufficient business and private sector representation on the regional advisory committees and board;
- ♦ disproportionate number of provincial appointees;
- ♦ inconsistency of categorization of regional account investment sectors;
- ♦ absence of the requirement for performance evaluation at the time of legislative review; and
- ♦ sustainability of the statutory trust not being stipulated in the Act.

Island Coastal Economic Trust (ICET)

The ICET review committee encouraged the government to consider amending the ICET Act to permit additional provincial funding to the statutory trust. If the statutory trust receives further funding, the committee recommended that legislation be modified to:

- ♦ improve First Nations representation on the regional advisory committees and boards;
- ♦ remove reference to “Olympic opportunities”; and
- ♦ improve board flexibility related to the wind-up process.

1 See [NDIT Legislation Review \(Oct 2011\)](#), [SIDIT Legislative Review \(April 2011\)](#), and [ICET Legislative Review \(March 2011\)](#).

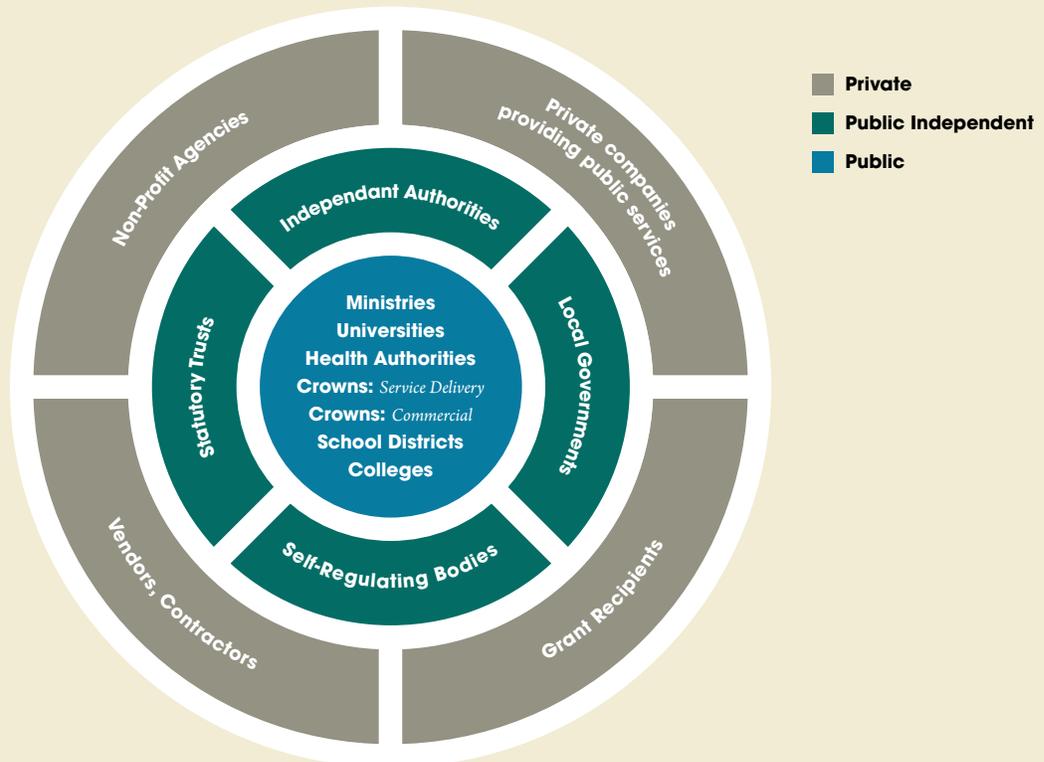
2 These recommendations are included here for information only. The Office of the Auditor General does not necessarily endorse them.

APPENDIX B: EXTENT OF THE AUDIT UNIVERSE OF THE OFFICE OF THE AUDITOR GENERAL

THE THREE STATUTORY TRUSTS are not part of the government reporting entity (GRE). Rather, they are not-for-profit corporations established with provincial funds and given legal authority to promote – without having to involve the provincial government – economic development in their respective regions. Although they are outside the GRE, the statutory trusts are accountable through their legislation to the citizens of British Columbia for the efficient and effective use of public funds granted to them by the government of British Columbia.

Section 11(6) of the *Auditor General Act* permits the Office to audit non-GRE entities if they received provincial funds. This is the first time our Office has conducted an audit under that section. Exhibit B1 illustrates where statutory trusts sit relative to the GRE (depicted in the centre of the exhibit) and gives examples of other entities that may be audited under this Office’s mandate.

Exhibit B1: Types of entities that receive government funding



Source: Office of the Auditor General of British Columbia.