# Cape Breton Growth Fund Corporation

28 November 2005

## Special Examination Report
**presented to the Board of Directors**

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

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28 November 2005

To the Board of Directors of
Cape Breton Growth Fund Corporation

We have completed the special examination of Cape Breton Growth Fund Corporation according to the plan presented to the Audit Committee of the Board of Directors on 9 May 2005. We are pleased to provide the Board of Directors with the attached final special examination report, as required by section 139 of the *Financial Administration Act*.

It is anticipated that the Corporation will be wound up in the current fiscal year. All outstanding assets and liabilities will become the responsibility of Enterprise Cape Breton Corporation, the sole shareholder. After consulting the Board, I will forward a copy of the final report to the Board of Directors of Enterprise Cape Breton Corporation.

I would like to express my appreciation to the board members, management, and the Corporation's staff for the excellent co-operation and assistance they provided us during the examination.

Yours sincerely,

Bill Rafuse

Bill Rafuse
Principal
Halifax Regional Office

Attach.

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# Table of Contents

# Cape Breton Growth Fund Corporation

## Special Examination Report—2005

## Special Examination Opinion

1. Under Part X of the *Financial Administration Act*, Cape Breton Growth Fund 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; and its operations are carried out effectively.

2. The Act also requires the Corporation to have a special examination of these systems and practices carried out at least once every five years.

3. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination from October 2004 to June 2005, there were no significant deficiencies in the systems and practices we examined.

4. We based our examination plan on a survey of the Corporation's systems and practices, which included a risk analysis. We submitted the plan to the Audit Committee of the Board of Directors on 9 May 2005. The plan identified the systems and practices that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. Those are the systems and practices that we selected for examination.

5. The plan included the criteria for the special examination that we selected specifically for this examination in consultation with the Corporation. The criteria were based on our experience with performance auditing. Our choice of criteria was also influenced by legislative and regulatory requirements, professional literature and standards, and practices followed by the Corporation and other organizations. The systems and practices we examined and the criteria we used are listed in Appendix A.

**6.** We conducted our examination in accordance with our plan and with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. Our examination included the tests and other procedures we considered necessary in the circumstances. In carrying out the special examination, we relied on the work of the Corporation's internal auditor in the areas of project selection, assessment, approval, monitoring, and evaluation.

**7.** In our opinion, based on the criteria established for the examination, there is reasonable assurance that there were no significant deficiencies in the systems and practices we examined.

**8.** The rest of this report provides an overview of the Corporation and more detailed information on our examination findings and recommendations.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
30 June 2005

# Overview of the Cape Breton Growth Fund Corporation

## Background

**9.** In 2000, the Government of Canada created the Cape Breton Growth Fund Corporation (the Corporation) as a subsidiary of Enterprise Cape Breton Corporation, a federal Crown corporation with a mandate for economic development in Cape Breton and the area around the Town of Mulgrave, Nova Scotia. The Corporation is a wholly owned subsidiary of Enterprise Cape Breton Corporation and is vested with the same economic mandate and flexible powers.

**10.** The Corporation is a transitional organization designed to cease operating once it has committed all of its funding. The Corporation anticipates that it will commit all remaining monies in 2005–06. The Governor in Council has directed that after the Corporation's funding is fully committed, the Corporation will transfer any remaining assets and liabilities to Enterprise Cape Breton Corporation. The Corporation is developing a dissolution plan under the assumption that it will transfer all remaining assets and liabilities to Enterprise Cape Breton Corporation effective 31 March 2006.

**11.** As a federal Crown corporation, Cape Breton Growth Fund Corporation accounts for its activities to Parliament through the Minister of Atlantic Canada Opportunities Agency. The Minister is responsible for Enterprise Cape Breton Corporation, Cape Breton Growth Fund Corporation, and Atlantic Canada Opportunities Agency.

**12.** The Government of Canada created Cape Breton Growth Fund Corporation following discussions with the Province of Nova Scotia, and in response to *Growing the New Economy*, a public consultation panel report issued in March 2000 that contained the findings of the Economic Adjustment Fund Public Consultation Process. These consultations followed the Government of Canada's decision in 1999 to phase out the Phalen coal mine near New Waterford, Nova Scotia, and to sell the assets of Cape Breton Development Corporation. The Government of Canada initially announced it would provide $68 million to assist with the adjustment of the local economy. The Province of Nova Scotia committed an additional $12 million.

**13.** Prior to creating the Corporation, the Government of Canada approved the transfer of $7 million of the $68 million to Enterprise Cape Breton Corporation to assist in establishing a customer service centre in Sydney, Nova Scotia. The Government of Canada provided an additional $18 million to Cape Breton Growth Fund Corporation in

2001, after announcing that it was closing the Prince coal mine, near Point Aconi, Nova Scotia. Total funding for the Corporation was $91 million.

**14.** *Growing the New Economy*, the public consultation report, outlined the following five principles for investment, which now guide the Corporation in its economic development activities:

- **Leverage.** In order to maximize economic benefits, the Corporation leverages other sources of funding, both private and public. Recipients must use the Corporation's funds in partnership with other government programs, community organizations, and the public sector.
- **Sustainable growth.** The Corporation is a catalyst for the economy. It must focus on sustainable growth.
- **Existing programs.** The Corporation augments existing programs, which must continue to play a significant role in the region's economic renewal. The Corporation cannot replace existing programs.
- **Job creation.** The Corporation's ability to help create sustainable jobs is paramount. Job creation is the goal guiding all the programs and projects the Corporation finances. Infrastructure projects must demonstrate a clear link to future commercial activity that will create sustainable jobs for residents.
- **Results management.** The Corporation has a clear, comprehensive accountability framework to measure results. The Corporation demonstrates how it uses its resources and documents its results.

**15.** A five-member Board of Directors governs the Corporation. The Governor in Council appoints the members upon the recommendation of the Minister responsible for the Corporation. The Board has full authority to accept or reject projects the Corporation is considering for funding.

**16.** As stipulated in the Treasury Board submission for the establishment of the Corporation, the interest generated by the investment of allocated funds pays all administrative costs. If the interest is insufficient, Enterprise Cape Breton Corporation covers the remaining costs.

**17.** Personnel are seconded from Enterprise Cape Breton Corporation and the Province of Nova Scotia to staff the Corporation. The Corporation has entered into a Memorandum of Understanding

(MOU) with Enterprise Cape Breton Corporation to provide additional administrative and operational support.

## Mandate and mission

**18.** Cape Breton Growth Fund Corporation was incorporated on 25 August 2000, under the *Canada Business Corporations Act*, as a wholly owned subsidiary of Enterprise Cape Breton Corporation. The Corporation's geographical mandate includes Cape Breton Island and a portion of mainland Nova Scotia in and around the Town of Mulgrave.

**19.** The Corporation operates under the same broad mandate as Enterprise Cape Breton Corporation:

> The objects of the Corporation are to promote and assist, either alone or in conjunction with any person or the Government of Canada or of Nova Scotia or any agency of either of those governments, the financing and development of industry on the Island of Cape Breton to provide employment outside the coal producing industry and to broaden the base of the economy of the Island.

**20.** The Corporation's mission statement is "… [to] make investments that complement existing government programs to foster sustainable economic growth and job creation on Cape Breton Island."

## Objectives

**21.** *Growing the New Economy* identified five sectors that showed the greatest promise for future growth in Cape Breton. The Corporation adopted six strategic priorities encompassing those five sectors, as well as a category called strategic initiatives. The priority sectors are

- oil and gas,
- environmental remediation,
- knowledge-based enterprises,
- tourism, and
- arts and culture.

Strategic initiatives cross all priority sectors. They concentrate on strategic economic development opportunities in infrastructure (for example, energy, telecommunications, transportation, and tourism) and in attracting new investment (for example, customer service centres).

**22.** To support its strategic priorities and fulfill its mandate and corporate mission, the Corporation drew on the public consultation report and established the following six strategic objectives:

- Increase trade by generating new export sales and increased tourism.
- Generate industrial benefits by maximizing the successful participation of Cape Breton businesses and labour in the emerging oil and gas and environmental remediation industries.
- Support research, development, and commercialization through increased research and innovation activities in Cape Breton.
- Provide access to capital through loans, grants, and contributions to assist businesses and other applicants in obtaining the financing they require for growth.
- Increase direct investment by attracting export-oriented companies to Cape Breton and leverage new direct investment.
- Make wise infrastructure investments that have clear and definitive links to future commercial activity and have demonstrated private-sector support from those the infrastructure is intended to benefit.

**23.** The Corporation's assessment and approval process considers the ways each project will help achieve these strategic objectives.

## Business and operating environment

**24.** The public consultation report highlighted three aspects of the Cape Breton economy that particularly concern organizations attempting to improve economic conditions in the region.

- **High unemployment rates.** Cape Breton Island has consistently higher unemployment and lower labour force participation compared with the rest of Nova Scotia and Canada. In June 2005, unemployment rates were, 13.1 percent in Cape Breton, 8.2 percent in Nova Scotia, and 6.7 percent in Canada; while participation rates were 56.4 percent, 64.3 percent, and 67.2 percent, respectively.
- **Negative net migration.** It is important to note the significance of decreasing population of people aged 25 to 39, who contribute significantly to the economy—many start families and establish households. Population decreases in this age cohort result in fewer children and consequent declines in school enrolment.
- **Predominance of resource-based industries and exports.** Exports contribute to the long-term economic health of the region by increasing revenues, creating business opportunities, and generating jobs. However, Cape Breton has historically relied on resource-based industries and exports, such as coal mining, steel

manufacturing, fishing, and forestry. These traditional industries have been affected by downsizing and closure.

**25.** Initially, the Corporation expected to commit all of its funds within three years. However, it has taken the Corporation longer than expected to find suitable investments. The investment vehicles include contributions, loans (secured, unsecured, interest-free, and interest-bearing), and equity, as deemed appropriate on a project-by-project basis.

**26.** When the Government of Canada created the Corporation, Treasury Board granted it an exemption from the Government of Canada's drawdown policy for Crown corporation funding. The policy states that Crown corporations receive appropriated funds according to their short-term needs to carry out the businesses and activities outlined in annual corporate plans. As a result, the Corporation accumulated significant cash balances in excess of its short-term cash requirements. As of 31 March 2005, the Corporation had cash balances of $56.8 million. Interest earned on its funds has covered the Corporation's administrative costs. The funds on hand also permit the Corporation to respond quickly to investment opportunities. The Corporation is not constrained by annual parliamentary appropriations when timing its disbursement of funds to projects.

## Findings and Recommendations

### Governance

**27.** We examined the Corporation's main corporate governance systems and practices. These included the structure and operation of the Board of Directors and Audit Committee, risk management procedures, internal audit function, and corporate planning and reporting. We also reviewed the windup plan for the Corporation and interviewed all Board members.

**28.** **Board of Directors.** The Corporation is governed by a five-person Board of Directors. Three Board members were appointed in September 2003 and two in April 2005. The Chair of the Board and CEO of the Corporation is also the Vice-President of Enterprise Cape Breton Corporation. The other four directors are independent external members.

**29.** The Corporation orients and trains its directors. However, only one of the current Board members has taken the corporate governance seminar, offered by the Treasury Board Secretariat and Privy Council Office.

**30.** **Audit Committee.** The Corporation established an audit committee in September 2000 to assist the Board in fulfilling its responsibilities for the Corporation's system of internal controls, and its audit, accounting, and financial reporting processes.

**31.** The Audit Committee has three independent members, none of whom received training specific to their audit committee role.

**32.** **Memorandum of Understanding (MOU).** For the year ended 31 March 2005, the Corporation reimbursed Enterprise Cape Breton Corporation $580,000 for professional and administrative services provided according to its MOU. Our annual financial audit of the Corporation found that services are being provided to the Corporation, and Enterprise Cape Breton Corporation is reimbursed for the cost of these services, according to the MOU.

**33.** **Internal audit.** Internal auditors assist management in achieving and maintaining efficient and effective operations with due regard to economy, by assessing controls and reporting on compliance with policies. Our review found that internal auditors are effective in this role.

**34.** The Audit Committee oversees the internal audit function. The CEO/Chair of the Board reviews the annual audit plan that Enterprise Cape Breton Corporation prepares. The Corporation's internal audit plan is part of the Enterprise Cape Breton Corporation plan. The Audit Committee receives regular updates throughout the year. The Committee received internal audit results in March and June 2005.

**35.** **Risk management.** A risk management framework helps a corporation to identify and manage external and internal risks to ensure it is achieving its objectives. In the beginning, the Corporation did not establish a risk management framework. However, the Corporation employs some elements of risk management. For example, the Corporation assesses the level of risk associated with investing in projects. The Corporation also sets performance targets and updates the Board regularly on its progress in meeting these targets.

**36.** **Corporate planning and reporting.** Each year, the Board reviews and approves the annual report and the corporate plan that will be submitted to Treasury Board. Board members informed us that they were actively involved in reviewing and approving these documents. The Board approved the 2005–06 Corporate Plan and Operational Budget at its 12 January 2005 meeting. The Board approved the 2004–05 Annual Report on 23 June 2005.

**37.** **Governance assessment.** In 2002, the Corporation carried out an informal self-assessment against Treasury Board's *Guidelines for Corporate Governance in Crown Corporations and Other Public Enterprises*. We understand the self-assessment found that the Corporation's governance model met the majority of the 10 Treasury Board guidelines. The 2002–03, 2003–04, and 2004–05 annual reports stated this result.

**38.** The Corporation could not provide us with documentation to support this assessment.

**39.** **Stakeholder consultations.** A community advisory committee drawn from residents across Cape Breton supports the Board. Five sectoral task forces, comprised of representatives from the private sector, industry associations, community representatives, academics, and government partners advise the Board and management regarding strategy, policy, and program development.

**40.** We found that the task forces were most active developing strategies and plans in the Corporation's early years. Three of the task forces last met in 2002, and two in 2004. The tourism task force met only twice, once in 2001 and again in 2002. The task forces were not engaged in developing the Corporation's 2001 accountability and evaluation framework (see paragraphs 50 and 51).

**41.** **Dissolution plan.** Notes to the Corporation's financial statements for the year ended 31 March 2005 contain the following information about the organization's future.

> The Governor in Council has directed that after the Corporation's $91-million fund is fully committed, the Corporation will dissolve. It is anticipated that the funds will be fully committed prior to March 31, 2006. At the time of dissolution the remaining assets and liabilities of the Corporation will be transferred to ECBC (Enterprise Cape Breton Corporation). Any surplus funds or receivables generated by the Corporation will become the responsibility of ECBC ensuring that the legacy of the fund will be reinvested in the Cape Breton economy. The Corporation has contracted outside expertise to assist with the issues related to the dissolution.

**42.** Based on this information, we expected that by the time our examination ended, in June 2005, the Corporation would have a fairly comprehensive transition plan. The plan would deal with governance and communications matters, as well as the legal arrangements for dissolving the Corporation and transferring administration of its remaining assets and liabilities to Enterprise Cape Breton Corporation.

We expected that the Board would have been actively involved in considering options and developing this plan.

**43.** We reviewed the recommendations for a dissolution plan that a financial consultant had prepared for the Corporation in May 2005. We found that the recommendations dealt with some of the legal and accounting issues associated with the dissolution and transfer but left several important questions unanswered. These questions relate to authority and governance requirements, the application of the Treasury Board drawdown policy, and fund accounting.

**44.** The Corporation has not prepared a plan for transferring operational responsibility from its Board to Enterprise Cape Breton Corporation's Board of Directors. The two boards play different roles. The Corporation's board approves all projects, whereas the Enterprise Cape Breton Corporation Board is mainly strategic and only approves projects receiving more than $1 million.

**45.** We identified a number of specific issues that the Corporation's transition and dissolution plan should deal with:

- the authority required for continued operation under Enterprise Cape Breton Corporation;
- the roles of management and the Enterprise Cape Breton Corporation Board in continuing operations;
- treatment of the remaining cash balance;
- treatment of interest earned on the bank balance;
- treatment of loan repayments;
- disposition of existing commitments;
- approval of new commitments, if required;
- transfer of securities;
- the need for new fund accounting; and
- communication related to the plan and to the dissolution, in general.

**46.** The Chair informed us that the Corporation would prepare a complete and comprehensive transition and dissolution plan in fall 2005 as part of the annual corporate planning process. The plan will be an integral part of Enterprise Cape Breton Corporation's Corporate Plan from 2006–07 to 2010–11. The transition and dissolution plan is to include all significant matters, including those identified above. The plan will identify the person responsible for each action and the time frame in which it will be completed. Officials at Treasury Board Secretariat, the Privy Council Office, the office of the Minister of Atlantic Canada Opportunities Agency, and the boards of Enterprise Cape Breton Corporation and Cape Breton Growth Fund Corporation will be invited to participate in preparing the plan. A joint meeting of the two boards will finalize the plan.

**47.** In our view, it is critical that the Corporation develop and implement a transition and dissolution plan as quickly as possible so that the Corporation ceases operations in an orderly and timely manner.

## Performance management

**48.** We examined the Corporation's main performance management systems and practices, including the accountability and evaluation framework, performance measurement, performance reporting, and reporting to the Board of Directors.

**49.** We found that the Corporation is doing many things well and compares favourably with other federal organizations in the steps it has taken to design and implement a performance management framework. The Corporation's accountability and evaluation framework conforms well to the Treasury Board evaluation policy.

**50.** **Performance management framework.** The Corporation developed and implemented its accountability and evaluation framework in 2001. Enterprise Cape Breton Corporation's policy and research group, which works closely with the Corporation's management, is responsible for implementing the policy. This group is responsible for both monitoring and evaluation.

**51.** The accountability and evaluation framework incorporates a systematic approach to measuring and reporting effectiveness. It sets out goals and objectives and specifies major performance indicators. The framework also establishes a detailed data collection and reporting system.

**52.** **Performance indicators.** We found that the framework's performance indicators generally represent both a reasonable and practical way of measuring and reporting results in light of the Corporation's mission, principles, strategic objectives, and goals. However, we found that the quality of indicators varied across the Corporation's goals. For example, the indicators for infrastructure investments do not strongly link assistance provided to results expected.

**53.** We found that the framework does not include indicators to measure performance against the six strategic priorities. It did not set monetary or job creation targets for assistance levels to each of the priority areas. At the end of March 2005, assistance provided to four of the six strategic priorities represented only 15 percent of total funding (see paragraph 70).

**54.** The most significant measure of performance is a sustainable job, which the Corporation defines as one providing 1,600 hours of employment annually over a five-year period. However, this definition treats all jobs equally and makes no distinction based on quality, educational requirements, income level, or industrial sector. Using these factors to classify jobs would help in relating job creation to macroeconomic indicators such as the gross domestic product, income, and exports.

**55.** We found that the framework contains few references to indicators reflecting the broadest of the Corporation's objectives, namely sustainable growth. The framework does acknowledge the relevance of macroeconomic indicators and lists several that annual reports could include. We noted that the Corporation's annual reports do include some of these indicators in an attempt to measure impact at a broader level. The Corporation could strengthen the framework by identifying preferred macroeconomic indicators and incorporating them in performance measurement tables.

**56.** **Performance targets.** The Corporation established targets in its first corporate plan, intending that it would achieve these targets over a four-year period. The original targets were published in the 2001–02 Annual Report. They were refined and adjusted late in 2001 and new targets were published in the 2002–03 Annual Report (Appendix C).

**57.** The refinement was intended to distinguish between the total expected results (global targets) of projects the Corporation funded and results that could reasonably be attributed to the Corporation's contribution (attribution targets). The attribution results recognize that various partners finance projects and share results in proportion to their financial support.

**58.** The Corporation developed its original targets based on what seemed reasonable in light of Cape Breton's reality in the late 1990s. The Corporation adjusted its targets because the emergence of customer service centres as a major economic force in the Atlantic provinces was not anticipated. The Corporation and its partners recruited these enterprises aggressively, with considerable success. The

Corporation classifies the customer service centres under "strategic initiatives" (see paragraph 21). The number of jobs created and the sales associated with the customer service centres made some of the Corporation's original targets seem conservative.

**59.** **Performance results**. The Corporation relies on its annual reports as a means to communicate performance results. The annual reports present a positive picture of the Corporation's performance against targets and its impact on the Cape Breton economy. The Corporation also communicates its results to the public through radio and television coverage, newspapers and magazines, speaking engagements, and through the Corporation's Web site.

**60.** We found that the Corporation's reported results are based on commitments, not on actual performance. The Corporation is reporting what appears in the business plan for each project, not on what has actually happened by the time the Corporation prepares its annual report. We were informed that the Corporation adopted this approach for fear the public would not understand that financial commitments precede jobs, leaving the impression that the Corporation was achieving less.

**61.** The 2004–05 Annual Report indicates 3,221 estimated jobs were created against the global target of 2,700; and 1,846 estimated jobs as compared to the attribution target of 1,800 (Appendix C). The estimated jobs included those projected to be created by projects with signed letters of offer. Attribution targets reflect results attributed to the Corporation by pro-rating among the partner organizations based upon their level of financial contribution. The Corporation spent $39 million and committed $45 million. That $45 million was split almost evenly between letters of offer (contracts) that the Corporation issued and Board-approved commitments contingent on the projects meeting certain conditions. On a global basis, the Corporation determined that 2,148 actual jobs were created (Appendix D). The Corporation could improve its reporting by presenting these actual results.

**62.** The 2003–04 Annual Report contained macroeconomic data that provided useful insight into the nature and magnitude of the challenges that the Corporation and other agencies face in trying to work with the private sector to improve the region's economic performance. The discussion that accompanies the section on economic indicators steps back from project results and looks at the big picture. The 2004–05 Annual Report contained a shorter section on economic context but included a useful chart on migration from the Island.

**63.** **Mid-term review.** In August 2004, the Corporation called for proposals to conduct a mid-term review with three objectives:

- Provide an evaluation of the Corporation to determine if the fund produced the expected results for the communities, taxpayers, and the Cape Breton economy.
- Measure the total economic impact of the Corporation on Cape Breton Island, including the direct, indirect, and induced impacts. Part of this analysis was to include a comparison between the state of the Cape Breton economy, without the existence of the Corporation, and the current state of the economy.
- Examine the Corporation's fiscal impacts on the federal, provincial, and municipal governments in Cape Breton.

**64.** The July 2005 draft report indicated that both project clients and community stakeholders were well-satisfied with the Corporation. The evaluation concluded that the Corporation has been an important force in the Cape Breton economy, creating new employment, income, and output in an economic environment that has higher-than-average unemployment rates and significant migration. The draft report did not describe how the Cape Breton economy would have performed without the Corporation.

**65.** As a mid-term review, the evaluation came too late in the life of the program to benefit the Corporation by identifying ways to improve its delivery and increase its impact. The evaluation also fell short in determining whether the Corporation has been effective in achieving its objectives and mission.

## Project management

**66.** We examined the main project management systems and practices that the Corporation has in place. These included project selection, assessment and approval processes, project monitoring, and evaluation procedures.

**67.** We found that all projects fell within the Corporation's mandate. Most projects that the Board approved represented firm commitments. We noted cases where the Corporation could improve its documentation and justification of project decisions. Project proponents we interviewed were satisfied with the services the Corporation provided.

**68.** **Assistance.** Since its inception in August 2000, the Corporation's Board of Directors approved assistance totalling $95.2 million, or an average of about $2.4 million per project (Appendix D). The Corporation has issued contracts in the amount of $69.8 million, or 73 percent of the amount approved.

**69.** The Corporation determined that as of 31 March 2005, it had created 2,148 actual jobs, representing average assistance of $32,500 per job. This compares with a projected $21,700 per job if these projects actually create the 3,215 jobs projected.

**70.** Breaking the distribution of financial assistance down by priority sector, the Corporation allocated 57 percent for strategic initiatives, 28 percent for tourism development, 10 percent for knowledge-based projects, 3 percent for arts and cultural development, and 1 percent each for industrial benefits from environmental remediation, and oil and gas development.

**71.** **Commitments**. The Corporation received $91 million from the Government of Canada and the Province of Nova Scotia. By the end of our examination, the Corporation had allocated $95.2 million in assistance because of project loan repayments and interest generated in excess of administration costs. As previously noted, the Government has directed the Corporation to cease its operations after fully committing its funding.

**72.** As of July 2005, the Corporation had issued contracts of almost $70 million, representing firm commitments. In most other funding decisions, the Board approved assistance subject to certain conditions and is waiting until those conditions are met before issuing contracts. For example, project proponents may have to provide assurances that they have secured other sources of financing and/or equity. Based on past experience, we believe project proponents will likely meet the outstanding conditions and the contracts will be issued. It is likely that these cases will also become firm commitments.

**73.** We observed one case where the Board approved a notional commitment of $10 million toward the development of a Welcome Centre in the Canso Causeway area. This commitment differs greatly from other commitments we observed. For example, the project has not yet been defined, there is no project proponent or request for assistance, and the Corporation has not stipulated conditions for awarding financial assistance. In the absence of such information, the Corporation cannot offer assistance to develop a Welcome Centre. We question whether this notional commitment of $10 million for the

Welcome Centre is a commitment for the purposes of determining when the Corporation can dissolve.

**74.** **Information to the Board.** Board members informed us that they were very satisfied with the quality of information they received for both individual projects and the Corporation's operations in general. Members commented that management exercised excellent due diligence in analyzing and preparing project proposals and made solid recommendations to the Board. The Board did suggest improving the analysis related to project risks; that is, providing answers to "what-if" questions.

**75.** **Project selection, assessment, and compliance.** During the special examination, we audited 17 of the 40 projects supported by the Corporation, including all projects where the Corporation approved more than $5 million. We also selected some projects randomly, and chose others to make sure we examined projects from all the priority sectors. The sample projects represented $70 million, or 74 percent of the total amount of financing the Corporation approved. Enterprise Cape Breton Corporation reviewed two projects in an internal audit (one of which was subsequently withdrawn), we reviewed nine projects, and six projects were reviewed by both us and Enterprise Cape Breton Corporation's internal audit group (Appendix D).

**76.** All the audited projects were linked to corporate objectives and were intended to provide positive benefits to the economy of Cape Breton. The Corporation's project management process ensured that environmental risks were consistently identified, evaluated, and mitigated. In all but one project, there was sufficient documentation on file to provide appropriate information to the Board as it made its decisions.

**77.** Internal auditors also performed payment and compliance audits of development expenditures that we relied on during the annual financial audit. Development expenditures include financial assistance other than loans and investments. For 2004–05, internal auditors reviewed 12 payments totalling $5.5 million. These payments accounted for 91 percent of the Corporation's 2004–05 development expenditures. The audits found that these payments complied with applicable legislation.

**78.** **Guidelines.** In February 2001, the Corporation produced guidelines for assistance to help staff in their discussions with potential clients. The Board did not endorse the guidelines as corporate policy. They are intended to help shape potential projects for the Board's consideration. The guidelines cover areas related to the Corporation's mandate (for example, priority sectors, corporate objectives, investment principles, and eligible industries) as well as project risks such as maximum assistance, assistance as a percentage of eligible costs, and the applicant's minimum equity contribution. We observed that Enterprise Cape Breton Corporation and Atlantic Canada Opportunities Agency adopted similar guidelines as corporate policy. The guidelines represent good business practice and ensure that the Corporation makes consistent project funding decisions.

**79.** We observed six projects where the Board's decisions did not conform to the guidelines. One of these is the largest recipient of assistance and poses significant risk to the Corporation. In this case, the assistance that was approved significantly exceeded both the maximum guideline amount and the guideline for assistance as a percentage of project costs. In addition, the project applicant's equity contribution as a percentage of project costs fell well below the minimum required under the guideline. For all six projects, the information provided to the Board did not indicate that the guidelines were not being followed. The Board informed us that its decisions were based on the merits of each project.

**80.** **Site visits.** We also interviewed project proponents and conducted site visits for eight projects (Appendix D). Project proponents praised the Corporation's services and staff. In total, these projects represented $39 million or 41 percent of the Corporation's total project funding. Although the projects were at various stages of completion, the visits allowed us to observe project assets and results.

## Loan and investment portfolio management

**81.** We examined the key loan and investment portfolio management practices the Corporation has in place. These included procedures for administering, monitoring, and assessing the loans and investments.

**82.** We found that the Corporation exercises due diligence in managing its loan and investment portfolio.

**83.** **Loans and investments.** At 31 March 2005, the net values of loans and equity investments were $11.5 million and $700,000 respectively. Forgivable loans totalling $1.6 million and conditionally repayable contributions totalling $14.3 million are not included in the loan and investment balances as of 31 March 2005. Under the Corporation's accounting policy, the forgivable portion of loans and conditionally repayable amounts are charged to operations when the loans are issued. These amounts become receivable only if the project proponents do not fulfill the terms and conditions of their agreements.

**84.** **Monitoring.** The Corporation reviews accounts monthly for portfolio trial balances, aged accounts receivables, past-due loans, and receivables due. Staff review a monthly monitoring report of all accounts that are overdue by one or more days to ensure they act on the delinquent accounts.

**85.** Senior management annually assesses all outstanding loans, equity investments, and repayable contributions to determine their fair values. Management reports the results of its assessments to the Board's audit committee for action.

**86.** The audit committee issues recommendations on impairments and recommends write-offs to the Board of Directors. The Board then approves them by passing a resolution. The Board approved the impairment of loans in the amount of $54,000 and equity investments in the amount of $1.55 million as of 31 March 2005.

## Conclusion

**87.** As stated in our special examination opinion, we concluded that during the period we examined, the Corporation designed and operated its systems and practices in a way that reasonably assured that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.

**88.** However, throughout this report we identified opportunities to enhance the quality of these systems and practices. We found that all of the projects we examined were properly approved by the Board. However, we noted cases where the justification for, and documentation of, these decisions could be improved, in particular when risk guidelines have been exceeded. It is also important that the Corporation develop a transition and dissolution plan.

# Appendix A Key risks, systems and practices, and examination criteria

| Key risks | Key systems and practices | Examination criteria |
|---|---|---|
| **Governance** | | |
| • Inability/failure to meet legislative mandate or activities inconsistent with mandate.<br>• The Board is not independent. This could result in real or perceived political influence or conflict of interest.<br>• Complete and accurate information is not provided to the Board.<br>• The Corporation does not have a comprehensive plan and windup process in place. | • Strategic and corporate planning<br>• Corporate governance<br>• Stakeholder consultations<br>• Project approvals, rejections, and amendments<br>• Memorandum of Understanding (MOU) with Enterprise Cape Breton Corporation and the Province of Nova Scotia | • The Corporation should establish and implement an effective governance framework, strategies, and practices consistent with achieving its mandate. |
| **Performance management** | | |
| • Inaccurate or unreliable data produces performance information<br>• Inability or failure to measure performance and learn from its experience.<br>• Inability or failure to show stakeholders that programs and services are delivered efficiently and effectively.<br>• Lack of adequate relevant information provided to the Board and to Parliament to assess achievement of mandate. | • Accountability and evaluation framework<br>• Performance measurement<br>• Performance reporting<br>• Data validation | • The Corporation should establish, measure, and report on appropriate performance indicators that evaluate the effectiveness and efficiency of its operations, assist in decision making, and ensure accountability. |
| **Project management** | | |
| • Projects are approved without due diligence.<br>• Support is provided to projects that are inconsistent with the Corporation's mandate, investment principles, and priorities.<br>• Projects the Corporation supports do not reflect a commitment to the environment.<br>• Project recipients have not met criteria for disbursement of funds.<br>• Losses from poor performing loans and investments. | • Project selection, assessment, and approval process<br>• Project monitoring and evaluation procedures<br>• Loan and investment portfolio management procedures<br>• Internal audit of project management<br>• External financial audit | • The Corporation's procedures for project selection, assessment, and approval should demonstrate due diligence—ensuring that projects are consistent with the mandate and objectives and reflect a commitment to the environment and sustainable development.<br>• The Corporation's monitoring procedures should ensure the payment of assistance is adequately managed and that recipients have complied with the requirements of applicable contribution agreements.<br>• The Corporation should manage its loan and investment portfolio with due diligence, in a manner consistent with the corporate mandate. |

# Appendix B Financial summary

| | 31 March 2005 | 31 March 2004 | 31 March 2003 | 31 March 2002 | 31 March 2001 |
|---|---|---|---|---|---|
| **Program expenditures** | | | | | |
| Development expenses | $ 6,256,541 | $ 5,704,893 | $ 4,182,112 | $ 7,642,949 | — |
| Loans | 6,130,942 | 5,274,810 | — | 475,000 | — |
| Investments | 300,000 | 853,000 | 2,203,000 | — | — |
| **Total** | **$ 12,687,483** | **$ 11,832,703** | **$ 6,385,112** | **$ 8,117,949** | **—** |
| **Administration/ support expenses** | **$ 1,002,336** | **$ 1,015,129** | **$ 1,317,521** | **$ 1,283,080** | **$ 305,686** |
| **Funding*** | | | | | |
| Government of Canada | $ 2,000,000 | $ 14,000,000 | $ 23,000,000 | $ 25,000,000 | $ 15,000,000 |
| Province of Nova Scotia | — | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 |
| **Total** | **$ 2,000,000** | **$ 17,000,000** | **$ 26,000,000** | **$ 28,000,000** | **$ 18,000,000** |

* Total funding—$91 million

Source: Cape Breton Growth Fund Corporation

# Appendix C Performance against objectives—31 March 2005

| Target comparisons | Original targets[1] | New global targets[2] | New attribution targets[3] |
|---|---|---|---|
| Number of jobs | 1,000 | 2,700 | 1,800 |
| New start-ups in designated priority sectors | 15 | 15 | 15 |
| New export-oriented businesses attracted | 5 | 10 | 10 |
| New, incremental export sales/tourism receipts | $ 50 million | $ 500 million | $ 350 million |
| New, incremental direct investment | $ 50 million | $ 350 million | $ 200 million |
| New, incremental expenditures on research and development | $ 5 million | $ 30 million | $ 10 million |
| New, incremental sales to target industries | $ 10 million | $ 15 million | $ 10 million |
| **Global targets and results** | **Targets** | **Results to date** | **Achieved** |
| Number of jobs | 2,700 | 3,221 | 119% |
| New start-ups in designated priority sectors | 15 | 10 | 67% |
| New export-oriented businesses attracted | 10 | 8 | 80% |
| New, incremental export sales/tourism receipts | $ 500 million | $ 970.6 million | 194% |
| New, incremental direct investment | $ 350 million | $ 416.6 million | 119% |
| New, incremental expenditures on research and development | $ 30 million | $ 6.5 million | 22% |
| New, incremental sales to target industries | $ 15 million | $ 2.3 million | 15% |
| **Attribution targets and results** | **Targets** | **Results to date** | **Achieved** |
| Number of jobs | 1,800 | 1,846 | 103% |
| New start-ups in designated priority sectors | 15 | 10 | 67% |
| New export-oriented businesses attracted | 10 | 8 | 80% |
| New, incremental export sales/tourism receipts | $ 350 million | $ 657.5 million | 188% |
| New, incremental direct investment | $ 200 million | $ 215.9 million | 108% |
| New, incremental expenditures on research and development | $ 10 million | $ 5.1 million | 51% |
| New, incremental sales to target industries | $ 10 million | $ 2.3 million | 23% |

**Notes**

[1]**Original targets.** In 2001–02, the Corporation developed an accountability and evaluation framework that forms the basis of its performance management system. The Corporation established original results targets during this process. In 2002–03, the Corporation decided that performance management would improve by having two types of targets (global and attribution). In addition, the Corporation increased the targets based on methodological considerations and following the Government of Canada's decision to allocate an additional $18 million to the Corporation after closing the Prince coal mine.

[2]**New global targets.** This reflects the total expected results of projects the Corporation funded.

[3]**New attribution targets.** This reflects results attributed to the Corporation, by pro-rating among the partner organizations based on their level of financial contribution.

Source: Cape Breton Growth Fund Corporation

# Appendix D Assistance authorized and job creation—6 July 2005

| Project | Notes | Approved assistance | Expenses to date | Estimated jobs* | Actual jobs* |
|---|---|---|---|---|---|
| **2000–01** | | | | | |
| EDS Canada Inc. (Port Hawkesbury) | 3 | $ 2,500,000 | $ 1,529,000 | 450 | 450 |
| **2001–02** | | | | | |
| Stream International Canada | 3, 4 | $ 10,000,000 | $ 10,000,000 | 900 | 790 |
| Industrial Outreach Initiative | | 793,000 | 525,000 | 30 | 25 |
| Co-op Atlantic | | 699,167 | 699,167 | 52 | 18 |
| Upsource Incorporated | | 475,000 | 475,000 | 71 | 72 |
| La Cooperative Radio Cheticamp Ltd. | | 43,000 | 43,000 | 2 | 2 |
| **Total 2001–02** | | **$ 12,010,167** | **$ 11,742,167** | **1,055** | **907** |
| **2002–03** | | | | | |
| Island Sunset Resort and Spa 3068512 NS Inc. | 2 | $ 4,000,000 | $ 2,893,000 | 78 | 12 |
| Sydney Ports Corporation Inc. | 1 | $ 2,997,551 | 2,997,551 | 0 | 0 |
| Town of Port Hawkesbury Trade & Exposition Centre | 3, 4 | $ 2,500,000 | 2,500,000 | 4 | 22 |
| Membertou Trade and Commerce Centre | 2, 4 | $ 2,100,000 | 2,100,000 | 17 | 17 |
| 4Eversports | | $ 1,300,000 | 1,300,000 | 43 | 9 |
| Ocean Nutrition Canada Ltd. | 4 | $ 2,000,000 | 2,000,000 | 20 | 41 |
| Scotsburn Cooperative Services Ltd. | | $ 1,500,000 | 1,388,000 | 12 | 6 |
| Strait of Canso Superport Corporation Ltd. | 2, 4 | $ 1,250,000 | 1,250,000 | 2 | 4 |
| CrossOff Incorporated | | $ 1,100,000 | 1,100,000 | 10 | 9 |
| Environmental Industries HR Initiative | 2 | $ 527,000 | 295,000 | 15 | 7 |
| Techlink International Entertainment Ltd. | | $ 706,000 | 706,000 | 50 | 0 |
| Virtual Media Productions | | $ 250,000 | 250,000 | 8 | 0 |
| **Total 2002–03** | | **$ 20,230,551** | **$ 18,779,551** | **259** | **127** |
| **2003–04** | | | | | |
| Cape Breton Castings Inc. | 3, 4 | $ 15,800,000 | $ 13,816,000 | 90 | 13 |
| Federal Gypsum Company | 3, 4 | $ 3,000,000 | 700,000 | 78 | 0 |
| Spiegel Group Teleservices Canada | | $ 2,300,000 | 0 | 700 | 540 |
| EDS Expansion (Port Hawkesbury) | 3 | $ 2,100,000 | 0 | 300 | 100 |
| Crown Jewel Resort | | $ 1,000,000 | 221,000 | 50 | 7 |
| Arts and Culture Development Fund | | $ 500,000 | 221,000 | 0 | 0 |
| Hospice Palliative Care Society of Cape Breton | | $ 87,500 | 18,000 | 0 | 0 |
| **Total 2003–04** | | **$ 24,787,500** | **$ 14,976,000** | **1,218** | **660** |

| Project | Notes | Approved assistance | Expenses to date | Estimated jobs* | Actual jobs* |
|---|---|---|---|---|---|
| **2004–05** | | | | | |
| Welcome Centre | 2 | $ 10,000,000 | $ 0 | — | — |
| Keata Pharma Technology | 2 | $ 5,000,000 | 0 | 177 | 2 |
| Tesma | 2, 4 | $ 2,500,000 | 0 | 40 | 0 |
| Brican Automated Systems | | $ 800,000 | 0 | 14 | 0 |
| Techlink International | | $ 750,000 | 750,000 | 0 | 0 |
| Copol International | | $ 204,000 | 204,000 | 0 | 0 |
| Inverness Development Association | | $ 42,066 | 42,066 | 0 | 0 |
| Ben Eoin Golf | | $ 45,000 | 45,000 | 0 | 0 |
| NS Environmental Industry Association: Imagine 2010 | | $ 35,000 | 35,000 | 0 | 0 |
| **Total 2004–05** | | **$ 19,376,066** | **$ 1,076,066** | **231** | **2** |
| **2005–06** | | | | | |
| Inverness Golf Course | | $ 2,500,000 | 0 | — | — |
| Other – subject to availability of funds | 2 | $ 13,750,000 | 125,000 | 2 | 2 |
| **Total 2005–06** | | **$ 16,250,000** | **$ 125,000** | **2** | **2** |
| **Total since 2000–01** | | **$ 95,154,284** | **$ 48,227,784** | **3,215** | **2,148** |

*statistics as of 31 March 2005

**Notes**

1. Reviewed by internal audit only
2. Reviewed by the Office of the Auditor General only
3. Reviewed by the Office of the Auditor General and internal audit
4. Site visits done by the Office of the Auditor General

Source: Cape Breton Growth Fund Corporation, and Office of the Auditor General of Canada