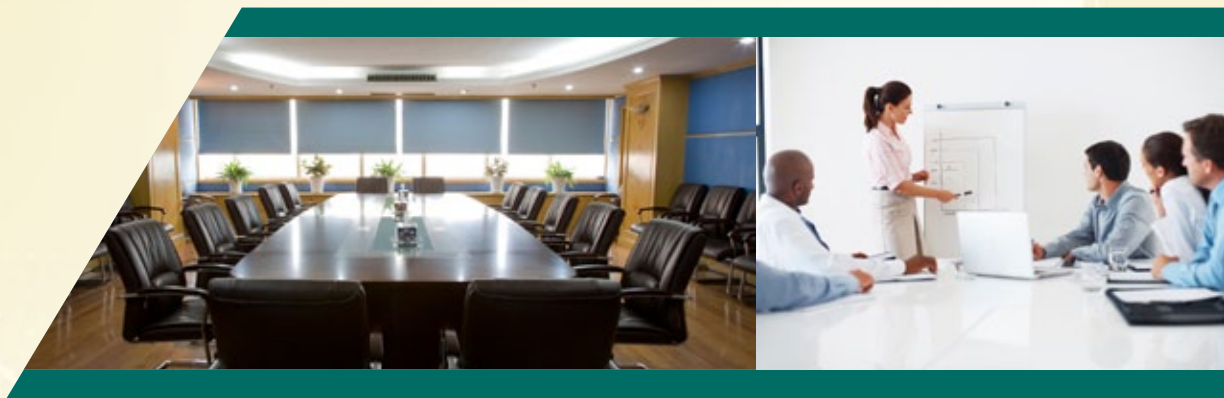


Report 2: May 2012

## CROWN AGENCY BOARD GOVERNANCE

[www.bcauditor.com](http://www.bcauditor.com)



OFFICE OF THE  
**Auditor General**  
of British Columbia

## Library and Archives Canada Cataloguing in Publication

Crown agency governance [electronic resource] : compendium report.

Includes bibliographical references and index.

Electronic monograph in PDF format.

ISBN 978-0-7726-6579-9

1. B.C. Transit--Management--Evaluation. 2. Vancouver Coastal Health Authority (B.C.)--Administration--Evaluation. 3. University of Northern British Columbia--Administration--Evaluation. 4. Camosun College--Administration--Evaluation. 5. Corporations, Government--British Columbia--Management--Evaluation. I. British Columbia. Office of the Auditor General

HD4010 B74 C77 2012

352.2'6609711

C2012-980079-1



OFFICE OF THE  
**Auditor General**  
of British Columbia

### Location:

8 Bastion Square  
Victoria, British Columbia  
V8V 1X4

### Office Hours:

Monday to Friday  
8:30 am – 4:30 pm

**Telephone:** 250-419-6100

Toll free through Enquiry BC at: 1-800-663-7867

In Vancouver dial 604-660-2421

**Fax:** 250-387-1230

**Email:** [bcauditor@bcauditor.com](mailto:bcauditor@bcauditor.com)

### Website:

This report and others are available at our website, which also contains further information about the office: [www.bcauditor.com](http://www.bcauditor.com)

### Reproducing:

Information presented here is the intellectual property of the Auditor General of British Columbia and is copyright protected in right of the Crown. We invite readers to reproduce any material, asking only that they credit our Office with authorship when any information, results or recommendations are used.



OFFICE OF THE  
**Auditor General**  
of British Columbia

8 Bastion Square  
Victoria, British Columbia  
Canada V8V 1X4  
Telephone: 250-419-6100  
Facsimile: 250-387-1230  
Website: [www.bcauditor.com](http://www.bcauditor.com)

The Honourable Bill Barisoff  
Speaker of the Legislative Assembly  
Province of British Columbia  
Parliament Buildings  
Victoria, British Columbia  
V8V 1X4

Dear Sir:

I have the honour to transmit to the Legislative Assembly of British Columbia my 2012/2013 Report 2: *Crown Agency Board Governance*.

This report details our high-level findings from our examinations of these four Crown agencies. It is interesting to note that although these agencies represent three different sectors, the results were strikingly similar. While all four boards met the core principles of good governance, they all experienced challenges in the areas of:

- ◆ board size, director competency and timely appointments of board members;
- ◆ evaluating their performance as a whole, by committee and individually; and
- ◆ communicating with their respective ministry.

Each organization has provided a response to our examination findings. I am pleased by their receptiveness to this report's recommendations for improvement, and look forward to receiving updates through our established follow-up process.

My Office will conduct additional governance examinations in the future, to identify further opportunities for improved governance at the Crown agency level and to assess whether there are issues that require coordinated action by central government.

John Doyle, MAcc, CA  
Auditor General

Victoria, British Columbia  
May 2012

# TABLE OF CONTENTS

---

<b>Auditor General’s Comments</b>	6
<b>Summary of Recommendations</b>	8
<b>Introduction</b>	10
<i>What is Board Governance?</i>	10
<i>Why is Good Governance Important?</i>	10
<i>British Columbia’s Crown Agencies and Board Governance</i>	10
<i>Auditor General’s Governance Examinations of Crown Agencies</i>	10
<b>Board Governance Examination Objectives</b>	11
<b>Looking Ahead</b>	13
<b>Report 2a: Board Governance Examination of BC Transit</b>	14
<i>Summary of Recommendations</i>	16
<i>Response from the Ministry of Transportation and Infrastructure and BC Transit</i>	17
<i>Detailed Report</i>	18
<i>Looking Ahead</i>	22
<b>Report 2b: Board Governance Examination of the University of Northern British Columbia</b>	23
<i>Summary of Recommendations</i>	25
<i>Response from the Ministry of Advanced Education and the University of Northern British Columbia</i>	26
<i>Detailed Report</i>	28
<i>Looking Ahead</i>	31

# TABLE OF CONTENTS

---

<b>Report 2c: Board Governance Examination of Camosun College</b>	32
<i>Summary of Recommendations</i>	34
<i>Response from the Ministry of Advanced Education and Camosun College</i>	35
<i>Detailed Report</i>	36
<i>Looking Ahead</i>	39
<b>Report 2d: Board Governance Examination of Vancouver Coastal Health Authority</b>	40
<i>Summary of Recommendations</i>	42
<i>Response from the Ministry of Health and Vancouver Coastal Health Authority</i>	43
<i>Detailed Report</i>	45
<i>Looking Ahead</i>	48
<b>Appendix 1: Board Governance Examination Criteria: Governance Good Practices</b>	49



**JOHN DOYLE, MAcc, CA**

*Auditor General*

## **STRONG BOARD GOVERNANCE STRUCTURES**

and practices for ministries and Crown agencies (including school boards, health authorities, universities and colleges) help an organization achieve its goals and ensure taxpayers' contributions are used effectively.

My Office first conducted a study of Crown agency governance in 1996. The report recommended that government review the current governance system and develop a model to promote good governance. My Office continues to be interested in governance. In 2008, for example, we published guidance on best practices to educate public-sector agencies and support them in implementing good governance principles: *Public Sector Governance: A Guide to the Principles of Good Practice* is available on our website.

To build on this work and assess the public sector's progress in implementing good governance principles, my Office examined board governance structures and practices in four Crown agencies in 2011/2012. While it is not possible to measure a board's success, there are recognized best practices that enable a board to provide appropriate and fair advice. For example, board members should understand good governance and have other relevant knowledge. They should have access to the information they need when they need it. In addition, a board should have a range of competencies and should be structured so that those skill sets are used. Future gaps in skills or membership should be identified and planned for. When an organization has a foundation of good governance it demonstrates accountability, leadership, integrity, stewardship and transparency: these core principles formed the basis of our examination.

This report details our high-level findings from our examinations of these four Crown agencies. It is interesting to note that although these agencies represent three different sectors, the results were strikingly similar. While all four boards met the core principles of good governance, they all experienced challenges in the areas of:

- ◆ board size, director competency and timely appointments of board members;

# AUDITOR GENERAL'S COMMENTS

---

- ♦ evaluating their performance as a whole, by committee and individually; and
- ♦ communicating with their respective ministry.

For example, all four boards would benefit from board member appointments that provide the board with the right skills and expertise, and from regular evaluation of board members.

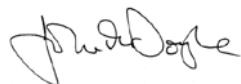
Another notable area of improvement for all four organizations was the timeliness of board member appointments. This concern parallels the findings in my April 2012 audit report, *Development Initiative Trusts: An Audit of Legislative Compliance and Public Accountability Practices in the Three Statutory Trusts*. Timely appointments are an important component of good governance, and my Office will consider undertaking future work regarding the appointment process for Crown agency board members.

Through the course of our examinations, we also saw some good practices in place, which have been noted in the detailed sections of this report. Overall, it was encouraging to see that board members were engaged and dedicated to their role as public servants.

Each organization has provided a response to our examination findings. I am pleased by their receptiveness to this report's recommendations for improvement, and look forward to receiving updates through our established follow-up process.

I would like to thank everyone involved for the cooperation and assistance they provided to my staff during these examinations. Providing effective board governance is a process of continual improvement, and I commend BC Transit, UNBC, Camosun College and the Vancouver Coastal Health Authority for their progress to date.

My Office will conduct additional governance examinations in the future, to identify further opportunities for improved governance at the Crown agency level and to assess whether there are issues that require coordinated action by central government.



John Doyle, MAcc, CA  
Auditor General  
May 2012

# SUMMARY OF RECOMMENDATIONS

## BC TRANSIT

- 1** We recommend that the Ministry of Transportation and Infrastructure ensure the board of BC Transit is composed of directors with adequate skills and experience to fulfil its governance responsibilities.
- 2** We recommend that the Ministry of Transportation and Infrastructure ensure that the board appointment process allows the board to maintain a quorum at all times.
- 3** We recommend that the Ministry of Transportation and Infrastructure and BC Transit engage in more comprehensive consultation with each other to develop performance expectations that are clear and acceptable to both parties.
- 4** We recommend that the BC Transit board develop and implement a training plan that ensures board members have the necessary knowledge and ongoing training to meet their responsibilities.
- 5** We recommend that the BC Transit board develop and publicize a written charter that describes the board's responsibilities in accordance with the provincial government's best practice guidelines.
- 6** We recommend that the BC Transit board establish and implement an annual process to evaluate its performance and the performance of individual board directors in fulfilling its governance responsibilities.

## UNIVERSITY OF NORTHERN BRITISH COLUMBIA

- 1** We recommend that the UNBC board implement and maintain an up-to-date competency matrix and succession plan to effectively support the board appointment process.
- 2** We recommend that government and the UNBC board ensure that term end dates maintain a balance between continuity of experience and injection of fresh perspectives.
- 3** We recommend government and the UNBC board agree on the board's role in implementing and monitoring government and institutional performance expectations and accountabilities.
- 4** We recommend that the UNBC board direct management to strengthen linkages between the *University Plan* and government's strategic objectives and performance expectations for UNBC.
- 5** We recommend that the UNBC board direct management to develop and implement an enterprise-wide risk management program.
- 6** We recommend that the UNBC board oversee the development and implementation of a communications plan that defines its role in stakeholder relations and external communications.
- 7** We recommend that UNBC board complete performance evaluations annually.



# SUMMARY OF RECOMMENDATIONS

## CAMOSUN COLLEGE

- 1** We recommend that the Camosun College board develop a comprehensive competency matrix and documented succession plan to effectively support the board appointment process.
- 2** We recommend that government and the Camosun College board ensure that board member candidates are appointed in a timely manner.
- 3** We recommend that government and the Camosun College board ensure that board members collectively possess adequate skills and experience to fulfil the board's governance responsibilities.
- 4** We recommend that the Ministry of Advanced Education and the Camosun College board agree on the board's role in implementing and monitoring government and institutional performance expectations and accountabilities.
- 5** We recommend that the Camosun College board direct management to strengthen linkages between Camosun College's institutional strategic plan and government's strategic objectives and performance expectations for the college.
- 6** We recommend that the Camosun College board complete annual performance evaluations for all board members and board committees.

## VANCOUVER COASTAL HEALTH AUTHORITY

- 1** We recommend that government and the Vancouver Coastal Health board ensure that board member candidates are appointed in a timely manner.
- 2** We recommend the Ministry of Health and the Vancouver Coastal Health board come to a shared understanding of the board's role in establishing the health authority's accountabilities and the ministry's performance expectations, as these relate to province-wide strategic priorities for health care.
- 3** We recommend that the Vancouver Coastal Health board ensure board members receive adequate orientation and ongoing professional development to fulfil their governance roles and responsibilities.
- 4** We recommend that the Vancouver Coastal Health board conduct annual performance evaluations for all board members.
- 5** We recommend that the CEO performance evaluation be clearly linked to the achievement of strategic priorities.
- 6** We recommend that the Vancouver Coastal Health board oversee the development and implementation of an external communications plan that defines its role in stakeholder relations and external communications.

# INTRODUCTION

## WHAT IS BOARD GOVERNANCE?

“Governance” refers to the structures and processes that direct, control and hold an organization to account. For most organizations, the governing body is a board of directors, comprised of people elected or appointed to provide organizational oversight. In the public sector, the legislature, the responsible minister, government ministries, central government agencies and public stakeholders also play a role in governance.

Whether in the private or public sector, good governance is achieved when an organization’s structures, processes and actions enable it to:

- ♦ deliver goods, services or programs effectively and efficiently, and
- ♦ meet the requirements of the law, regulations, published standards and community expectations of accountability and openness.

## WHY IS GOOD GOVERNANCE IMPORTANT?

Good governance is the foundation from which an organization can achieve its objectives. Good governance ensures that an organization is allocating resources wisely and serving the public interest openly and transparently. In turn, this builds and maintains citizens’ confidence in the organization (see Exhibit 1). Poor governance increases the risk that the organization will not deliver on its mandate effectively and efficiently.

## BRITISH COLUMBIA’S CROWN AGENCIES AND BOARD GOVERNANCE

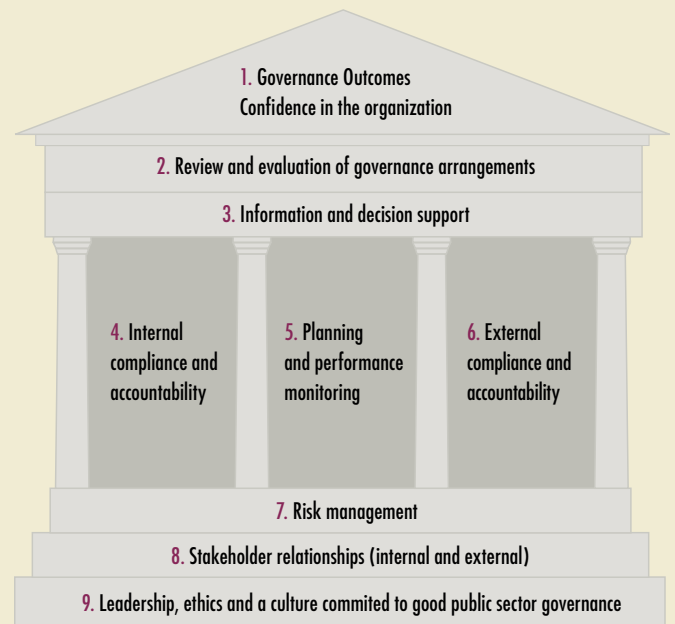
Approximately 200 organizations in British Columbia are Crown agencies and a variety of public sector governance and accountability arrangements apply to these agencies. Broadly, Crown agencies are public sector organizations established by government to serve the public interest and advance overall public

policy objectives. Government has a controlling interest in these organizations, which it exercises through various means:

- ♦ provision of funds;
- ♦ appointment of a majority of the governing board;
- ♦ establishment of the authority to engage in commercial activities and generate revenues;
- ♦ ownership of the issued and outstanding voting shares; and/or
- ♦ establishment of the organization as an agent of the Province.

At the same time, Crown agencies operate with a degree of autonomy to deliver services and make decisions without direct, day-to-day control by government ministers. Government sets the mandate for the organization, communicates broad objectives and empowers the board to oversee the organization’s affairs.

Exhibit 1: House of Governance



Source: Australian National Audit Office, “Public Sector Governance”, 2003

## AUDITOR GENERAL'S GOVERNANCE EXAMINATIONS OF CROWN AGENCIES

In 1996, the Auditor General conducted a study of Crown agency governance in British Columbia and noted areas for improvement. Government has taken steps to address these recommendations, such as clarifying the Crown agency accountability framework and setting guidelines for Crown agency governance. Given the importance of good governance in ensuring British Columbia's Crown agencies operate efficiently and effectively, the Auditor General decided to examine progress in 2011-2012 by assessing the board governance structures and practices in four Crown agencies. We selected these agencies to provide insight into the range of Crown agency types. We examined:

- ◆ BC Transit
- ◆ University of Northern British Columbia
- ◆ Camosun College
- ◆ Vancouver Coastal Health Authority

We conducted this work under Section 13 of the *Auditor General Act* as examinations. The examinations were conducted from July 2011 to January 2012.

The criteria used for our governance examinations can be found in Appendix 1. These criteria and the underlying rationale are provided as a source of guidance on good governance for the public sector.

Each examination was based on the same objectives, described below.

## OBJECTIVE 1: BOARD GOVERNANCE STRUCTURE

This objective sought to answer the following question:

*Do the board's composition, size, term length, compensation and appointment process result in a board with members that have the capacity to fulfil their governance roles?*

Boards are only as effective as the people who serve on them. Each Crown agency needs to plan strategically to identify the skills and experience it requires from board members to best support the organization. Boards should also have a director succession plan to prevent gaps in board membership when terms expire or a director leaves.

The size of the board of directors should be appropriate to its assigned roles and responsibilities. Unless otherwise required by legislation or directed by cabinet, government considers an appropriate board size to be nine to 11 members.<sup>1</sup>

The length of a director's term of service should balance the need for continuity and development of expertise with the risk that directors' independence from management may be compromised if they serve for too long. Provincial guidelines recommend a maximum term of six years.

Compensation for directors of public sector boards should balance the need to attract and retain qualified individuals with the understanding that people serving on the board of a Crown agency do so as a public service.

Finally, appointments should be made in a timely manner, so that boards can always operate effectively and make timely decisions.

<sup>1</sup> Crown Agencies Resource Office, 2010. *Shareholder's Expectations for British Columbia Crown Agencies*, p 30.

## OBJECTIVE 2: GOVERNMENT'S PERFORMANCE EXPECTATIONS

This objective sought to answer the following question:

*Has government made its performance expectations of the organization clear, and does it monitor compliance with them?*

The principal document used to convey government's mandate, policy direction and high-level performance expectations to the Crown agencies is an annual Government's Letter of Expectations (GLE).<sup>2</sup>

The GLE is intended to:

- ◆ confirm the agency's mandate and core services;
- ◆ develop a common understanding between government and the Crown corporation regarding government's priorities, policy objectives and performance expectations for the organization over a three-year period; and
- ◆ guide the development of the Crown agency's service and financial plans.<sup>3</sup>

The GLE provides high-level performance expectations, and is developed in consultation with the Crown agency; therefore, it is important that government and the board maintain open, timely and effective communication. The provision of policy guidance and clear objectives are also important to ensure the activities of the Crown agency support government's overall direction.

## OBJECTIVE 3: BOARD GOVERNANCE PRACTICES

This objective sought to answer the following question:

*Is the board taking the necessary steps to fulfil its roles and responsibilities, thereby providing effective governance for the Crown agency?*

To foster the short and long-term success of the Crown agency, the board of directors has a range of governance responsibilities. Provincial guidelines recommend that boards develop and make public a charter that specifies their roles and responsibilities;

this provides a standard against which the board can assess its performance each year, and supports accountability to the public. While roles and responsibilities may differ from board to board, some of the key responsibilities boards are expected to fulfil include:

- ◆ Ensuring board directors receive the orientation and training they require to understand the organization's business and their own governance roles.
- ◆ Establishing a governance structure to support the fulfilment of directors' roles and responsibilities, including setting up committees as needed.
- ◆ Ensuring the organization is appropriately managing risks.
- ◆ Ensuring the board receives appropriate information to support its decision-making and oversight roles.
- ◆ Effectively managing external stakeholder relationships and communication.
- ◆ Fulfilling its accountability responsibilities to the shareholder and public.
- ◆ Evaluating its own performance and making changes as necessary to improve its effectiveness.

The board should function professionally, which includes ensuring that all directors attend meetings and are prepared and able to participate fully in respectful board discussions. As well, any conflict is to be resolved appropriately. Directors are expected to be loyal and act honestly, in good faith and in the best interests of the organization. The board chair often plays a key role in ensuring an effective board culture. The chair also facilitates a good working relationship between the board and management, ensuring that each group understands its role and does not interfere in the responsibilities of the other.

These aspects of governance are less tangible, but are nonetheless crucial to a board's ability to function well and fulfil its responsibilities. A board may have all the required governance structures on paper, but if it does not have good teamwork and positive working relationships among board members and with the organization's management it is unlikely to govern effectively.

<sup>2</sup> Prior to 2012, this document was referred to as the Shareholder's Letter of Expectations, with the exception of the post-secondary institutions, where it was already called the Government's Letter of Expectations.

<sup>3</sup> Board Resourcing and Development Office, 2005. *Best Practice Guidelines: BC Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations*, p. 6.

Our examination identified areas for improvement and good practices that should serve as models for other public sector organizations. Our key findings for each entity are presented in the following four reports. More detailed findings and recommendations for management and the individual boards were provided to each organization in a management letter.

The Office intends to conduct additional governance examinations in the future, to identify further opportunities for improved governance at the organization level and to assess whether there are issues that require coordinated action by central government.

Report 2a: May 2012

BOARD GOVERNANCE EXAMINATION  
OF BC TRANSIT

[www.bcauditor.com](http://www.bcauditor.com)

# TABLE OF CONTENTS

---

## **Summary of Recommendations**

## **Response from the Ministry of Transportation and Infrastructure and BC Transit**

## **Detailed Report**

*Background*

*Overall Observations*

*Key Findings and Recommendations*

## **Looking Ahead**

# SUMMARY OF RECOMMENDATIONS

## **WE RECOMMEND THAT THE MINISTRY OF TRANSPORTATION AND INFRASTRUCTURE:**

- 1** ensure the board of BC Transit is composed of directors with adequate skills and experience to fulfil its governance responsibilities.
- 2** ensure that the board appointment process allows the board to maintain a quorum at all times.

## **WE RECOMMEND THAT THE MINISTRY OF TRANSPORTATION AND INFRASTRUCTURE AND BC TRANSIT:**

- 3** engage in more comprehensive consultation with each other to develop performance expectations that are clear and acceptable to both parties.

## **WE RECOMMEND THAT THE BC TRANSIT BOARD:**

- 4** develop and implement a training plan designed to ensure that board members have the necessary knowledge and ongoing training to meet their responsibilities.
- 5** develop and publicize a written charter that describes the board's responsibilities in accordance with government's best practice guidelines.
- 6** establish and implement an annual process to evaluate its performance and the performance of individual board directors in fulfilling its governance responsibilities.



## **BOTH THE MINISTRY OF TRANSPORTATION**

and Infrastructure and BC Transit appreciate the efforts of the Office of the Auditor General in their examination of the governance of BC Transit. BC Transit board members, the Ministry and BC Transit management as well as their staff worked closely with the examination team throughout this examination to ensure information was provided in a timely manner and personnel were available to provide comment and respond to queries posed by the examination team.

BC Transit is responsible for providing transit services to over 130 communities throughout British Columbia, outside of Metro Vancouver. BC Transit works with its funding partners, the Province and local governments, and its operating partners, which includes private companies, public organizations, and non-profit agencies, to carry over 50 million passengers annually. Many transit users rely on BC Transit as their primary mode of transportation for work, school, medical appointments, as well as engaging within their local community. As such, both the Ministry and BC Transit recognize the critical nature of the services provided.

While this report does acknowledge strong governance practices such as the overall professionalism of its board members, the quality and quantity of information provided to the board, and BC Transit's whistle-blower program, it also highlights areas for improvement. Considering the importance of the services provided, the Ministry and BC Transit appreciate the Auditor General's identification of these areas for improvement related to governance.

The Ministry and BC Transit concur with the findings and recommendations in this examination. The findings and recommendations will be carefully considered as part of joint efforts to ensure continuous improvement in the delivery of transit services to British Columbians.

## BACKGROUND

BC Transit is the provincial Crown agency responsible for public transportation systems in British Columbia, excluding Metro Vancouver. It operates transit services with 58 local government partners across the province, including conventional, custom and paratransit systems. BC Transit's expenditures for 2010/11 were approximately \$249 million.

*Paratransit operations typically run in small towns and rural areas using minibuses, taxis and vans for flexible routing and schedules. Custom transit systems operate to provide transportation services to passengers with disabilities who cannot use conventional transit.*

BC Transit is classified as a taxpayer-supported Crown agency: it is funded by the provincial government to deliver goods and/or services based on government policy. Funding is also provided by municipal governments (through taxation and revenues collected for transit fares) for operations, and by all levels of government (including federal) for capital expenditures such as new buses, bus garages and infrastructure.

The formal mandate for BC Transit, as detailed in the *British Columbia Transit Act* (the *Transit Act*), is to “plan, acquire, construct or cause to be constructed public passenger transportation systems and rail transit systems.”<sup>4</sup>

### Legislated Board Structure

The *Transit Act* requires that BC Transit's board include four municipally-elected representatives (two from the Victoria Regional Transit Commission and two from other regions/municipalities), as well as three at-large directors. This structure reflects the fact that municipalities are a major stakeholder in transit operations.

<sup>4</sup> *British Columbia Transit Act* [RSBC 1996] Chapter 38, article 3 (1)(a).

Board directors are appointed to serve “at pleasure,” as per the *Transit Act*. This means that they remain as directors until they choose to resign or the minister responsible for BC Transit chooses to replace them. However, in the case of municipally-elected board directors, they must leave their position if they no longer hold their municipal seat.

We carried out our examination of BC Transit board governance from July to September 2011.

### Overall Observations

Our examination looked at the roles and responsibilities of both BC Transit and the Ministry of Transportation and Infrastructure in setting up governance structures and ensuring good governance practices.

We found some strong governance practices in place at BC Transit, as well as a number of areas for improvement with respect to the board's governance structure. Good board governance practices at BC Transit included the board's ability to function professionally, the quality and quantity of information being provided to board directors, and the organization's whistle-blower program.

We also noted some areas for improvement in the board's composition and appointment process, as well as governance practices, including director training, defining the board's roles and responsibilities, and board-level and individual director performance evaluations.

We found that some of government's performance expectations of BC Transit are not clearly defined, and expectations were not developed with adequate consultation with the board and management.

## KEY FINDINGS AND RECOMMENDATIONS

### Governance Structure

The key findings of our examination of the governance structure in place at BC Transit relate to the board's composition and the appointment process. The board's composition results in significant skills gaps that compromise the board's ability to provide oversight for the organization in key areas, such as finance. The board's composition and appointment process also result in the risk that it will not have enough directors to meet quorum and thereby make important decisions for the organization in a timely manner.

## Board composition

We found that the board of BC Transit has significant gaps in its skill set given its composition. For example, currently there is no director with sufficient accounting expertise to understand, interpret and provide oversight on BC Transit's finances – a significant component of the Board's responsibility. The skills gap stems from the legislated board size and structure and the ministry's appointment process, which together result in the ability to recruit only three of the board's seven members based on the required skills and experience. The other four members are municipally-elected officials who provide geographical representation on the board. There is no guarantee that these directors will collectively have a skill set that covers all required areas.

Board directors may be appointed to sit on a Crown agency board because they have knowledge of a stakeholder group. However, once appointed to the board, directors should make decisions based on the best interests of the organization rather than on the interests of a particular stakeholder group.

The gap in financial skills among BC Transit's board members weakens the board's ability to provide adequate oversight of the organization's financial activities, such as commodity price hedging strategies, insurance and the recent transition to Public Sector Accounting Board standards, all of which are key business components for this organization.

Having appropriately-skilled directors would help the board ensure that BC Transit's management is making sound decisions for public transit. For example, Victoria's proposed \$750 million light rail transit system is one example of a large, complex and important project that the board oversees.

This skills gap, together with the size of the board, also prevents the board from creating the committees it requires to achieve good governance, such as human resources and governance. It is common practice that boards establish such committees and appoint directors with the relevant skills and experience to each committee. Small, specialized committees can make more efficient and informed decisions than the board as a whole, thereby strengthening the board's capacity to oversee key areas of the organization's strategic operations.

**RECOMMENDATION 1:** *We recommend that the Ministry of Transportation and Infrastructure ensure the board of BC Transit is composed of directors with adequate skills and experience to fulfil its governance responsibilities.*

## Board appointment process

We found that the process for appointing directors to BC Transit's board is not always timely, which results in periodic gaps in the board's decision-making ability. With a legislated size of seven members, the board must have at least four directors in place to maintain quorum and thereby make decisions.

In an election year, the existing municipal directors could potentially all lose their seats in the November municipal election: as a result, they would immediately lose their seats on the BC Transit board. The new mayor or councillor of the same municipality does not automatically replace the previous one on the BC Transit board; instead, the Ministry of Transportation and Infrastructure begins a process to appoint a new director from among all municipally elected politicians across the province. These new municipal appointments typically take three to four months, which means that the BC Transit board should again be at full capacity by March of the year following the election.

If all four municipal directors lose or resign their seats in an election, the board will not have enough members legally to make any decisions until new members are appointed three to four months later. However, key decisions such as approving the annual budget and quarterly financial statements need to be made during this period.

In the November 2008 election, three of the four municipal directors left their seats. New directors were appointed in March 2009. This left the board at risk of not having enough members to make decisions if just one of the four remaining directors was unable to attend a meeting during the period between December and March.

Options to address this issue include:

- ◆ BC Transit and the Board Resourcing and Development Office (which oversees and monitors all Crown agency board appointments) working together to develop an expedited process for appointing municipal directors when the board's decision-making ability is compromised; and/or

- ♦ changing the board composition or complement to increase the number of at-large directors, which could also address the skills gap identified in recommendation 1.

**RECOMMENDATION 2:** *We recommend that the Ministry of Transportation and Infrastructure ensure that the board appointment process allows the board to maintain a quorum at all times.*

## Government's Performance Expectations

### *Communication and consultation on performance expectations*

The ministry and BC Transit do not have a common understanding of some of government's performance expectations for the Crown agency. In addition, there has not always been adequate consultation to develop the performance expectations.

Without clear and agreed-upon performance expectations, it can be difficult for the organization to align its activities with the ministry's strategic direction, which is a key responsibility for all Crown agencies. However, it is even more difficult for the ministry to hold the organization accountable for achieving targets if there is a lack of clarity around those targets and the associated timelines.

The ministry provided the 2011 Letter of Expectations to BC Transit after cabinet had approved it, and therefore it could not be changed to accommodate feedback by the BC Transit board. Due to insufficient consultation on the performance expectations, BC Transit's board did not initially accept these expectations. In particular, the board did not wish to commit to expectations that it considered unrealistic given the funding provided. In 2012, the board expressed similar concerns around the wording of the Letter of Expectations: the ministry changed the document to address these concerns before the letter went to cabinet for approval. Although progress was made, there is still room for improvement in the consultation and communication process between the ministry and BC Transit.

**RECOMMENDATION 3:** *We recommend that the Ministry of Transportation and Infrastructure and BC Transit engage in more comprehensive consultation with each other to develop performance expectations that are clear and acceptable to both parties.*

## Board Governance Practices

Board governance practices at BC Transit provide examples of good practices, including the quality and quantity of information provided to the board, the whistle-blower program, and the board's professional conduct. Areas requiring improvement include director training, defining the board's roles and responsibilities, and board and director performance evaluation.

### *BC Transit governance practices: areas of good practice*

#### Board information

We found that the board and management of BC Transit have ensured a high quality of board materials that should provide directors with the information they need to support their decision making. The board requests additional information when it feels this is necessary, and management responds to these requests. Management also consults with the board regarding the sufficiency and appropriateness of information provided. Information is normally provided in a timely manner, and information to support key decisions includes background context, balanced consideration of a range of possible options, risks and implications, and timelines for decision making.

#### The whistle-blower program

The board instituted and oversees a whistle-blower program to ensure that employees have a means to report fraud and violations of corporate codes and policies, and that there is a clear and consistent process to address these issues. The program includes a toll-free telephone line and an online reporting system, both of which are operated by an external organization. The chair of the board is copied on all reports, and a quarterly summary report is provided to all board directors. This is an example of good practice that other Crown corporations could emulate.

#### Board's professional functioning

BC Transit's board functions in a professional manner and demonstrates strong team dynamics. Board directors engage in respectful debate and discussion, and the board chair is effective in his role. Board directors feel comfortable expressing opposing views, are willing and able to engage in debate, and report that conflict is resolved adequately.

## *BC Transit governance practices: areas for improvement*

### Director training

There are several areas where BC Transit's board directors would benefit from further professional development to ensure their knowledge and skills match their responsibilities. Specifically, directors would benefit from more knowledge regarding key relevant legislation, the organization as a whole, and board roles and responsibilities. Audit committee members would benefit from additional financial training.

**RECOMMENDATION 4:** *We recommend that the BC Transit board develop and implement a training plan that ensures board members have the necessary knowledge and ongoing training to meet their responsibilities.*

### Defining the board's roles and responsibilities

The board does not have a charter that addresses the full range of responsibilities laid out in government's best practice guidelines, although its handbook contains some of what is expected.<sup>5</sup> As a result, board members may not be clear on the full range of expectations regarding their governance roles and responsibilities. In addition, the board's handbook is not made public, as the best practice guidelines recommend. Not having a publicly available charter makes it challenging for stakeholders and the public to assess the board's performance against its responsibilities.

**RECOMMENDATION 5:** *We recommend that the BC Transit board develop and publicize a written charter that describes the board's responsibilities in accordance with the provincial government's best practice guidelines.*

### Board and director performance evaluation

We found that the board as a whole has not been regularly evaluating its performance against its responsibilities, nor has it been evaluating the performance of individual directors. This is, in part, related to the lack of a board "charter of expectations" against which to evaluate the board's performance, and the similar lack of a director "charter of expectations." As a result of not evaluating board or director performance, the board has missed opportunities for improvement and may not be functioning as well as it could if it were reviewing performance regularly in a systematic manner.

**RECOMMENDATION 6:** *We recommend that the BC Transit board establish and implement an annual process to evaluate its performance and the performance of individual board directors in fulfilling its governance responsibilities.*

<sup>5</sup> Board Resourcing and Development Office, 2005. *Best Practice Guidelines: Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations*; Board Resourcing and Development Office and the Crown Agencies Secretariat. *Crown Agency Corporate Governance: A Good Practices Checklist*.

The Office will follow-up with the Ministry of Transportation and Infrastructure and BC Transit regarding implementation of recommendations made in this report in our April 2013 follow-up report. In addition, following this governance examination, the Office decided to pursue further audit work and is currently conducting a performance audit of BC Transit.

## PROJECT TEAM

Malcolm Gaston,  
*Assistant Auditor General*

Tara Anderson,  
*Director*

Jessica Schafer,  
*Performance Auditor*

Sarah Riddell,  
*Performance Audit Analyst*

Report 2b: May 2012

BOARD GOVERNANCE EXAMINATION  
OF THE UNIVERSITY OF NORTHERN  
BRITISH COLUMBIA

[www.bcauditor.com](http://www.bcauditor.com)

# TABLE OF CONTENTS

---

## **Summary of Recommendations**

## **Response from the Ministry of Advanced Education and the University of Northern British Columbia**

## **Detailed Report**

*Background*

*Overall Observations*

*Key Findings and Recommendations*

## **Looking Ahead**



# SUMMARY OF RECOMMENDATIONS

- 1** We recommend that the UNBC board implement and maintain an up-to-date competency matrix and succession plan to effectively support the board appointment process.
- 2** We recommend that government and the UNBC board ensure that term end dates maintain a balance between continuity of experience and injection of fresh perspectives.
- 3** We recommend government and the UNBC board agree on the board's role in implementing and monitoring government and institutional performance expectations and accountabilities.
- 4** We recommend that the UNBC board direct management to strengthen linkages between the *University Plan* and government's strategic objectives and performance expectations for UNBC.
- 5** We recommend that the UNBC board direct management to develop and implement an enterprise-wide risk management program.
- 6** We recommend that the UNBC board oversee the development and implementation of a communications plan that defines its role in stakeholder relations and external communications.
- 7** We recommend that the UNBC board complete performance evaluations annually.

## THE MINISTRY OF ADVANCED EDUCATION

and the University of Northern British Columbia appreciate the efforts of the Office of the Auditor General of British Columbia to examine board governance at the university, with a view to understanding the effectiveness of the board structure, government's performance expectations, and governance practices. The University of Northern British Columbia wishes to thank the staff of the Office of the Auditor General for attending the December 2011 meeting of the Board of Governors. During this visit, OAG staff conducted interviews with members of the Board of Governors in their efforts to complete the audit in accordance with section 11 (6) of the *Auditor General Act*.

The University of Northern British Columbia is one of British Columbia's four research intensive universities. UNBC regards itself as British Columbia's "university in the north, for the north" and Canada's Green University. The University serves the northern two-thirds of British Columbia. This area is divided into three regions; the South-Central, Peace River-Liard, and the Northwest. The University has its main campus in Prince George with smaller centers in Fort St John, Quesnel, Terrace and learning centers in Prince Rupert, Chetwynd, Dawson Creek, Fort Nelson, Williams Lake, the Nass Valley and other locations.

The University is committed to serving the needs of a vast region by providing educational and research opportunities for northerners, including First Nations. It is this mission that makes UNBC a vital part of supporting this region's evolution as a knowledge-based, resource economy connected to the world.

Effective governance of UNBC as a research university is of great importance to the Ministry. Both the Ministry and the University consider the recommendations of the Office of the Auditor General to be valuable in identifying enhancements to the board's management planning, performance accountability and evaluation, and communications.

Both the Ministry and the University generally agree with the findings and recommendations and will take steps jointly to implement them to more effectively support the board appointments process, and performance and accountability measures. UNBC is committed to working toward implementation of the seven recommendations, with the support of the Ministry of Advanced Education and other government partners. Responses of the Board to the recommendations contained in the report are as follows:

1. The board adopted a competency matrix and a board skill assessment form in January 2012. These will be updated regularly to assist the Ministry and the Board Resourcing and Development Office in the board appointments process.
2. The board works closely with the Board Resourcing and Development Office to fill board vacancies in a timely manner with new members that fit the competency requirements identified in the competency matrix.
3. The UNBC Board of Governors receives a Government Letter of Expectations each year. In addition, the board is keenly aware of the institutional performance expectations and accountabilities identified in that letter. The Board approves the Institutional Accountability Plan annually as well as the University Plan. Updates on the University's performance are provided to the board quarterly at each meeting by management.
4. The board supports the work of the University's senior administrators who are in constant contact with not only the Ministry of Advanced Education, but others, to respond to changing priorities and emerging opportunities to serve the citizens of British Columbia. The Board looks forward to broader and more effective communication with the Provincial government.
5. Although the board is apprised of risks regularly, the board recognizes that a more formal approach to risk management would improve awareness, control and response to identified risks. The board will work with University administration over the coming year to develop an enterprise risk management program that includes regular review of the risk matrix and strategies for mitigation.
6. The board began receiving formal regular reports from the Office of External Relations in January 2012. Development of a communications plan is underway.

7. In the new board committee structure, the board has clearly addressed evaluation of UNBC's board performance through the Governance Committee. These evaluations for effectiveness will occur annually and will include the Board Chair, Committee members and individual Governors.

Over the past three years the Board of Governors for UNBC has worked conscientiously to improve governance practices and has achieved positive outcomes with new committee structures to support the priorities of the University. Many of the recommendations have been addressed and the Board is committed to making improvements that will position the University of Northern British Columbia to respond to the many positive economic activities underway in the Northern region of the province.

In conclusion, the Board of Governors of the University of Northern British Columbia and the Ministry of Advanced Education accept the need for continuous improvement and appreciates the perspective of the Auditor General's report in its efforts to fulfill important governance objectives.

## BACKGROUND

The University of Northern British Columbia (UNBC) is one of British Columbia's five research-intensive universities. Its research prioritizes issues of relevance to its region, such as the social, environmental, health, economic and cultural issues of northern British Columbia.

UNBC offers a wide range of undergraduate and graduate programs in the arts, commerce and the sciences, with professional programs including an MBA program, teacher education, nursing, social work and planning. Academic programs are distributed between two colleges: the College of Arts, Social and Health Sciences and the College of Science and Management, both of which offer bachelor, master and doctoral programs. In addition, UNBC and the University of British Columbia partner in the delivery of the Northern Medical Program to train doctors.

In fiscal year 2009/10, UNBC enrolled 5,351 students (3,006 full-time equivalents), 71% of whom were from northern British Columbia. 18% were from southern British Columbia, with the remainder (11%) coming from other locations across Canada and around the world.

### Legislated Board Structure

UNBC is ruled by two governing bodies: the board of governors and the senate. The *University Act* empowers the board of governors to make rules for the conduct of the university's management, administration and control of the property, revenue, and business and affairs. The board includes 15 members:

- ◆ the chancellor, who is appointed by the board;
- ◆ the president, who is appointed by the board;
- ◆ two faculty members elected by the faculty;

- ◆ eight persons appointed by the Lieutenant Governor in Council, two of whom are appointed from among persons nominated by the alumni association;
- ◆ two students elected by the student body, who must be members of an undergraduate student society or a graduate student society; and
- ◆ one person elected by and from the employees of the university who are not faculty members.

At a research university, the senate's roles and responsibilities include establishing admission and program prerequisites, assisting with university budget preparation, reviewing and administering courses and programs, granting degrees and awarding fellowships. This examination's scope excluded the role of the senate.

We carried out our examination of UNBC's board governance from November 2011 to January 2012.

## OVERALL OBSERVATIONS

Our examination looked at the roles and responsibilities of UNBC and the Ministry of Advanced Education in setting up governance structures and ensuring good governance practices.

We found that UNBC is working to enhance board governance effectiveness. The board has reviewed its governance structures, and is in the process of implementing changes to improve its governance practices. Good board governance practices at UNBC include a well-documented division of roles and responsibilities between the board and management.

We also found areas in need of improvement. These include board succession planning, the board appointment process, strategic planning linkages, risk management, communications management and board evaluation.

## KEY FINDINGS AND RECOMMENDATIONS

### Governance Structure

The key findings from our examination of the governance structure in place at UNBC relate to board composition and the board appointment process. We found the board identifies new candidates based on an understanding of competencies required; however, the process is informal, and the government does not necessarily select candidates with the skills required to fill identified competency gaps.

Without a clear, formally documented understanding of the competencies board members possess, there is an increased risk that candidates will be appointed to the board who do not possess the competencies required to ensure effective governance. At the present time, the board has identified a need for an individual with a financial background to join the board. Recent appointment and re-appointments to the board did not address this identified gap.

#### Board composition

The UNBC board consists of both elected and government-appointed board members. The board of governors is responsible for recommending to government candidates for the eight positions appointed by government. The board of governors identifies potential candidates based on an understanding of competencies required, although the process is informal. The board has designed but not implemented a competency matrix to outline the key skills that the board must possess as a whole. More generally, the board does not currently have a succession plan in place for the orderly turnover of board members.

The lack of a succession plan increases the risk that the board may experience a loss of continuity of experience and expertise, and therefore will not possess the spectrum of skills and abilities needed for effective governance.

**RECOMMENDATION 1:** *We recommend that the UNBC board implement and maintain an up-to-date competency matrix and succession plan to effectively support the board appointment process.*

#### Board appointment process

Although the timelines for board re-appointments were found to be reasonable and in accordance with best practices, the appointment of a new board member to one of the positions left vacant in September 2011 had yet to be filled at the time of our examination.

As well, some current board appointments expire within a month or two of one another. According to the *Board Appointment Guidelines*, “to achieve a good balance between continuity of experience and injection of fresh perspectives to a board, appointments to an organization’s board should be staggered.” UNBC board appointments are therefore not sufficiently staggered to meet best practices.

Delays in filling board vacancies can cause gaps in board knowledge, skills and abilities and impede the board’s ability to fulfil its obligations. This issue is compounded if board member term end-dates are not staggered.

**RECOMMENDATION 2:** *We recommend that government and the UNBC board ensure that term end dates maintain a balance between continuity of experience and injection of fresh perspectives.*

### Government’s Performance Expectations

#### Communication and consultation on performance expectations

Government provides UNBC with documentation outlining institutional performance expectations and accountabilities. However, the board was not consulted when performance expectations were developed, and some board members did not feel expectations were clearly communicated.

Board involvement in setting the organization’s strategic direction is a cornerstone of good governance. Involvement encourages a board to take ownership of provincial strategic objectives. A board that takes ownership is more likely to be engaged in institutional accountability plan monitoring and reporting, and to achieve ministry goals and objectives.

**RECOMMENDATION 3:** *We recommend government and the UNBC board agree on the board’s role in implementing and monitoring government and institutional performance expectations and accountabilities.*

## Board Governance Practices

The key findings from our examination of board governance practices of the UNBC board relate to strategic planning, risk management, communications and board evaluations. Good practices we found include engaging external stakeholders by inviting guests to speak at board meetings, holding at least one board meeting at the regional campus yearly, and hosting social events in the communities served by the university.

One area we identified to be in need of improvement was board member performance evaluations. At the present time, board member performance evaluations are only completed when a member is up for reappointment. However, the board provided two reports that show the board has been reviewing its governance structures. The board also provided evidence that shows it is in the process of implementing some improvements to its governance practices.

### Strategic planning

At the present time, UNBC produces two strategic plans: one for the Ministry of Advanced Education and one for the university. The ministry plan is called the *Institutional Accountability Plan and Report* (IAPR). The UNBC plan is called the *University Plan*, with an accompanying *Action Plan*. Board members reported they were actively involved in the development of the *University Plan*, but not the IAPR.

While the IAPR addresses ministry expectations and performance measures, the *University Plan* does not – even though the latter is the UNBC's primary strategic plan. The board's ability to ensure effective implementation of UNBC's performance expectations is hampered because the *University Plan* and associated *Action Plan* have not been effectively linked to government's strategic objectives, expectations and accountability measures. As a result, UNBC's actions may become misaligned with government's objectives.

**RECOMMENDATION 4:** *We recommend that the UNBC board direct management to strengthen linkages between the University Plan and government's strategic objectives and performance expectations for UNBC.*

### Risk management

Management has not established a formal risk management program for the organization. As a result, the board may not fully understand key risks that could negatively affect the operations of the organization, or provide adequate assurance that appropriate controls are in place to address organizational risks.

**RECOMMENDATION 5:** *We recommend that the UNBC board direct management to develop and implement an enterprise-wide risk management program.*

### External stakeholder relations and communication

UNBC's board has made efforts to communicate with and engage both internal and external stakeholders in a number of ways. It has invited guests to speak at board meetings, held at least one board meeting at one of the university's four regional campuses annually, and hosted social events in the community. However, the board has not ensured that management has a communications strategy that considers the role of the board both internally and externally. The absence of a clearly defined role for the board in stakeholder relations could impact the board's ability to be accessible and responsive to stakeholders' concerns.

**RECOMMENDATION 6:** *We recommend that the UNBC board oversee the development and implementation of a communications plan that defines its role in stakeholder relations and external communications.*

### Board evaluation

UNBC's board is not following best practices with respect to evaluating board performance. Performance evaluations of individual board members are only completed when a member is up for reappointment, and not annually as recommended in the government's best practice guidelines. As a result, there is a risk that areas and people in need of development and training are not being adequately assessed and addressed.

**RECOMMENDATION 7:** *We recommend that the UNBC board complete performance evaluations annually.*

## LOOKING AHEAD

---

The Office will follow up with the Ministry of Advanced Education and the University of Northern British Columbia regarding implementation of the recommendations made in this report in our April 2013 follow-up report.

## PROJECT TEAM

Morris Sydor,  
*Assistant Auditor General*

Jacqueline McDonald,  
*Manager*

Pretesh Mistry,  
*Senior Audit Associate*

Report 2c: May 2012

BOARD GOVERNANCE EXAMINATION  
OF CAMOSUN COLLEGE

[www.bcauditor.com](http://www.bcauditor.com)



# TABLE OF CONTENTS

---

## **Summary of Recommendations**

## **Response from the Ministry of Advanced Education and Camosun College**

## **Detailed Report**

*Background*

*Overall Observations*

*Key Findings and Recommendations*

## **Looking Ahead**

# SUMMARY OF RECOMMENDATIONS

- 1** We recommend that the Camosun College board develop a comprehensive competency matrix and documented succession plan to effectively support the board appointment process.
- 2** We recommend that government and the Camosun College board ensure that board member candidates are appointed in a timely manner.
- 3** We recommend that government and the Camosun College board ensure that board members collectively possess adequate skills and experience to fulfil the board's governance responsibilities.
- 4** We recommend that the Ministry of Advanced Education and the Camosun College board agree on the board's role in implementing and monitoring government and institutional performance expectations and accountabilities.
- 5** We recommend that the Camosun College board direct management to strengthen linkages between Camosun College's institutional strategic plan and government's strategic objectives and performance expectations for the college.
- 6** We recommend that the Camosun College board complete annual performance evaluations for all board members and board committees.

## THE MINISTRY OF ADVANCED EDUCATION

and Camosun College board appreciate the efforts of the Office of the Auditor General of British Columbia in examining governance roles and responsibilities, structures and practices at the College.

Camosun College is a publicly-funded post-secondary institution with a mandate and structure as defined in the *College and Institute Act*. Effective governance of Camosun College is of great importance to the Ministry. Both the Ministry and the College consider the recommendations of the Office of the Auditor General to be valuable in highlighting achievable enhancements to the board's management planning, performance accountability and evaluation, and communications.

Upon review of the Governance Examination for Camosun College, the College very much appreciates that the OAG found that the board follows good governance practices, functions professionally, fulfils its reporting obligations to the Ministry, and is aware of key risks facing the organization. The board identifies new candidates based on an understanding of competencies required. The board has good practices including high attendance at board and committee meetings, and has appropriate controls in place to manage organizational risks. The board is actively involved in the development and approval of strategic planning for the College. These represent key successes for the board.

The Camosun College board has plans underway to improve practices with respect to the recommendations made by the OAG. The competency matrix in current use has already been made more comprehensive, will be updated on a semi-annual basis, and will be made available to all board members. Succession planning, particularly in respect of the board chair, is of utmost importance to the board. Ensuring that the skill set of the board adequately address current needs is also a high priority. Camosun College's Strategic Plan is founded upon the Government's Letter of Expectation; in future, this relationship will be further highlighted. The annual Accountability Plan and Report makes reference to both the College's Strategic Plan and government expectations, and progress achievements relating to the Strategic Plan is posted regularly on the

College's website. The board undertakes an annual self-assessment and a biannual evaluation of board members being eligible for reappointment, and in future board member evaluations will be undertaken annually.

The Camosun College board and Ministry appreciate the report's inclusion of good governance practices followed. In addition, Camosun College would like to indicate some additional areas of good practice that were not highlighted in the report. The Camosun College board works collaboratively with the Board Resourcing and Development Office well in advance of known vacancies on the board to ensure the timely placement of new members with an appropriate skill set. The board holds additional information sessions and includes all board members at certain committee meetings in order to provide additional relevant facts so that board members are able to make an informed decision when critical decisions are made. The underlying culture of the board is founded on a strong commitment to excellence, transparency and engagement. Board members are passionate and proud of the work they do to support Camosun College in its continued quest to enhance the lives of those in our community and beyond.

Since this examination was undertaken, progress has been made in implementing an updated competency matrix. Plans are in place to better document the linkages between government expectations and the foundation of the Strategic Plan and the Accountability Plan and Report.

In conclusion, the Camosun College board and the Ministry of Advanced Education believe that the Auditor General's report provides useful guidance on how to improve governance practices. The opportunity for an external evaluation of the work of the board is appreciated.

## BACKGROUND

Founded in Victoria in 1971, Camosun College is a publicly funded post-secondary institution mandated by the government to provide programs in the following categories:

- ♦ career, technical and applied studies;
- ♦ trades and apprenticeships;
- ♦ developmental education, including programs for students with disabilities;
- ♦ undergraduate degree programs in applied areas; and
- ♦ university transfer studies and associate degree programs.

The college also offers a number of co-operative education programs accredited by the Canadian Association for Co-operative Education.

Camosun College serves the education and training needs of the people of Victoria, southern Vancouver Island and the Gulf Islands from its two campuses in the Greater Victoria area. Camosun has approximately 900 full-time equivalent employees and a budget of over \$107 million (2010). The college's assets and expenses totalled approximately \$94 million and \$107 million respectively for the period ended March 31, 2011.

We carried out our examination of Camosun College's board governance from August 2011 to November 2011.

## Legislated Board Structure

The composition of the college's board of governors is defined in the *College and Institute Act* as:

- ♦ eight or more persons appointed by the Lieutenant Governor in Council;
- ♦ one faculty member elected by the faculty;
- ♦ two students elected by the student body;
- ♦ one member of the support staff who is elected by the support staff;
- ♦ the president; and
- ♦ the chair of the education council.

## OVERALL OBSERVATIONS

Our examination looked at the roles and responsibilities of both Camosun College and the Ministry of Advanced Education in setting up board governance structures and ensuring good governance practices.

We found the Camosun College board to be following some good governance practices, such as high attendance at board and committee meetings and evidence of appropriate controls in place to manage organizational risks.

Areas for improvement include the timeliness of board appointments, communication and consultation between the ministry and the board, and some specific matters pertaining to board practices.

## KEY FINDINGS AND RECOMMENDATIONS

### Governance Structure

The key findings from our examination of the governance structure in place at Camosun College relate to board composition and the appointment process. We found the board identifies new candidates based on an understanding of competencies required; however, the process is informal. We also found the government's process for appointing board members is not timely.

#### *Board composition*

The board's composition is consistent with the requirements of the College and Institute Act, and term lengths and expiry dates for board members have been staggered to ensure continuity of board membership.

The board identifies and recommends to government potential new board member appointments based on an informal understanding of the competencies the board requires collectively to fulfil its roles and responsibilities. The board has developed a competency matrix to identify the skill sets of board members in relation to those needed to govern effectively, but it is incomplete as it does not include elected board members. The board also does not have a documented succession plan for the orderly turnover of board members. Without a comprehensive and well-documented competency matrix and succession plan there is an increased risk that the board may not be aware of, or possess, all the competencies needed to govern effectively.

**RECOMMENDATION 1:** *We recommend that the Camosun College board develop a comprehensive competency matrix and documented succession plan to effectively support the board appointment process.*

#### *Board appointment process*

Government selects candidates to fill open positions for appointed board members; however, the process is not timely, and the possibility of government appointing candidates that are unknown to the board – without those skills and competencies the board feels are needed – is an issue of concern for some board members. Government's inability to ensure timely appointments of qualified individuals, based on the competencies required by the board, increases the risk that the board may not be able to discharge its governance responsibilities effectively.

**RECOMMENDATION 2:** *We recommend that government and the Camosun College board ensure that board member candidates are appointed in a timely manner.*

**RECOMMENDATION 3:** *We recommend that government and the Camosun College board ensure that board members collectively possess adequate skills and experience to fulfil the board's governance responsibilities.*

### Government's Performance Expectations

#### *Communication and consultation on performance expectations*

Government provides Camosun College with documentation outlining institutional performance expectations and accountabilities. However, the board is not consulted when performance expectations are developed.

Board involvement in setting the organization's strategic direction is a cornerstone of good governance. Involvement encourages a board to take ownership of provincial strategic objectives. A board that takes ownership is more likely to be engaged in institutional accountability plan monitoring and reporting, and to achieve ministry goals and objectives.

**RECOMMENDATION 4:** *We recommend that the Ministry of Advanced Education and the Camosun College board agree on the board's role in implementing and monitoring government and institutional performance expectations and accountabilities.*

#### *Board Governance Practices*

The key findings of our examination relate to strategic planning and board evaluations. We found good practices including high attendance at board and committee meetings and evidence of appropriate controls in place to manage organizational risks.

Areas for improvement include making stronger linkages between the organization's strategic plan and government's expectations for the organization, and more comprehensive board evaluations.

## *Strategic planning*

We found that Camosun College's board is actively involved in the development and approval of strategic planning for the college. However, the institutional strategic plan does not address government's expectations as outlined in the Government Letter of Expectations. Management normally links the institutional strategic plan and government expectations through the *Institutional Accountability Plan and Report (IAPR)*. However, management does not consult with the board when developing the IAPR.

If the institutional strategic plan does not address government's expectations, Camosun College's actions may not match government's objectives. Furthermore, board members who are not sufficiently aware of government's performance expectations will be unable to adequately fulfil their oversight responsibilities.

**RECOMMENDATION 5:** *We recommend that the Camosun College board direct management to strengthen linkages between Camosun College's institutional strategic plan and government's strategic objectives and performance expectations for the college.*

## *Board evaluation*

We found the Camosun College board is not following best practices with respect to board performance evaluation. Annual assessments are not conducted for individual members of the board or for board committees as recommended in the government's best practice guidelines. As a result, there is a risk that areas and people in need of development and training are not being adequately assessed and addressed.

**RECOMMENDATION 6:** *We recommend that the Camosun College board complete annual performance evaluations for all board members and board committees.*

The Office will follow up with the Ministry of Advanced Education and Camosun College regarding their implementation of the recommendations made in this report in our April 2013 follow-up report.

## PROJECT TEAM

Morris Sydor,  
*Assistant Auditor General*

Jacqueline McDonald,  
*Manager*

Pat Hundal,  
*Auditor*

Report 2d: May 2012

BOARD GOVERNANCE EXAMINATION  
OF THE VANCOUVER COASTAL HEALTH  
AUTHORITY

[www.bcauditor.com](http://www.bcauditor.com)



# TABLE OF CONTENTS

---

## **Summary of Recommendations**

## **Response from the Ministry of Health and the Vancouver Coastal Health Authority**

## **Detailed Report**

*Background*

*Overall Observations*

*Key Findings and Recommendations*

## **Looking Ahead**

# SUMMARY OF RECOMMENDATIONS

- 1** We recommend that government and the Vancouver Coastal Health board ensure that board member candidates are appointed in a timely manner.
- 2** We recommend the Ministry of Health and the Vancouver Coastal Health board come to a shared understanding of the board's role in establishing the health authority's accountabilities and the ministry's performance expectations, as these relate to province-wide strategic priorities for health care.
- 3** We recommend that the Vancouver Coastal Health board ensure board members receive adequate orientation and ongoing professional development to fulfil their governance roles and responsibilities.
- 4** We recommend that the Vancouver Coastal Health board conduct annual performance evaluations for all board members.
- 5** We recommend that the CEO performance evaluation be clearly linked to the achievement of strategic priorities.
- 6** We recommend that the Vancouver Coastal Health board oversee the development and implementation of an external communications plan that defines its role in stakeholder relations and external communications.

**THE BOARD OF** Vancouver Coastal Health Authority and the Ministry of Health thank the Office of the Auditor General of British Columbia for its examination of the governance of Vancouver Coastal Health.

Both the Board and Ministry acknowledge there were three primary objectives to the review process:

1. to determine the capacity of the board to fulfill its governance role;
2. to determine if the government made its performance expectations clear; and
3. to determine if the board was taking the steps to fulfill its roles and responsibilities and provide effective governance.

## *Governance Structure*

Overall, the Board agrees with the general observations in the report. It also agrees with Recommendation #1. Names of potential candidates have been presented to the government in a timely fashion and candidates put forward based upon an analysis of the strengths and gaps in board members competencies. The Ministry recognizes that there have been delays in the appointment process and is working to ensure appointments occur in a timely fashion.

## *Government Performance Expectations*

While the strategic direction for the health sector is derived from input from various stakeholders, final direction is set by Cabinet. It is the Ministry of Health's responsibility to ensure that health authorities carry out this direction, and the Minister of Health and senior Ministry representatives have regular meetings with the health authority Board Chairs and CEOs to discuss the strategic directions. In addition, there has been a senior representative assigned to each Health Authority Board for the past two years. The Boards and Ministry work collaboratively to implement the government's strategy, taking into account differences in the populations served, to achieve the best outcomes for our citizens.

## *Board Governance Practices*

The Board agrees with the observations of the orientation of its members and Recommendation #3. The Board, as of April 2012, is putting into place new measures to ensure its members receive a thorough and timely orientation as well as professional development in accordance with the principles outlined by the Board Resourcing and Development Office Best Practice Guidelines. This is being achieved through the development and implementation of a new Board Liaison position. The framework for the board orientation is currently in the process of revision and new members will be assigned a mentor. Board committee chairs will also orient their new members to their committee and orientation feedback will be sought from each new board member quarterly during their first year.

The Board participates in professional development throughout the year, although there is an opportunity for the Board and CEO to strategically plan the professional development on an annual basis. This will ensure that the board members maintain or improve their skills, and that they continue to deepen their understanding of the health authority's services, those it serves, and the environment in which it functions.

The Board also agrees with Recommendation #4. It has evaluated the Chair and the Chair of each committee, and since the examination was conducted, the Board has agreed upon the elements of - and is currently in the process of - conducting, an evaluation of each of its members. That evaluation will be administered in May 2012.

## *CEO Evaluation*

While the Board generally agrees with the review, it disagrees with the observation that the evaluation of the CEO lacked specific indicators. The CEO report of November 2010 clearly provided specific performance targets and indicators. In meeting Recommendation #5, the Board will be conducting an evaluation of the CEO based upon the indicators embedded within the 2011/12 VCH Strategic Plan and Objectives. The results of this evaluation will be discussed at the Board's June 2012 meeting followed by input into the CEO performance plan for 2012/13. During 2012/13 the Board will also develop a broader 360 evaluation process for CEO evaluation.

## *External Stakeholder Relations and Communication*

The Board agrees with observations and Recommendation # 6 regarding a communication plan, with a communications plan based upon the VCH Strategy to be presented for approval at the June 2012 Board meeting.

In conclusion, the VCH Board and Ministry of Health believe that the Auditor General's report provides useful guidance on how to improve roles and responsibilities regarding governance and will use the report to inform our management of Vancouver Coastal Health.

## BACKGROUND

The Vancouver Coastal Health Authority was created under the *Health Authorities Act* in 2001 and is one of six health authorities in the province.

The *Health Authorities Act* is the key legislation defining the mandate and structure of British Columbia's health authorities. The provincial government appoints the board's directors, who normally serve two terms of three years (to a maximum of six years). As per the Act, the board's purpose is to:

- ♦ develop and implement a regional health plan that includes services, facilities, programs and human resource requirements, and report on the plan to the Minister of Health;
- ♦ develop policies, set priorities, prepare and submit budgets to the minister and allocate resources;
- ♦ administer grants from the government;
- ♦ deliver or contract out regional services;
- ♦ develop and implement regional standards; and
- ♦ monitor, evaluate and comply with provincial and regional standards.

Vancouver Coastal Health serves 25% of the provincial population, including residents of Vancouver, Richmond, the North Shore and Coast Garibaldi, the Sea-to-Sky Highway, the Sunshine Coast, Powell River, Bella Bella and Bella Coola. The health authority has 22,000 staff, 2,500 physicians and 5,000 volunteers. Each year it provides over 3 million patient days of care, with over 308,000 people assisted in its emergency departments and over 640,000 visits to its clinics. Vancouver Coastal Health serves one of the most culturally, economically and geographically diverse populations in the province.

We carried out our examination of Vancouver Coastal Health's board governance from August 2011 to November 2011.

## OVERALL OBSERVATIONS

Our examination looked at the roles and responsibilities of both Vancouver Coastal Health and the Ministry of Health in setting up governance structures and ensuring good governance practices.

We found the Vancouver Coastal Health Authority board to be following some good governance practices. The board functions professionally, fulfils its reporting obligations to the ministry and is aware of key risks facing the organization.

Areas in need of strengthening include the timeliness of board appointments, communication and consultation between the ministry and the board, and some specific matters pertaining to board practices.

## KEY FINDINGS AND RECOMMENDATIONS

### Governance Structure

The key findings of our examination of the governance structure in place at Vancouver Coastal Health relate to the board appointment process. The appointment process results in the risk that the board is too small to fulfil its obligations. There is also the risk of significant skills gaps that compromise the board's ability to provide oversight for key areas, such as research and education.

#### *Board appointment process*

Vancouver Coastal Health's board currently has seven members, although it has a provision for nine and good practice indicates that nine to 11 is appropriate. The board members agree that nine would be appropriate, and are working with government to fill the gap in membership. A board that is too small cannot effectively fulfil its obligations and may experience an excessive workload. It is important that the board maintain a size that reflects the scope of its responsibilities.

Furthermore, government and the board have not appointed board member candidates in a timely manner. This has delayed filling competency gaps and could impede the board's ability to provide oversight in key areas. Board vacancies have led to inadequate representation of areas such as research and education. The board would benefit from greater diversity and depth of knowledge, skills and abilities if it filled vacancies in a timely manner.

**RECOMMENDATION 1:** *We recommend that government and the Vancouver Coastal Health board ensure that board member candidates are appointed in a timely manner.*

## Government's Performance Expectations

### *Consultation on accountabilities and performance expectations*

The Ministry of Health is in the challenging position of ensuring the province's six health authorities deliver comparable, high-quality services. This requires establishing province-wide goals, standards and expectations for health service delivery. In 2010/11, the ministry developed a new strategic framework for health authorities, shifting how it frames its expectations for health service delivery in the province.

When setting expectations of and accountabilities for the health authority, the ministry consults with the health authority's senior management. However, the amount of health authority board involvement in setting accountabilities and performance expectations was identified as an area of concern by board members. Board involvement in setting the organization's strategic direction is a cornerstone of good governance. Involvement encourages a board to take ownership of province-wide strategic objectives for health. A board that takes ownership is more likely to be engaged in service plan monitoring and accountability, and to achieve ministry goals and objectives.

**RECOMMENDATION 2:** *We recommend the Ministry of Health and the Vancouver Coastal Health board come to a shared understanding of the board's role in establishing the health authority's accountabilities and the ministry's performance expectations, as these relate to province-wide strategic priorities for health care.*

## Board Governance Practices

The board has taken steps to fulfil its roles and responsibilities to provide effective board governance for the health authority. We found the board fulfils its reporting obligations to the ministry, is aware of key risks facing the organization and ensures that appropriate systems of control are in place to mitigate risks. Areas in need of strengthening include board member orientation and professional development, CEO and board evaluation and external communications.

### *Orientation and professional development*

Due in part to the large, complex nature of Vancouver Coastal Health's responsibilities, a majority of board members said they did not receive sufficient orientation to comfortably assume their responsibilities as new directors. Similarly, it was found that ongoing professional development could be strengthened. It is important that board orientation and professional development corresponds with the health authority governance role to allow new directors to provide effective oversight as soon as possible.

**RECOMMENDATION 3:** *We recommend that the Vancouver Coastal Health board ensure board members receive adequate orientation and ongoing professional development to fulfil their governance roles and responsibilities.*

### *Board evaluation*

The board recently evaluated the performance of its chair and the chair of each board committee. However, annual assessments are not conducted for all board members or for board committees although this is recommended in the government's best practice guidelines. As a result, there is a risk that areas and people in need of development and training are not being adequately assessed and addressed.

**RECOMMENDATION 4:** *We recommend that the Vancouver Coastal Health board conduct annual performance evaluations for all board members.*

### *CEO evaluation*

The board reviews the CEO's performance annually. The process includes input from board members, direct reports and other staff. Performance is assessed against measures including core competencies and strategic objectives. However, the evaluation lacks specific indicators of how the CEO's performance led to the achievement of organizational strategic and service plan objectives. CEO performance plans and evaluations should incorporate performance indicators that are linked to organizational priorities to inform and allow continuous improvement.

**RECOMMENDATION 5:** *We recommend that the CEO performance evaluation be clearly linked to the achievement of strategic priorities.*

## *External stakeholder relations and communication*

The Vancouver Coastal Health Authority's board members participate in stakeholder relations activities, such as open board meetings, to maintain a public presence. However, the board's role in managing stakeholder relations and external communications has not been clearly defined, in part because the board has not ensured that management establish a formal external communications plan that defines the board's role in these areas. The absence of a clearly defined role in stakeholder relations could impact the health authority's ability to be accessible and responsive to stakeholders' concerns.

**RECOMMENDATION 6:** *We recommend that the Vancouver Coastal Health board oversee the development and implementation of an external communications plan that defines its role in stakeholder relations and external communications.*

The Office will follow up with the Ministry of Health and the Vancouver Coastal Health Authority regarding their implementation of the recommendations made in this report in our April 2013 follow-up report.

## PROJECT TEAM

Morris Sydor,  
*Assistant Auditor General*

Jacqueline McDonald,  
*Manager*

Kevin Keates,  
*Performance Audit Analyst*



## GUIDANCE ON GOOD GOVERNANCE FOR THE PUBLIC SECTOR

Governing boards have a legal and ethical duty to the Crown agency they oversee. General responsibilities of governing boards are described and specified in the following documents:

- ◆ [Best Practice Guidelines](#), a guide establishing broad provincial standards for board governance practices produced by the government's Board Resourcing and Development Office;
- ◆ a number of [good practice checklists](#) that support the Board Resourcing and Development Office's Best Practice Guidelines; and
- ◆ [Shareholder's Expectations for British Columbia Crown Agencies](#), produced by the Crown Agencies Resource Office, which outlines the Crown Agency Accountability System.

The Office of the Auditor General of British Columbia has also developed guidelines to assist government with good governance principles: [Public Sector Governance: A Guide to the Principles of Good Practice](#).

While principles and guidelines provide public sector agencies with a broad outline of good governance and the standards they are expected to meet, each organization must develop specific governance structures and practices that reflect their environment, stage of development, strategic objectives and needs.

The following is a list of the criteria or expectations that we applied in our examinations to assess whether each Crown agency has good governance structures and is implementing good governance practices. We also provide the rationale for these expectations. In the case of our third objective, there are sub-criteria that provide further detail on the good practice expectations we use to assess governance in our examinations.

### Objective 1: Board governance structure

1.1 *The board identifies and recommends to government new candidates based on an understanding of the competencies required, and government selects candidates to fill the existing competency gaps.*

It is important to appoint directors whose collective skills and experience enable the board to fulfil its governance responsibilities. There is a risk that the board will not be able to provide adequate oversight if it does not have directors who understand sufficiently the organization's business or the public sector environment. The board and management are normally in the best position to determine the competencies they require in their board directors.

Furthermore, good practice recommends that management and the board develop a skills and experience matrix to guide board appointments. An organization's needs can change over time, depending on its strategic focus and phase of development, and therefore the skills and experience matrix should be regularly reviewed. The up-to-date matrix must then be used in the government's selection and appointment of new board candidates. Without this guidance, appointments may be made on the basis of political affiliations, which are often not relevant to the board's skills and experience needs.

1.2 *The board has a succession plan for the orderly turnover of directors.*

To ensure the orderly replacement of directors and optimum continuity, boards should take a proactive approach and develop a succession plan. Provincial government guidelines indicate that it expects all boards to develop and plan a process to recommend to government the orderly long-term renewal of board membership.

Each director brings particular skills, expertise and personal attributes to the board, and the board's awareness of the potential gaps that a director's departure would create should enable it to plan for succession so that the board composition will always meet the board's skills and expertise requirements.

In addition, there is increasing demand for highly qualified directors, which emphasises the need to plan ahead to ensure that the board will be able to recruit the right directors when needed.

Succession planning involves developing a strategy for identifying potential directors, developing and regularly updating a list of

# APPENDIX 1: BOARD GOVERNANCE EXAMINATION CRITERIA: GOVERNANCE GOOD PRACTICES

eligible board candidates, and maintaining awareness of each board director's plans for their length of service.

## 1.3 *The size of the board of directors is appropriate to the roles and responsibilities being assigned.*

The appropriate size for a board of directors depends on the roles and responsibilities being assigned. Governance guidelines suggest that the board should be the smallest size possible to fulfil those roles. A board that is too small may not be able to cover the skills and experience needed, or may not have enough members to form committees, which can consider the organization's business at a greater level of detail than the full board. A board that is too large may find it difficult to conduct discussions and debates with the full board present, making it more challenging to get through the meeting agenda and ensure all board members are able to participate in decision-making.

## 1.4 *Board vacancies are filled on a timely basis, without leaving gaps in board membership that affect decision-making ability.*

It is important that board appointments be made in a timely manner, because boards legally require a certain number of directors present in order to be able to make decisions. Boards are required to approve organizational budgets, financial statements, service plans and reports, among other key decisions. If there are gaps in filling board vacancies, the board may not be able to make those key decisions. There is a formal process to fill board vacancies in British Columbia, facilitated by the Board Resourcing and Development Office (BRDO). The BRDO has appointment guidelines that outline the responsibilities of the organization, the board, the candidates for appointment, the ministries and its own office. The guidelines are intended to ensure that "all appointments are made on merit following an open, transparent and consistent appointment process."<sup>6</sup> The guidelines recommend that the process begin at least six months prior to when the appointment will be required, and that it seeks to have every appointment finalized at least 30 days prior to the effective date of appointment.

## 1.5 *Term length for the board directors is appropriate to allow for continuity of membership but also to ensure director independence from management, to encourage performance evaluation and to enable government to replace directors who are not fulfilling their role.*

The BRDO recommends that a board member first be appointed for one year, then become eligible for reappointment for two further terms of two years and three years respectively, for a total of six years. Good practice suggests that limiting the total length of time board directors can serve is a way to ensure that directors remain independent from management and that there is a regular injection of fresh perspectives to the board. At the same time, the BRDO recognizes there may be situations whereby it is appropriate for members to serve for more than six years, for example if the organization requires board members with a highly specialized skill set.

## 1.6 *Directors are compensated to a level that matches their responsibilities and allows the board to attract and retain those who are best qualified.*

Service on the board of a public sector organization such as a Crown agency is seen as a public service, and not motivated primarily by the promise of financial reward. At the same time, public sector agencies require directors with specialized skills and experience and are competing with the private sector for qualified candidates for board appointments. Director compensation must strike a balance, therefore, between the need to attract and retain qualified board members and the need to limit excessive expenditures within the constraints of the public sector.

The government of British Columbia recognizes that "appropriate remuneration for work performed by directors is part of good governance practices," and it has produced guidelines to ensure a consistent and transparent approach to remuneration and expense reimbursement.<sup>7</sup>

## Objective 2: Government's performance expectations

### 2.1 *Government provides the organization with documentation outlining performance expectations and accountabilities, which is developed in consultation with the organization.*

Government should provide public sector organizations with documentation outlining the Province's performance expectations and the organization's accountabilities. In British Columbia, this is done through the Shareholder's Letter of Expectation. This letter's purpose is to "develop a common understanding between the Government and the Crown corporation regarding

<sup>6</sup> Board Resourcing and Development Office, 2007. *Appointment Guidelines: Governing Boards and Other Public Sector Organizations*, p. 3.

<sup>7</sup> Treasury Board Directive 3/11, *Remuneration Guidelines for Appointees to Crown Agency Boards*.

# APPENDIX 1: BOARD GOVERNANCE EXAMINATION CRITERIA: GOVERNANCE GOOD PRACTICES

the government's priorities, policy objectives and performance expectations.<sup>8</sup> Clear performance expectations are important to ensure mutual understanding of the mandate, public policy issues and the shareholder's strategic priorities. The board requires this clarity to establish the corporation's strategic plan and develop the corporate plan.

## 2.2 Government periodically reviews the Government's Letter of Expectations for the organization to ensure it is consistent with government's performance expectations for the agency.

Crown agencies change and develop in response to shifts in economic, social and political circumstances. It is important that the Government's Letter of Expectation is reviewed and updated regularly to take these changes into account. The ministry responsible for the Crown agency is expected to review and update the Government's Letter of Expectation annually.

## 2.3 Government ensures it has the capacity and skills needed to review the organization's corporate plans and reports.

British Columbia's Crown Agencies Resource Office (CARO) helps ministries develop the skills to review corporate plans and reports and, when resources are available, CARO staff perform their own review. The ministries must also ensure they have the skills and capacity to carry out adequate reviews themselves.

## 2.4 Government reviews the organization's corporate plans and reports annually for alignment with government expectations and compliance with government guidelines.

It is important that government review Crown agency corporate plans carefully to ensure that approved plans meet expectations and guidelines. Without this review, Crown corporations may not be setting clear goals and appropriate indicators of performance for their public policy objectives. When the Office of the Auditor General of Canada audited federal Crown agency governance, it found that deficient corporate plans were being approved and there were weaknesses in corporate planning that were not being addressed.<sup>9</sup>

## Objective 3: Board governance practices

### 3.1 **Definition of roles and responsibilities:** *The board possesses and makes publicly available a written charter that describes the board's*

*responsibilities, in accordance with the BC Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations.*

It is good practice for a board to develop a charter that specifies its roles and responsibilities, and for this charter to be made public so that the board may be held accountable for fulfilling its responsibilities. The Province's guidelines specify a list of responsibilities that all boards are expected to undertake. These guidelines also require boards to specify:

- ◆ any limits to the board's decision-making powers;
- ◆ the delegation of board responsibilities to management or committees;
- ◆ board decision-making processes;
- ◆ the legal obligations of the board;
- ◆ plans for communication with the responsible Minister;
- ◆ distinctions between governing and managing, and
- ◆ its commitment to ongoing board assessment and improvement.

### 3.2 **Orientation and development:** *Board members have the knowledge and capacity to fulfil their governance responsibilities.*

It is rare that a director will know everything about the organization prior to becoming a director, because directors are expected to be independent of the organization to the extent that there is no risk of bias or conflict of interest. Therefore, new directors require orientation to the organization and to their role in board governance. Even directors who have experience on governing boards within the private sector will require orientation to the unique expectations and environment of public sector governance. Because organizations change and develop, board directors require ongoing educational opportunities to maintain the knowledge and capacity needed to fulfil their governance roles. Some boards provide opportunities for members to attend conferences on governance, financial issues and/or industry-specific topics.<sup>10</sup>

Specifically, good practice recommends that the following expectations be met in order to ensure adequate director knowledge and capacity:

<sup>8</sup> BRDO, 2005. *Best Practice Guidelines*, p. 6.

<sup>9</sup> OAG Canada, 2005. *Governance of Crown Corporations*, p. 11.

<sup>10</sup> OAG Manitoba, 2009. *Study of Board Governance in Crown Organizations*, p. 22.

# APPENDIX 1: BOARD GOVERNANCE EXAMINATION CRITERIA: GOVERNANCE GOOD PRACTICES

3.2.1 *An orientation program is provided to all new board members, covering the organization's mandate, its nature and operations, the role of the board and the expectations for individual directors.*

3.2.2 *The board provides ongoing educational opportunities for directors to learn about the organization, its sector and its corporate governance practices, and maintains a training and development plan that addresses the needs of board members.*

3.2.3 *Board members understand:*

- ◆ *the governance structure, the constitution, the bylaws, the role of the board and its supporting committees;*
- ◆ *their own roles, responsibilities and expected performance as set out in the charter of expectations or equivalent statement;*
- ◆ *applicable legislation, regulations, bylaws and policies governing the Crown agency; and*
- ◆ *the organization's nature, its operations and working environment including its major risks and its risk management strategy.*

3.3 **Board use of committees:** *The board has structured itself effectively to fulfil its governance responsibilities.*

Boards are expected to create committees as necessary to fulfil specific functions or review and research specific issues on behalf of the board. A board committee can devote careful attention to key issues, and bring forward recommendations to the full board. This allows the board to use its time more efficiently, while maintaining decision-making power with the full board and thus avoiding creating executive committees within the board that may create an imbalance among board director roles. Typical board committees include audit, governance, nomination and executive compensation.

Of these, the most common – and one strongly recommended in government guidance – is the audit committee. Board audit committees help the board fulfil its financial accountability and oversight responsibilities. Audit committee members are expected to be independent and financially literate, and at least one member of the committee should have a financial designation or relevant financial management expertise.<sup>11</sup>

Good practice for board committees includes the following key expectations:

3.3.1 *The board has committees that address the audit, governance, and human resources functions, and other committees relevant to board operations, as required. At a minimum, an audit committee is in place unless there is evidence that it is not required.*

3.3.2 *All board committees have written terms of reference that have been approved by the board, which define their purpose, composition and working procedures.*

3.3.3 *Audit committee members are independent and financially literate. At least one member of the audit committee has a financial designation or relevant financial management expertise.*

3.3.4 *The audit committee fulfils the oversight roles and responsibilities required for effective financial accountability. Specifically:*

- ◆ *reviews and recommends for board approval financial and performance information provided to government and stakeholders;*
- ◆ *reviews the corporate risk profile at least annually and is educated and aware of key warning signals that indicate problems;*
- ◆ *regularly reviews the organization's internal control framework, including controls over financial reporting, information technology and data security, for adequacy and effectiveness;*
- ◆ *reviews and approves the audit plan, and reviews audit results;*
- ◆ *holds in-camera meetings with the external auditor;*
- ◆ *meets with the external auditor at least twice per year;*
- ◆ *ensures that the internal audit unit reports functionally to the audit committee and administratively to an appropriate position within senior management;*
- ◆ *monitors the organization's compliance with legislation, regulations, legislative mandate and public sector reporting requirements; and*
- ◆ *reports back to the full board with a regular update on risks and risk management, legal and regulatory compliance and financial information which outlines the forecast outturn position and provides commentary and assessment of any risks. Board members have the skills necessary to understand this information.*

<sup>11</sup> BRDO, 2005. *BC Governance and Disclosure Guidelines*, page 17.

# APPENDIX 1: BOARD GOVERNANCE EXAMINATION CRITERIA: GOVERNANCE GOOD PRACTICES

**3.4 Board culture and member commitment:** *The board functions in a professional manner.*

For the board to function well, it must have in place efficient and effective systems for meetings, minutes and agendas. An equally important factor (but less easy to mandate) is that there must be a strong board culture and healthy team dynamics. Boards can have structures that conform to governance expectations on paper, but if board dynamics are dysfunctional then good governance is very difficult to achieve. Board members need to come to meetings prepared and ready to participate in discussion, and take responsibility for remaining informed about the organization, the industry and the communities the board serves.

Good practice expectations for the professional functioning of public sector boards include the following key elements:

- 3.4.1 *The board and its committees hold a sufficient number of meetings to fulfil their roles and responsibilities.*
- 3.4.2 *The board keeps meeting minutes that record proceedings and resolutions and supporting documentation that shows the basis for decisions made.*
- 3.4.3 *The board develops and publishes minimum attendance expectations for directors and makes public the directors' attendance records. Directors meet minimum attendance requirements.*
- 3.4.4 *The chair sets the agenda for board meetings with input from other board members and the CEO.*
- 3.4.5 *The board holds in-camera sessions without the presence of management on a regular basis. The chair gives the CEO feedback on the contents and results of the discussion.*
- 3.4.6 *The board works well together as a team. Individual board members are able to contribute to deliberations and their opinions are heard and respected. Board members are willing to engage in rigorous debate, to ask and receive answers to tough questions and to take an opposing view when required. Conflict and discord are adequately resolved on a timely basis.*

3.4.7 *The chair runs meetings effectively, controls discussion appropriately, manages dissent and conflict resolution, works towards consensus and establishes a culture of active and constructive board engagement.*

3.4.8 *Board members take collective responsibility for decisions made by the board.*

**3.5 Board's role in strategic planning:** *The board is actively involved in strategic planning; has final approval of a strategic plan that is aligned with the mandate set by government; and monitors and follows up on the Crown agency's performance in meeting the strategic plan.*

In the public sector, government sets the broad strategic direction for the Crown agencies. The board's role is to ensure that the organization aligns its own plans with government's strategic direction, and to monitor the organization's performance in meeting those plans. However, because government's formal goals and mission statements are often higher level and general, the board should hold regular discussions to clarify and debate the strategic direction and goals of the organization, and identify shared priorities.

The board is responsible for monitoring the organization's performance against the goals and objectives in the strategic plan and in the corporate service plan. This evaluation needs to be done systematically to ensure the effective and efficient use of the organization's resources and to enable early identification of any substantial problems with performance results.

**3.6 Board's role in risk management:** *The board is aware of key risks facing the organization and ensures appropriate systems of control are in place to mitigate risks. The board sets an appropriate "tone at the top" that fosters a strong ethical culture.*

Effective risk management is integral to the success of any organization. Given the board's authority for the organization's performance, it is good practice for the board to maintain awareness of key external and internal risks to the organization, and to oversee the organization's plan to address those risks. Management's role is to implement board policies, identify and evaluate risks on an ongoing basis, and operate and monitor the internal control system to mitigate risks. The provincial government recommends the use of an Enterprise Risk Management framework for Crown agencies.<sup>12</sup>

<sup>12</sup> Ministry of Finance, *Core Policies and Procedures Manual*, Chapter 14: Risk Management, p. 3; OAG BC, 2011. *The Status of Enterprise Risk Management in the Government Ministries of British Columbia*.

# APPENDIX 1: BOARD GOVERNANCE EXAMINATION CRITERIA: GOVERNANCE GOOD PRACTICES

Board members must recognize their position of trust and uphold high standards of ethical conduct. Formal statements of ethical standards, such as codes of conduct and conflict of interest policies, are good practice to support ethical behaviour and ensure standards are upheld throughout the organization, from top to bottom. Although the “tone at the top” directive is less tangible than a written policy, it is important that an organization’s values are demonstrated by its leaders’ actions and behaviour.

The key aspects of board risk management activities expected in good practice guidelines are:

3.6.1 *The board works with management to identify the principal risks to the organization and ensures that policies, systems, and controls to manage those risks are in place.*

3.6.2 *The board ensures that controls, codes or guidelines regarding ethical conduct, conflict of interest, environmental protection, personal and public safety, equity and similar concerns are established, communicated and implemented.*

3.6.3 *The board has established and implemented a whistle-blower policy for officers and employees that functions to enable inappropriate conduct to be reported and addressed without harm to those “blowing the whistle.”*

3.7 **Board’s relationship with management:** *The board has delegated responsibilities for operational decisions to management and effectively monitors the performance of the CEO in fulfilling its strategic priorities.*

The board’s interaction with senior management is a key internal relationship for the organization. It is important that roles and responsibilities be clear and documented to ensure the board does not interfere with day-to-day operational decisions, or the board risks losing its position of independence from management outcomes and compromises the authority and accountability of the CEO.<sup>13</sup> There should be a job description for the CEO, and the board should set performance expectations in order to evaluate the CEO’s performance and leadership. “Leading practices call for a formal evaluation of CEO performance to be conducted by the board on an annual basis.”<sup>14</sup>

Good practice expectations for the board’s relationship with management include the following:

3.7.1 *The board ensures that the division of roles and responsibilities and decision-making power between itself and management is documented and understood by all parties.*

3.7.2 *The board does not involve itself in the day-to-day management of the Crown agency, thereby respecting the division of decision-making power between itself and management.*

3.7.3 *The board annually establishes performance expectations for the CEO.*

3.7.4 *The board annually assesses the CEO’s performance against the position description and the performance expectations.*

3.7.5 *The board reviews and approves the CEO’s expenses and compensation.*

3.8 **Board access to information:** *The board ensures it receives appropriate information to enable it to obtain assurance that the organization’s strategic and operational goals are being addressed.*

For boards to make informed decisions, board members must receive the critical information and support they need. They must know what information they require and how to access it. The information provided to them must be of high quality, and members may need aid in understanding and using it. Without access to accurate, reliable, timely and complete information, boards risk making poor or inappropriate decisions.

Key practices to ensure good board access to information include:

3.8.1 *The board ensures that it receives sufficient, appropriate and timely information to allow it to fully assess organizational performance and compliance, and to support board-level decision-making overall.*

3.8.2 *The board periodically assesses the adequacy (quality and quantity) of information it receives.*

13 OAG Manitoba 2009, *Study of Board Governance of Crown Organizations*, p. 85.  
14 OAG Manitoba 2009, *Study of Board Governance of Crown Organizations*, p. 87.

# APPENDIX 1: BOARD GOVERNANCE EXAMINATION CRITERIA: GOVERNANCE GOOD PRACTICES

## 3.9 **External stakeholder relations and communication:** *The board effectively manages external stakeholder relationships and communication.*

Crown agencies may have multiple external stakeholders and clients, each with its own communication needs or requirements. Public sector organizations are subject to high levels of scrutiny from the media and general public, and must also take into consideration the political context within which they operate. Government is a key stakeholder and communication between the Crown agency, the board and the minister responsible is very important to ensure government's policy direction is communicated clearly and regularly. Government recommends that ministers and their respective board chairs meet in person at least quarterly, and engage in regular communication. Good practice suggests that a communication plan supports clear decision-making, in that it specifies the types of issues on which the organization will consult or engage stakeholders, as well as how it will use the input received and report back on decisions.

Good practice elements of external stakeholder relations and communications include:

3.9.1 *The board actively solicits opportunities for communication with the organization's stakeholders and clients, and provides stakeholders with appropriate and timely information as required.*

3.9.2 *The board has developed, maintains and implements a communications plan that promotes regular two-way communication with government, key stakeholders and any external party that provides ongoing information to the board.*

## 3.10 **Accountability reporting:** *The board fulfils its accountability obligations to government and its external stakeholders.*

Crown agencies need to ensure the public is provided with the information it requires to understand the organization's mandate and services. Government sets formal accountability requirements, such as the tabling of service plans and annual reports in the legislature. This is one key aspect of the board's role in ensuring public transparency, reliability and relevance of reporting to government and external stakeholders. Guiding principles for reporting on performance in British Columbia were developed jointly by the government and the Office of the Auditor General in 2003, and form the basis of the guidelines set out annually for Crown agency reporting.<sup>15</sup>

The following good practice expectations capture the main elements of accountability reporting expected of the province's Crown agencies.

3.10.1 *The board reviews and approves all external accountability documents produced to ensure that reporting standards are being complied with before they are released.*

3.10.2 *The board ensures that the organization's annual report clearly communicates overall organizational performance to all relevant stakeholders.*

3.10.3 *The board ensures that the annual report discloses whether the board governance information on the website includes all information required by the Board Resourcing and Development Office.*

3.10.4 *The board approves the quarterly financial reports.*

## 3.11 **Board evaluation:** *The board evaluates its own performance in fulfilling its governance responsibilities, and makes changes as necessary to enhance governance.*

The board's evaluation of its performance is important in order to enable it to identify strengths and areas for improvement, and to implement strategies to address challenges. To do so, the board should have a clear set of goals against which to evaluate its performance that can be developed based on its charter of expectations or using the guidelines produced by the Board Resourcing and Development Office. In addition, evaluating the performance of individual directors enables the board to develop its training plan. The information can feed into the appointment process to ensure that the board renews directors' terms when appropriate, or replaces directors when their performance warrants it.

3.11.1 *The board conducts periodic (at least annual) evaluations of its performance against its charter of expectations (or equivalent governance document), or against the BRDO guidelines and checklists if there is no charter or equivalent document.*

3.11.2 *The board annually assesses the performance of individual directors against the directors' Charter of Expectations.*

<sup>15</sup> *Performance Reporting Principles for the British Columbia Public Sector*, endorsed by Government, the Select Standing Committee on Public Accounts and the Auditor General of British Columbia, November 2003. <http://www.bcauditor.com>.