

THIRD PARTY AUDITING TO REDUCE LEGISLATIVE COMPLIANCE AUDIT COSTS TO GOVERNMENT

Christopher R. Mosher, CA, CEA(SFM)

Forest Practices Board

(250) 356-1703

Chris.Mosher@gems9.gov.bc.ca



ABSTRACT

This paper describes how the Forest Practices Board has been able to utilize the work of third party certification auditors to reduce the cost of legislative compliance audits for both government and industry without compromising audit standards.

Our initial experience with an ISO and SFI certified forest company, Pope & Talbot, reduced field costs for a Board audit by greater than 25% and saved P&T \$40,000 according to their calculations.

Since then we have audited three companies with only ISO certification. The Board was unable to place reliance on the third party certification auditors work as the ISO auditors examined different things than a Board auditor looks at and therefore the Board audit standards required more testing by the Board auditors.



ABSTRACT - continued

The Board will continue utilizing this approach, however since our auditees are randomly selected, the degree to which we can apply this methodology is unknown.

As well, we have only had experience with one SFM system, which was SFI, but we hope it will work equally well for CSA and FSC.

Finally, the provincial government is implementing a new Forest and Range Practices Act that is focussed on results with respect to 11 key resources. It is our hope that our methodology to utilize third party auditing results will allow us to reduce legislative compliance audit costs to government and licensees even more under this new legislation.





2003 CEAA Technical Conference and Annual General Meeting

Panel Discussion: Environmental Auditing / Regulatory Trends

October 9, 2003, Ottawa, Ontario
Christopher R. Mosher, CA, CEA(SFM)
Director, Audits
Forest Practices Board
Province of British Columbia

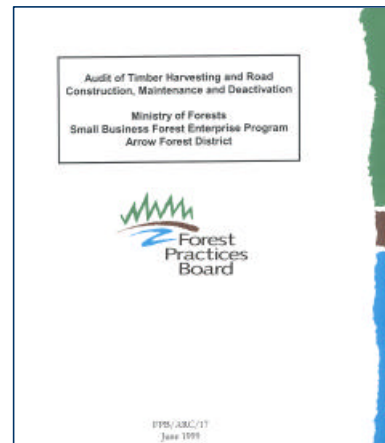




THIRD PARTY AUDITING TO REDUCE LEGISLATIVE COMPLIANCE AUDIT COSTS TO GOVERNMENT

Overview

- The Forest Practices Board Audit Program
- Coordinating Board Audits with Certification Audits
- Forest and Range Practices Act



BC's Forest Practices Board

- Established in 1995 under the Forest Practices Code
- Mandate will continue under newly developed legislation: the Forest and Range Practices Act
- Provides independent 3rd party verification of compliance with forest practices legislation and appropriateness of government's enforcement of legislation



Audit Work

- We audit the planning and activities of forest companies, government's timber sales program, other forest-based activities (range, oil and gas, etc.)
- We are one of the leaders in developing field-based forestry auditing
- We examine forest activities on the 94% of the land that is owned by the public and is covered by the Forest Practices Code
- We have carried out 57 compliance audits and 8 enforcement audits



Board Audits

- Board compliance audits focus on results on the ground
- Compliance is tested against legislation, but significance of findings is based on “potential harm to persons or the environment”
- Board will comment on practices that comply with the law, but are not considered “sound”
- Fundamental purpose is to encourage improved forest practices and sound management of all forest values in the public interest

Audit Findings

Activity audited	1996 4 audits	1997 9 audits	1998 9 audits	1999 9 audits	2000 10 audits	2001 9 audits [1]	2002 7 audits [2]	Total 57 audits
Operational Planning	2		1					3
Forest Health	1	1	2					4
Harvesting		3		1				4
Riparian Management	2	3	2			3		10
Windthrow Management		1		1				2
Roads - Construction, Maintenance, Deactivation	5	9		3		1	5	23
Bridges - Construction Maintenance		1	1	3	1	1		7
Erosion Control	2					1		3
Silviculture						1	1	2
Fire Protection				1				1
Totals	12	18	6	9	1	7	6	59

[1] In 2001, for the first time, the Board examined oil and gas companies, ranchers, and woodlot operators in addition to major industrial forest operators.

[2] In 2002, 4 area-based audits, which included 28 separate reports, were conducted.

Coordinating with Certification

- Certification is here to stay – says recent IBM survey of 30 major buyers of BC forest products
- BC Government's 2001 Core service review of the Board identified a need to coordinate audit work and minimize duplication of effort and costs
- Certification audits can potentially provide valuable information to a Board audit where needs overlap
- HOWEVER, certification is based on different standards and is aimed at a different audience – doesn't replace the need for Board audits

Why Continue Board Audits?

- Board audits provide assurance to the owners of the land, while certification audits provide assurance to the market
- Board audits cover forest operations, certified and not certified
- Board audits report publicly on both industry and government's performance in the forest
- Board audits examine a broad range of forest-based activities (forestry, range, oil & gas) as well as government enforcement
- Certification is voluntary, whereas Board audits are legislated by law

Why Continue Board Audits? cont'd

- Board audits can recommend improvements to forest practices of all operators on Crown forest land
- Board audits can identify system and process issues within the regulatory regime and recommend improvements
- Board audits can take a broader (landscape) view of forest management than certification audits of individual operators
- Board audits can focus on a specific topic or value such as riparian areas, soil conservation or windthrow

Interfor gets top Clayoquot grade

Audit confirms 'we are there to do some responsible forestry,' firm says

By GORDON HAMILTON

International Forest Products — the target of environmental blockades and boycotts — has been given a clean audit of its Clayoquot Sound logging practices by the province's independent forestry watchdog.

The Forest Practices Board said Thursday that Interfor's Clayoquot logging complied "in all significant respects" with not only the Forest Practices Code but the more stringent Clayoquot Sound Scientific Panel recommendations.

The clean audit is viewed by the forest company as confirmation that its practices are environmentally sound, despite claims to the contrary by environmental activists who have boycotted Interfor's Clayoquot cutblocks.

"We are extremely pleased we have been given this approval by the Forest Practices Board," said Steve Crombie, Interfor director of public affairs. "This audit supports the position we have taken in the Clayoquot that we are there to do some responsible



Forest Practices Board says audit of Interfor's Clayoquot Sound operations were chosen at random.

forestry. In no way are we doing anything that is not in line with the Forest Practices Code or that is environmentally unfriendly."

However, the environmental group Friends of Clayoquot Sound claims Interfor may have improved, but it is still not practicing eco-system based forestry, where timber attraction is a

residual of managing for wildlife and environmental protection. "It doesn't meet every single requirement," said Friends campaigner Edward May, noting the



GORMAN BROS. LUMBER LTD.
P.O. Box 28021, Westbank, B.C. V4T 2C3
Phone: (250) 768-1131 Fax: (250) 768-2822

Gorman Bros. Lumber Thanks All Who Contributed to Clean Audit

WESTBANK — Gorman Bros. Lumber is pleased to announce that our operations in the Okanagan Valley are complying with the Forest Practices Code, according to a Forest Practices Board audit dated October 21, 1998.

During the summer, Gorman Bros. was selected randomly by the Forest Practices Board to have our timber harvesting, road construction, maintenance, destruction and planning phases reviewed for compliance with the Forest Practices Code. The Forest Practices Board is the independent watchdog set up to monitor and report on forest practices in British Columbia.

The recently released public report indicated that Gorman Bros. Lumber is meeting the tough standards of the code in all significant respects. The report also stated that our public involvement in the planning process and our harvesting practices around wetland areas were particularly notable.

Gorman Bros. Lumber wishes to thank all of our contractors and woodlands employees throughout the Okanagan who work hard to achieve these outstanding results. We couldn't do it without you.

Whether it is the professional foresters, biologists, hydrologists, engineers, geoscientists, archaeologists and technicians, or the harvesting contractors who work with us, your collective commitment to ongoing training and environmental awareness has resulted in a job well done and contributed to the performance that lead to our clean Forest Practices audit.

- Akris Contracting — Penticton
- Amabilis Forest Consulting — Vernon
- Baensen Logging — Westbank
- Blue Timber — Lumby
- Brysonair Enterprises — Penticton
- Lower Similkameen Indian Band forest technicians — Keremeos
- Mackay Contracting — Summerland
- Myers Contracting — Penticton
- Okanagan GPS — Summerland

CANADA

THE COLONIST THURSDAY FEBRUARY 6 2003 B5

Habitat dying as province fiddles, critics charge

By JUDITH LAVOIE
Times Colonist staff

The Forest Practices Board, one of the government's own watchdogs, is criticizing the province for not doing enough to protect animal and bird habitat from logging.

However, Water, Land and Air Protection Minister Joyce Murray said the government has already accelerated its efforts to protect habitat and that new forest legislation is working well.

The Forest Practices board says in a special report that potential habitat for threatened species such as the marbled murrelet is being lost to logging while the process for defining habitat areas drags on.

The Forest Practices Code does not protect habitat for threatened species from logging until wildlife habitat areas are established, the report says. Road building and other forest development is carrying on while government trundles

"In the past 18 months the government has identified 19 areas to set aside. Another 45 are going forward for approval and 68 are going through the consultation process."

Joyce Murray,
Water, Land and Air protection minister



through a lengthy process of deciding which areas should be protected, it says.

"It's not practical to wait until we learn exactly what forest habitat marbled murrelets need for nesting, or exactly where their nests are, to implement an effective strategy to protect this species," said Bill Cafferata, Forest Practices Board chairman.

The government should quickly designate interim wildlife habitat areas before

nesting areas are lost, said Cafferata, formerly chief forester with MacMillan Bloedel.

Marbled murrelets are small seabirds that have specific nesting needs. They are poor flyers and must nest in old-growth forests within 50 kilometres of the ocean and less than 1,000 metres above sea level.

Although they are still relatively abundant, the Committee on the Status of

Endangered Wildlife in Canada considers them threatened because populations are declining.

The board's report says that 25 to 44 per cent of potential marbled murrelet habitat disappeared on the Sunshine Coast between 1995 and 2001.

It predicts that the murrelet population will decline by one-third over the next 30 years because of loss of nesting habitat.

Murray said the province is acting as quickly as it can, and a team is working to identify marbled murrelet areas. "In the past 18 months the government has identified 19 areas to set aside. Another 45 are going forward for approval and 68 are going through the consultation process," she said.

"We have accelerated this enormously because of the urgency and because the previous Forest Practices Code had the goal of protecting endangered species but it didn't have the tools to do it."

The process has also been speeded up because the Water, Land and Air Protec-

tion Ministry now makes the final decision on habitat areas to be protected, instead of it being a cross-ministry process, she said.

Chris Genovali of the Raincoast Conservation Society said he is delighted with the Forest Practices Board report.

"This is very significant that the government's own watchdog on forest practices has come out with such a strong statement," he said.

Habitat is rapidly disappearing, the provisions are inadequate and the government has been "incredibly slow" to react, Genovali said.

"I hope this will be a signal that people in government need to start looking at the other values that the forest contains." Because of the rapid liquidation of old-growth forest the habitat of species such as grizzly bears, spirit bears, coastal wolves, sitka black-tailed deer and the marbled murrelet are disappearing, Genovali said.

lavoie@island.net

A. Report from the Board

This is the Forest Practices Board's report on a compliance audit of Forest Practices Board Ltd. by Gorman Bros. Lumber Ltd. (Gorman). Gorman's three main operating areas are around the east side of Okanagan Lake near Harrison, and northeast of Lumby.

The audit reviewed Gorman's timber harvesting and road practices, and the related operational plans, for the period June 15, 1998 to June 15, 1999, to assess compliance with the Forest Practices Code of British Columbia Act and related regulations (the Code).

The Board's conclusions are based on an audit of the following plans and practices:

- harvesting of 98 cutblocks
- operational planning for future harvesting of 34 cutblocks
- construction of 34 road segments totaling approximately 40 kilometres
- construction of three bridges
- maintenance and seasonal destruction of approximately 587 kilometres of road

Conclusions

Gorman's timber harvesting and road construction, maintenance and destruction activities complied with Code requirements in all significant respects.

The nature of non-compliance identified were low in number and minor in nature. Gorman's proactive adjustment to many small-scale, steep and seasonal drainage protection areas provided more than the Code requires and resulted in relatively little disturbance to those areas.

Gorman also used innovative methods to provide the public with an adequate opportunity to review and comment on its forest development plans. This included sending letters to interested organizations and posting the forest development plan on the company website. Public review and comment is an important part of the development of plans for forest harvesting and road construction. The Board notes Gorman's efforts to provide understandable plans, make them available in the public and encourage comments.

Gordon Hamilton

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

Photo shows

Chair

The Approach

- If a randomly selected auditee is certified, and if the auditee and its independent certification auditor agree to provide access to their working papers:
 - Board auditors review the working papers of the independent certification auditors to understand the audit work that has been undertaken.
 - Board auditors re-test some of the certification audit testing and field work to ensure consistency with our standards.
 - Based on our level of comfort with the audit work, Board auditors may reduce the size of field samples and focus efforts on high risk areas.
- If access is not granted or the work does not meet the Board's standards, we proceed with a standard Board audit.

2002 Results

- Results of Pope & Talbot pilot – ISO and SFI certified:
 - more up-front planning work was required
 - reduced field time (3 days vs. 8 - 10 days),
 - reduced costs (>25%), for Board and auditee,
 - high level of assurance to the public about the auditee's forest practices

“...there were significant cost savings to Pope & Talbot due to the Board's new approach...we estimate this to be \$40,000 or roughly \$0.07/m³ as a result of this new approach.”

“By using the KPMG data the Board has confirmed that the information collected is of high enough value to be relied upon to judge our performance. This provides an added incentive to pursue and maintain certification.”

October 31, 2002 letter from Pope & Talbot



2003 Results

- Board planned to coordinate with more certified auditees
- Focus of Pope & Talbot coordination was around controls, therefore we thought all licensees with ISO certification would benefit from our approach
- Board randomly selected three certified licensees in 2003:
 - All three licensees had ISO certification
 - In the first two cases, an overview of the ISO audit work completed made it apparent that Board auditors could not rely on this work to reduce the level of field sampling required
 - In the third case, licensee chose not to open certification files to the Board

Why ISO Certification Couldn't be Used

- ISO is an environmental management system, not a sustainable forestry management program
- What is looked at in a Board compliance audit has as much to do with where companies harvest as how they harvest
- We examine different things:
 - Not all ISO audits examine results on the ground
 - Not all ISO audits addressed forest values as key environmental aspects. Values such as riparian areas, wildlife management, aboriginal values
 - ISO audits did not look at landscape level objectives

Why ISO Certification Couldn't be Used

- We would have to do substantial verification work to place reliance on the ISO controls, so generally it is quicker to focus our audit efforts in the field
- It was determined that there would be little to no cost savings for either the licensee or the Board to have the Board place reliance on ISO certification work

Next Steps for Coordinated Audit Approach

- The approach has worked – however we've only been able to utilize it once for a licensee that was SFI and ISO certified
- We believe it would work for licensees that have any certification of a sustainable forest management program – such as SFI, CSA, or FSC – but time will tell
- Since the Board audit selection is random, the benefit of this approach will be dependent on what certifications, if any, the randomly selected licensees hold
- This approach may be better suited to the new Forest and Range Practices Act

New Forest and Range Practices Act

- BC Government is introducing new forest practices legislation, which focuses on the results that must be achieved, rather than the process that must be followed
- This legislation will replace the existing Forest Practices Code over a short transition period
- The results-based framework will emphasize the effectiveness of forest practices in achieving specified results – with a focus around eleven key resources such as riparian areas, wildlife management and landscape level biodiversity
- The focus of sustainable forest management certification programs may be even more in line with this new Act
- This should allow the Board to utilize this approach with greater cost efficiencies



Summary

- Forest Practices Board audits continue under the new legislation
- Audits will continue to focus on results on the ground
- Coordinated approach will be considered for auditees with sustainable forestry management certification as long as it can be done in a cost efficient and effective manner
- Open cooperation from both the certifier as well as the auditee is required for implementation of the coordinated audit approach

More Information

On the web: www.fpb.gov.bc.ca

Contact Chris Mosher, Director of Audits at
250-356-1703 or by e-mail at
Chris.Mosher@gems9.gov.bc.ca

