

Chapter 4

Department of Business New Brunswick New Brunswick Innovation Foundation

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Department of Business New Brunswick New Brunswick Innovation Foundation

Introduction

4.1 Innovation can be defined as the development of new or enhanced products and services that will advance upon what is available in the marketplace currently. Development of innovative products and services takes money, and governments including New Brunswick have taken on a funding role in this area.

4.2 New Brunswick businesses and entrepreneurs have no shortage of innovative ideas. The problem from a public perspective is to decide how much funding a small province with limited resources can commit to the development of those ideas, and then how to choose which projects will be funded publicly.

4.3 There have been specific innovation funding challenges in recent years as well. For example:

- the decision by the federal government to fund innovation projects directly rather than transferring money to the provinces for that purpose. This has meant that the Province no longer has control over which projects are funded with federal funds.
- the dissolution of the provincial Science and Technology Secretariat which had been responsible for creating a significant focus on innovation.

4.4 Since 2002 New Brunswick has chosen to deliver a substantial portion of the available public innovation funding through an independent organization, the New Brunswick Innovation Foundation (NBIF). This was one of two such foundations set up at

the time in New Brunswick for purposes of delivering a public program. There have been none set up since, but they are common in some other jurisdictions and at the federal level. Essentially, the Province has delegated discretionary spending authority to the NBIF. NBIF can redistribute public money entrusted to it without direct decision-making input from government.

4.5 Because of NBIF's independence, there are some risks associated with this arrangement in relation to accountability. Specifically, government's lack of control over spending may make it more difficult for government to:

- be held accountable by the Legislative Assembly for funds expended; and
- be held accountable by the Legislative Assembly for ensuring that programs and services are delivered to publicly-acceptable standards.

4.6 It is therefore important that specific controls exist to mitigate these risks and ensure that the Province gets full value for funds transferred to NBIF. Our report addresses these key risks and the controls in place to mitigate them.

4.7 Although some pre-planning had been done, government only made the final decision to set up the current arrangement for delivering provincial innovation funding in February 2002. By March 2002 the New Brunswick Innovation Trust Fund (the Trust) had been established and \$20 million of public funds had been transferred to the Trust. On 6 November 2002, NBIF was incorporated and assigned sole authority to withdraw and use money from the Trust to fund provincial innovation projects at its discretion. The Department of Finance (Finance) handled the establishment of the Trust, while Business New Brunswick (BNB) was responsible for setting up NBIF including the selection of all of the initial NBIF board members. The Office of the Comptroller also provided input during the implementation of the arrangement.

4.8 A BNB representative indicated that, at the time, it was planned to transfer \$20 million per year of public funds into the Trust, but that did not happen. To date, a total of \$30 million in provincial innovation funding has been transferred to the Trust.

Background

Arrangement for delivering provincial innovation funding

4.9 The purpose of setting up the existing innovation structure, as described in the Trust Agreement, was as follows:

To provide an immediate, irrevocable commitment to the people of New Brunswick towards supporting the growth of the economy of New Brunswick through a fund dedicated to supporting targeted and leveraged investments in companies, business and key industrial clusters such as IT and the e-economy, advanced manufacturing, plastics, environmental services, and life sciences and the bio-economy with the following objectives:

- *Increased private sector R&D investment*
- *Increased R&D investment in and by universities*
- *Enhanced take-up of federal R&D programs and “university chairs”*
- *More small and medium sized enterprise knowledge-based start-ups*
- *Stronger collaborative linkages amongst governments, private sector and universities.*

4.10 The NBIF website states:

The New Brunswick Innovation Foundation (NBIF) is an independant corporation that supports the development of innovation in New Brunswick. Our mandate is to strengthen the innovation capacity of New Brunswick by making investments in applied research and new growth-oriented businesses.

4.11 In addition to innovation funding, NBIF has also contracted with the Department of Post-Secondary Education, Training, and Labour (Department of PETL) to deliver the funding associated with two programs.

- The Research Assistantship Initiative provides research assistantships to students working with professors or researchers dealing with innovation activities in the strategic industries identified by the NBIF.
- The Research Technicians Initiative provides financial assistance to academic institutions and research organizations in the Province of New Brunswick for the hiring of research technicians, or research associates, working under the supervision

of researchers in support of the institutions' efforts to expand capacity to undertake research and innovation activities.

Our audit

4.12 In our 2002 Report, paragraph 1.8, we made the following comment about this arrangement:

...the funds have flowed outside of the control of government. But this also means there is no further accountability to the Legislative Assembly and the taxpayers of New Brunswick. ... there is no requirement to publicly report which ... companies actually receive funds, how much they receive or for what purpose.

4.13 Our Report went on to recommend in paragraph 1.9:

If there are to be any similarly structured trust agreements in the future, I would recommend that they include provisions for full public accountability, including performance reporting and a better audit regime.

4.14 We have continued to believe that, because NBIF is independent of government, there is a significant risk that accountability in association with the current arrangement for delivering provincial innovation funding may be inadequate. Our primary interest is in ensuring that BNB can be held accountable for its performance in delivering innovation funding through NBIF. For that reason, we felt it would be of value for us to audit this arrangement.

4.15 It is important to note that our audit focused on BNB's involvement in the delivery of provincial innovation funding through NBIF. We did not audit the activities or operations of NBIF, nor do we have the legal right to do so.

Scope

4.16 The objective of our audit was:

To assess whether governance structures and practices established by Business New Brunswick in connection with the delivery of innovation funding through the New Brunswick Innovation Foundation ensure accountability and protection of the public interest.

4.17 In completing our audit, we interviewed government representatives on the board of NBIF, and representatives from BNB,

Finance, the Department of PETL, and NBIF. We reviewed all planning and related files at BNB. We reviewed NB Innovation Trust Fund data and reports provided by Finance, documents provided by NBIF, documents provided by the Department of PETL, and other pertinent information from various sources. Finally, we reviewed the results of audits of similar independent foundations conducted in other Canadian jurisdictions, most particularly reports prepared by the Auditor General of Canada.

4.18 Note that we could not compel NBIF to provide us with information, as it is an organization independent of government, and therefore not required to comply with the New Brunswick Auditor General Act. However, in the course of completing this audit, NBIF did provide us with certain confidential financial and operating data about their operations. This data was provided by NBIF on the understanding that it would be for our internal use only, and would not be disclosed publicly in our report.

4.19 Our audit was performed in accordance with standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Results in brief

Summary of audit findings

Audit Area and Criterion	Summary of Audit Findings
<p>Government Funding to NBIF – no specific criterion developed.</p>	<p>There are additional administration and overhead costs associated with having a separate organization that would not be necessary if all innovation funding was delivered through BNB. The value of having an independent organization delivering provincial innovation funding and the advantages that entails must be weighed against these associated costs.</p> <p>There is no formal, defined process for replenishing the Trust. If the Province decides not to transfer additional resources into the Trust by the end of the 2010/2011 fiscal year, and NBIF is not able to find another source of funding, the organization will not be able to continue at its present activity level beyond the 2010/2011 fiscal year.</p> <p>The initial decision to provide NBIF with access to multi-year funding through the Trust has led to a \$2.6 million net interest cost for the seven-year period that would not have been incurred had NBIF been directly funded by government on a year-by-year basis.</p> <p>One advantage noted by a government representative as associated with the current arrangement for delivering innovation funding relates to the timing of recognition of expenditures for provincial financial statement purposes. In essence, creating the New Brunswick Innovation Trust Fund as a vehicle for channeling funds to the independent NBIF organization has given the Province the ability to increase its expenditures as required by simply transferring money to the Trust. However, we would argue that the ability for government to manipulate its financial results is not an advantage from a public perspective.</p>

Audit Area and Criterion	Summary of Audit Findings
<p>Provincial Innovation Strategy - <i>Delivery of innovation funding through the New Brunswick Innovation Foundation (NBIF) should be aligned with an overall provincial innovation strategy.</i></p>	<p>The delivery of innovation funding through the New Brunswick Innovation Foundation appears to be aligned with overall provincial innovation strategy.</p>
<p>Roles and Responsibilities - <i>The roles and responsibilities of the NBIF and government, including government representatives on the board of the NBIF, should be clearly defined and linked to the overall provincial innovation strategy.</i></p>	<p>While the roles of the various government organizations responsible for delivering innovation funding or related support services are clear, there is no documented agreement between BNB and NBIF specifying the performance expectations, and other terms and conditions under which government provides funding to NBIF.</p> <p>BNB was originally intended to be given responsibility for communicating government performance expectations to NBIF and monitoring and reporting on NBIF's performance in order to ensure transparency and accountability. However, it was never given a mandate by government to carry out these responsibilities.</p> <p>The government representatives on the board of NBIF may be in a conflict position relating to their dual roles as representatives of the Province and board members of NBIF.</p>
<p><u>Monitoring</u> - <i>BNB should regularly monitor the performance of NBIF and take corrective action where that performance does not meet provincial expectations.</i></p>	<p>Because it was never given a mandate by government to do so, BNB does not regularly monitor the performance of NBIF. Consequently, it does not have access to sufficient information to know when corrective action is necessary to address deficiencies in NBIF's performance.</p> <p>We would, however, like to acknowledge the efforts undertaken by the Department of PETL in monitoring NBIF delivery of the Research Assistanceship Initiative and the Research Technicians Initiative.</p>

Audit Area and Criterion	Summary of Audit Findings
Code of Conduct - <i>BNB should ensure that, as an organization delivering provincial funding, NBIF has a code of conduct in place for board members and staff that supports and protects public sector values (i.e. fairness, impartiality, equity, honesty, prudence, transparency and openness, respect for the public good and the rule of law, provincial standards and policies, conflict-of-interest, accountability, stewardship of the public trust, privacy, and protection of the environment), including sanctions that apply to breaches of this code of conduct.</i>	Because it was never given a mandate to do so, BNB has not ensured that NBIF has a code of conduct in place for board members and staff that supports and protects public sector values. And NBIF has not developed such a code of conduct, nor does it require its directors to sign a conflict-of-interest or other declaration pursuant to their membership on the NBIF board.
Audit and Evaluation - <i>BNB should ensure that NBIF is subject to the same level of attest, compliance, and performance audit as departments and Crown agencies, and that periodic program evaluations of the arrangement are undertaken. Key findings from these audits and evaluations should be reported to the board of directors, BNB, and the Legislative Assembly.</i>	Because it was never given a mandate to do so, BNB has not ensured that NBIF is subject to the same level of attest, compliance, and performance audit as departments and Crown agencies, nor has it ensured that periodic program evaluations of the arrangement are undertaken. Results from the evaluation that was completed were not provided to the Minister of Business New Brunswick or the Legislative Assembly by NBIF.
Effectiveness Reporting - <i>BNB should have established procedures to measure and report on the effectiveness of NBIF in accomplishing its provincial policy objectives, and in acting as a good steward for public assets.</i>	Because it was never given a mandate to do so, BNB has not established procedures to measure and report on the effectiveness of NBIF in accomplishing its provincial policy objectives, and in acting as a good steward for public assets.

Conclusion

4.20 Based upon our audit work, we conclude that governance structures and practices established by Business New Brunswick in connection with the delivery of innovation funding through the New Brunswick Innovation Foundation do not currently ensure accountability and protection of the public interest.

Recommendations

4.21 We recommend the Province should provide future funding to NBIF on a year-by-year basis due to the significant financing costs associated with providing multiple year funding.

4.22 We recommend the Province explicitly assign responsibility to BNB for communicating government performance expectations to NBIF, and monitoring and

reporting on NBIF's performance in order to ensure that adequate accountability exists for the arrangement.

4.23 We recommend BNB should ensure that regular reconciliations are performed verifying that money drawn from the Trust agrees with that reported in NBIF's financial statements.

4.24 We recommend, in order to simplify and potentially reduce the cost of the funding process, the Province should terminate the Trust as allowed under the Deed of Settlement and Trust, and have BNB simply fund NBIF directly as part of a contractual arrangement.

4.25 Further to that, we recommend BNB should require NBIF to sign a letter of agreement before transferring additional funds to the Trust. That letter of agreement should clearly document:

- The amount and timing of funding to flow from BNB to NBIF, the period covered, and any significant details relating to the process for NBIF accessing those funds.
- BNB performance expectations for NBIF relating to its delivery of innovation funding. Those performance expectations should include:
 - Expected program outcomes to be achieved by NBIF;
 - A requirement for NBIF to be covered by and compliant with the provincial Auditor General Act, giving our Office the legal right to conduct compliance and performance audits at NBIF and report the results of those audits to the Legislative Assembly;
 - A requirement for periodic independent evaluations of the delivery of innovation funding through NBIF using recognized evaluation standards; and
 - A requirement for NBIF to apply public sector values in delivering innovation funding for the Province. This should include a requirement for NBIF to adopt a code of conduct, including conflict-of-interest guidelines, that is signed by all board members and staff. It should also include a requirement that NBIF be as publicly open as possible regarding access to information on the agreements, objectives, activities, and achievements

with appropriate provisions being made for legitimate concerns of personal privacy, commercial confidence, and intergovernmental negotiations.

- Reporting required by BNB from NBIF. Required reporting should facilitate BNB monitoring and effectiveness reporting related to all aspects of NBIF's performance.
- A requirement for both parties to comply with terms of the operational memorandum of understanding signed by BNB and NBIF.
- Specific remedies available to BNB should NBIF fail to meet government performance expectations or reporting requirements associated with the arrangement. In such cases, BNB should have the right to withdraw funding, roll-over funding to future years, or take other specific actions as determined appropriate in the circumstances.
- The role of government representatives on the board of NBIF.
- Other terms and conditions as considered necessary in the circumstances.

4.26 We recommend, in order for BNB to effectively monitor NBIF and provide a basis for public performance reporting on the arrangement, BNB should ensure that:

- Government performance expectations are communicated to NBIF annually,
- Appropriate, sufficient reporting is being provided to BNB by NBIF to allow the department to evaluate the degree to which NBIF has met government performance expectations,
- Regular report review processes have been implemented within BNB, and
- Processes have been developed and implemented covering action to be taken by BNB when NBIF performance is not as expected.

4.27 We recommend BNB should publicly report information on the extent to which the arrangement with NBIF has accomplished its provincial policy objectives, and at what cost, in its annual report.

4.28 We recommend BNB should table evaluation reports related to the arrangement in the Legislative Assembly because

of the value of those reports as inputs to public policy decisions associated with the delivery of innovation funding.

4.29 We recommend BNB should carefully consider the ramifications of the potential conflict for government representatives on the NBIF board between their fiduciary duties as board members and their assigned roles as protectors of the provincial interest relating to innovation funding delivered through NBIF. Action should be taken to mitigate any identified risks. The simplest option would be to eliminate the requirement that provincial representatives sit on the board of NBIF, or as a minimum remove their voting rights as board members.

Delivery of provincial innovation funding by NBIF

Government funding to NBIF

4.30 By 31 March 2009, NBIF had received approximately \$41.7 million in funding from all government sources, as shown in Exhibit 4.1 below.

Exhibit 4.1 Funding Available to NBIF from All Sources from Incorporation to 31 March 2009 (NBIF figures)–(\$ millions)

Source of Funds	Amount Received to 31 March 2009
Innovation Funding from BNB to New Brunswick Innovation Trust	\$30,0
Interest Earned Within New Brunswick Innovation Trust	3,5
Post-Secondary Education, Training, and Labour for the Research Assistanceship and Research Technicians Initiatives	6,1
Maritime Provinces Higher Education Commission for the Research Assistanceship Initiative	0,9
Regional Development Corporation for Atlantic Cancer Research Institute	1,2
Total	\$41,7

4.31 As can be seen from Exhibit 4.1, funding received by NBIF from sources other than the New Brunswick Innovation Trust Fund has been targeted for specific program expenditures. Exhibit 4.2 below provides more detail on the sources and uses of funds within the Trust.

Exhibit 4.2 New Brunswick Innovation Trust Fund – Continuity Schedule – (\$000's)

Fiscal Year	Opening Trust Balance	Funds from PNB	Interest Earned	Draws by NBIF	Admin Fees	Closing Trust Balance
2001/2002	0	20 000	13	0	0	20 013
2002/2003	20 013	0	528	1 000	17	19 524
2003/2004	19 524	0	482	3 500	10	16 496
2004/2005	16 496	5 000	301	3 000	8	18 789
2005/2006	18 789	5 000	470	4 000	8	20 251
2006/2007	20 251	0	745	3 000	8	17 988
2007/2008	17 988	0	681	3 000	9	15 660
2008/2009	15 660	0	263	5 500	14	10 409
Total 2001/2002 to 2008/2009	0	30 000	3 483	23 000	74	10 409

4.32 NBIF has been gradually drawing down the balance in the Trust as required to fund investments in innovation projects and administrative costs of the organization. The Province has not transferred additional funds to the Trust since 2005/2006. The draw for 2008/2009 of \$5.5 million reflects the current annual expenditure level of NBIF. As of 31 March 2009, the remaining balance in the trust was approximately \$10.4 million. This means that at that date, considering interest to be earned, there was only about two years of funding remaining in the Trust Fund.

4.33 There is no formal defined process for replenishing the Trust. NBIF made a formal request to government in 2008 that the Province transfer an additional \$10 million to the fund, but that request was rejected. As no additional government funds have been budgeted for transfer to the Trust in 2009/2010, it appears that government will have to make a critical decision about the future of NBIF during the next budget cycle. If the Province decides not to transfer additional resources to NBIF by the end of the 2010/2011 fiscal year, and NBIF is not able to find another source of funding, the organization will not be able to continue at its present activity level beyond the 2010/2011 fiscal year.

4.34 One government representative we talked to suggested that government may decide to budget transfers to NBIF on a year-by-

year basis in future as it does for Crown agencies and other government-funded organizations. The concern expressed by NBIF is that since inception they have always been assured of the availability of multi-year funding. The current situation is causing uncertainty within NBIF about its future, and there is concern that staff may decide to pursue other opportunities as a result. This potential loss of staff may lessen the effectiveness of the organization in the longer term. An NBIF representative indicated that they would prefer to have the assurance of longer-term funding, but do, as a minimum, need to know the government's future funding plans for the Trust as soon as possible.

4.35 In the near future, government will also have to decide whether to extend the termination date of the Trust. According to the current Deed of Settlement and Trust Agreement, the Trust will be terminated no later than March 31, 2012.

Additional costs

4.36 Through our audit work, it became apparent that there were significant costs to government associated with setting up the current delivery arrangement for innovation funding. Unfortunately, cost information was not accumulated in association with this initiative so we can provide no actual dollar figures. However, the types of costs incurred included:

- Salaries and benefits of departmental management and staff who were involved in planning and implementing the arrangement. Note that a number of staff from BNB, Finance, and the Comptroller's Office were involved, some very extensively.
- Costs associated with the incorporation of NBIF, the hiring of staff, and the appointment of board members.
- Costs associated with the establishment of the Trust.

4.37 We have, however, been able to quantify one significant cost associated with the establishment of the current arrangement. Referring back to Exhibit 4.2, it relates directly to the decision to set up the Trust as a funding conduit and transfer funds to it well in advance of those funds being needed by NBIF.

Exhibit 4.3 Net Interest Cost of Pre-Funding the New Brunswick Innovation Trust

Fiscal Year	Average Trust Balance (\$ 000's)	PNB Borrowing Rate (%)	Total Interest Cost (\$ 000's)	Less: Interest Earned in Trust (\$ 000's)	Net Interest Cost (\$ 000's)
2002/2003	19 768,3	5,72	1 130,7	527,7	603,0
2003/2004	18 009,5	5,20	936,5	481,7	454,8
2004/2005	17 642,0	5,00	882,1	301,3	580,8
2005/2006	19 519,4	4,48	874,5	469,9	404,6
2006/2007	19 119,0	4,52	864,2	745,7	118,5
2007/2008	16 824,1	4,58	770,5	680,9	89,6
2008/2009	13 034,6	4,53	590,5	263,0	327,5
Total			6 049,0	3 470,2	2 578,8

4.38 As can be seen in Exhibit 4.3, applying the average annual provincial borrowing rates to the average balances in the Trust on a year-by-year basis yields a total interest cost associated with this pre-funding of approximately \$6.0 million over the period from 2002/2003 to 2008/2009. Since only \$3.5 million in interest was earned within the Trust during that same period, the net interest cost of pre-funding NBIF was over \$2.5 million for the seven-year period.

4.39 This cost relates directly to the initial decision to provide NBIF with access to multi-year funding. In our opinion, it also provides a strong cost argument for moving the funding model to a year-by-year basis, as is apparently being considered by government at present.

Benefits and problems associated with the arrangement

4.40 Although the current arrangement for delivery of provincial innovation funding does not appear to be based on an existing model from another jurisdiction, provincial and NBIF representatives described a number of advantages associated with creating NBIF as a separate entity and continuing to deliver provincial innovation funding in this manner. Among the advantages noted were:

- To create higher visibility, perceived importance, and action for innovation within the Province. NBIF has developed better marketing capabilities and a higher innovation profile than government.

- To reduce the risk of direct political interference in the delivery of innovation funding.
- To leverage available federal funding for applied research. NBIF, as an organization that is independent of government, has access to matching funds under certain federal government programs that are not available to BNB. Also, more generally, to leverage funds from other levels of government and/or the private sector as available. (Note that NBIF typically requires that at least 80 percent of funding for a project be obtained from sources other than NBIF.)
- To obtain access to free technical expertise. NBIF relies on other funding partners to do technical reviews for them. (BNB does its own technical reviews.)
- To increase investment flexibility. NBIF can make venture capital investments, thereby assuming an ownership position in investee companies. BNB is not legally able to make this type of investment, although its associated Crown agency Provincial Holdings Ltd. may do so.
- To allow the use of non-traditional methods to encourage innovation within the Province. NBIF created the Breakthru competition for innovative provincial entrepreneurs, which includes the awarding of prizes paid for by NBIF or donated by private sector organizations. Given spending and other restrictions within government, it would be difficult to run such a program through a government department.
- To allow for longer term planning in innovation. The assets in the Trust have been large enough to cover multiple years of NBIF's financial needs, allowing them more flexibility in planning long term. Within government, budgets are approved annually.
- To facilitate revenue generating activities such as fundraising. NBIF would retain all funds raised by such activities for potential reinvestment in innovation. Revenues earned by a government department like BNB would go into general government revenue, and therefore out of the control of the department, making it unlikely it would be used for innovation.

- To facilitate contact with the private sector. Many private sector organizations are not as comfortable dealing with government as they are in dealing with an independent NBIF.
- To deliver research dollars to universities.
- To give the Province more flexibility in managing its financial results. Creating the New Brunswick Innovation Trust Fund as a vehicle for channeling funds to the independent NBIF organization has given the Province the ability to increase its expenditures as required by simply transferring money to the Trust. However, we would argue that the ability for government to manipulate its financial results is not an advantage from a public perspective.

4.41 Some problems were also noted with the delivery of innovation funding through NBIF, as it is presently structured.

- Government accountability for funds paid into the Innovation Trust Fund is a problem. Once funds are transferred to the Trust, there is essentially no government control over how they are expended because government did not give BNB or any other department a mandate to communicate government performance expectations to NBIF or monitor and report on its performance.
- Government has set no performance expectations for NBIF relating to the delivery of innovation funding.
- Government has set no reporting requirements for what it receives from NBIF in exchange for funding provided vis-a-vis performance reporting. Therefore, because NBIF is independent, government does not have the right to demand that information about NBIF's operations and/or achievement of government objectives be provided.
- All funding for NBIF currently comes from government. The business community, while it benefits from NBIF funding, has made no financial investment in NBIF.
- The capacity and expertise to evaluate proposed innovation projects has already been developed within BNB, but is not being exploited under the current model. Also, there may be confusion in the private sector about who to approach for particular types of

funding, although BNB and NBIF did indicate that they each refer inquiries to the other when appropriate.

- Government has the opportunity to transfer more money than is currently needed to the Trust over which neither it, nor future governments, will have control. This may effectively take decision-making authority away from the future legislators who will be in place when the funds are actually required.
- There are additional administration and overhead costs associated with having a Trust and a separate organization (i.e. NBIF) that would not be necessary if all innovation funding was delivered through BNB.

Cost/benefit of delivering provincial innovation funding through NBIF

4.42 The value of having an independent organization delivering provincial innovation funding and the advantages that entails must be weighed against the associated costs of establishing NBIF and the Trust and administering them on an ongoing basis. There appear to be significant benefits associated with the arrangement. However, the degree to which government can address the problem areas should be critical in its assessment of whether NBIF should continue to be funded in the long term by government. Ultimately NBIF needs to provide relevant services that do not “compete” with those already offered by BNB and/or other government and private-sector organizations. It also needs to be cost effective, and, most importantly, successful in achieving the goals of the programs that it has been called upon by government to deliver.

Provincial innovation strategy
Audit criterion

4.43 The following audit criterion relating to the linkage between the provincial innovation strategy and the operations of NBIF was agreed upon with BNB.

Delivery of innovation funding through the New Brunswick Innovation Foundation (NBIF) should be aligned with an overall provincial innovation strategy.

Existing provincial strategy

4.44 Government has no separate innovation strategy per se. Government innovation “strategy” is rather covered in various places under the government’s *Our Action Plan to be Self-Sufficient in New Brunswick*. In connection with this plan, BNB has prepared a “strategic priorities” document covering the period from 2007-2011. It identifies five key industrial and technological “clusters” that government wants to focus on, including advanced learning, bio-

science, health, energy, and aerospace & defense. The BNB Innovation branch has a role in each of these clusters.

Existing NBIF strategy

4.45 According to an NBIF representative, the organization's overall goal is to make a significant contribution to innovation in NB. The original vision for the organization, as developed by its first chair and board of directors, was to split innovation funding 50/50 between venture capital and applied research. However, NBIF has had difficulty in meeting that target for venture capital investments, and therefore has spent somewhat more in the research area.

4.46 NBIF updates their strategic plan every year and prepares an associated three year business plan. This plan is developed internally by NBIF and approved by the NBIF board of directors. NBIF indicated that they try to mirror government priorities in preparing these plans, and the government's *Our Action Plan to be Self-Sufficient in New Brunswick* is currently considered a key planning reference by the organization.

Review of NBIF mandate by government under self-sufficiency plan

4.47 The government's *Our Action Plan to be Self-Sufficient in New Brunswick* included the following comment:

Priority actions will include . . . Reviewing the current mandate and structure of the New Brunswick Innovation Foundation so that it supports key research and development that is complementary to priority technology clusters.

4.48 A representative of BNB indicated that government, through its four representatives on the board of NBIF, is addressing this mandate review of NBIF. The NBIF board has recently brought the strategic priorities of NBIF more in line with the government's self-sufficiency agenda by adding the energy and environmental technologies category, and has taken action to address concerns around administrative costs. For example, the NBIF board required revisions to the initial proposed budget for 2009/2010, specifically the reduction of planned administrative costs. The representative stated that while NBIF does not need to be completely aligned with BNB's objectives, their priority should be to support the five key strategic clusters identified in provincial plans. As can be seen in Exhibit 4.4 below, NBIF appears to cover many, but not all, of BNB's strategic clusters among their strategic industries list.

Exhibit 4.4 Comparison of Strategic Focus of BNB and NBIF

BNB Strategic Clusters	NBIF Strategic Industries
<p>Advanced Learning (Technology Cluster)</p> <ul style="list-style-type: none"> • Customized corporate training solutions • Computer based training utilizing simulation, animation and game technologies • Safety, security and military instruction • Industrial/vocational technical training • Information technology certification 	<p>Knowledge Industry</p> <ul style="list-style-type: none"> • Information and communication technologies including internet solutions/e-commerce, software development system integration, e-learning, e-health, etc. • Geomatics • Engineering including computer, electronics, architectural, ocean technologies, medical
<p>Bio-Science (Technology Cluster)</p> <ul style="list-style-type: none"> • Sustainable diversification of traditional bio resource-based industries (forest, agriculture and marine) • New and emerging markets in clean bio energy and bio products • Use of renewable natural resources and expertise to develop environmentally-friendly products, services, fuels, energy and materials • New technologies, products and services for human and animal applications • New technologies to study gene and cell functions in plant and animal biological systems 	<p>Life Sciences</p> <ul style="list-style-type: none"> • Biotechnology – e.g. bio-medical engineering, bio-pharmaceuticals, genomics, breeding and pest management, bio-informatics, crop science and bio-pesticides, bio-products • Marine Science • Wood Science <p>Value-Added Natural Resources</p> <ul style="list-style-type: none"> • Agriculture • Forestry • Minerals • Aquaculture and Fisheries including value-added fish and seafood products
<p>Health (Technology Cluster)</p> <ul style="list-style-type: none"> • Research and development in cancer, genomics, proteomics and bio-informatics • Cybernetics and prosthetic limb development for rehabilitation • Home and rural health care technology – tele-health services and home-based monitoring • Electronic health records • Prescription drug monitoring • Clinical trials 	<p>Partially covered under “Knowledge Industry” above.</p>

BNB Strategic Clusters	NBIF Strategic Industries
<p>Energy (Industrial Cluster)</p> <ul style="list-style-type: none"> • Energy efficiency products and services for residential, commercial and industrial markets • World class expertise in nuclear power technology • Ocean and wind energy generation technologies • Clean air, water and land environmental expertise 	<p>Energy and Environmental Technologies</p> <ul style="list-style-type: none"> • Energy Generation from alternate sources • Energy Storage including fuel cells, advanced batteries, hybrid systems • Energy infrastructure • Water treatment and conservation • Air and Climate including emission control, clean-up, monitoring/compliance, trading and offsets • Recycling and waste treatment
<p>Aerospace and Defence (Industrial Cluster)</p> <ul style="list-style-type: none"> • Precision machining and metal fabrication • Advanced learning/simulation systems • Electronics/avionics assembly • Commercial pilot training • Military vehicle armoured and refurbishment 	<p>Not covered</p>

Provincial innovation strategy- conclusion

4.49 Based upon our work, we conclude that the delivery of innovation funding through the New Brunswick Innovation Foundation appears to be aligned with overall provincial innovation strategy.

Roles and responsibilities
Audit criterion

4.50 The following criterion in relation to roles and responsibilities of key provincial innovation players was agreed upon with BNB.

The roles and responsibilities of the NBIF and government, including government representatives on the board of the NBIF, should be clearly defined and linked to the overall provincial innovation strategy.

Roles of provincial organizations in innovation

4.51 There are several organizations involved in delivering innovation funding and support services at the provincial level.

4.52 The Business New Brunswick Innovation branch administers the Technical Adoption and Commercialization Program (TACP). This program committed approximately \$1.9 million in contributions to 250 projects during 2007/2008, and has a budget of just \$1 million for 2009/2010. Consequently, BNB funds only small innovation projects through that program. The Financial Assistance to Industry (FAI) program that is also delivered by BNB has a much larger

budget. However, a departmental representative indicated that the payback methodology used for the FAI program doesn't work for innovation projects, so they are typically not funded through that program.

4.53 NBIF focuses on the following specific areas:

- venture capital;
- applied research;
- the breakthru program for new entrepreneurs; and
- Department of PETL programs (i.e. the Research Assistantship and Research Technicians Initiatives)

4.54 As NBIF's venture capital investments involve larger projects, it does not service the same client base as BNB's TACP.

4.55 The Department of PETL has contracted with NBIF to deliver the two research-related programs noted above and may add an additional program in the near future.

4.56 The Research and Productivity Council (RPC) offers primarily problem solution expertise. RPC's work is performed on a fee for service basis and they only get a small percentage of their revenue from government. RPC does not provide financial support for innovation.

4.57 The New Brunswick Investment Management Corporation (NBIMC) may invest up to three percent of its assets within New Brunswick. This may include innovation projects.

4.58 From our review, there appears to be no duplication of service delivery among any of the organizations discussed in this section. Most particularly, the roles of BNB and NBIF appear to be complementary. NBIF appears to focus on larger projects requiring venture capital investment while BNB concentrates on providing grant funding for smaller projects requiring resources to take a product idea to market. Research funding is outside the mandate of BNB.

***Degree of coordination
between NBIF and
government***

4.59 *The New Brunswick Innovation Foundation - A Framework - November 2002* states:

Business New Brunswick will be the lead department in coordinating the provincial government's role in

innovation, and its relationship with the Innovation Foundation.

4.60 According to the framework document, BNB was originally intended to be given responsibility for communicating government performance expectations to NBIF and monitoring and reporting on NBIF's performance in order to ensure transparency and accountability. However, in practice neither BNB nor any other government department was given a mandate by government to carry out these responsibilities. This has led to significant accountability deficiencies that are discussed later in this report.

4.61 In the normal course of its operations, NBIF has occasional contact with Business New Brunswick, primarily through a single BNB liaison. In keeping with the governance structure established when NBIF was created, NBIF operates completely independently of BNB, making its own decisions on which innovation projects it will fund. As previously discussed, NBIF primarily focuses on larger innovation projects which would typically not qualify under any of BNB's funding programs, so the risk of NBIF duplicating government funding is low. NBIF may refer clients to BNB and vice versa depending on the type of funding being requested.

4.62 A BNB representative indicated that when NBIF was set up, the intent was that BNB would do technical application reviews, and a Memorandum of Understanding (MOU) to that end was developed. However, in practice, BNB is involved in very few NBIF reviews. Under the current revised version of the MOU, NBIF occasionally asks BNB for its opinion on certain specific questions related to proposals being considered by NBIF. Information shared by NBIF in such cases is limited. There is no ongoing cooperative relationship on NBIF files.

4.63 NBIF also deals regularly with the Department of PETL for whom it delivers some program funding, and Finance, who are responsible for investing the funds in the Trust, and also transfer trust fund dollars to NBIF as required. NBIF also has some contact with the New Brunswick Investment Management Corporation in connection with funds that organization is permitted to invest in New Brunswick companies.

4.64 A representative of NBIF noted that, while they do have contact with various government departments, formal communication is lacking, especially between BNB and NBIF. From

our review, we found no documented agreement aside from the MOU as to what type of formal communications are to take place between BNB and NBIF, nor any description of what form those communications should take.

Composition of the board of directors

4.65 The current NBIF board is composed of fourteen members. It is made up of seven members from the private sector, four from government, and three from academia. The chair is a representative of the private sector.

4.66 No-one we talked to could explain the rationale for the size or composition of the board.

Role of government representatives on the board

4.67 NBIF board members are responsible for governing the organization, primarily through attendance at several board meetings held each year. One board member indicated their primary responsibilities include reviewing financial statements, reviewing project funding decisions made by the executive management committee, and working on organizational plans. Based on our discussions with board members representing the Province, an important part of this planning is ensuring that corporate objectives align with provincial priorities.

4.68 The chair, along with a board member representing the government, and the NBIF President form the three-member NBIF executive management committee. That group is responsible for reviewing all funding requests, and either approving them (i.e. for funding requests under a certain amount), or recommending them to the board for approval.

4.69 When asked about the role of government representatives on the board of NBIF, a board member commented:

Members are appointed from economic departments. They are appointed because they understand relationships between departments and NBIF. Funding for programs comes from departments. The relationship between the broad priorities of government and NBIF need to be aligned. They have certain expertise in an area. They monitor how NBIF is achieving the goals of government.

4.70 We feel that the primary responsibility of any board member is to act in the best interests of the organization that they govern, in this case NBIF. This should include government representatives on

the board. However, the roles assigned by government may not be consistent with this primary responsibility. In fact, deputy ministers on the board of NBIF may be acting primarily as representatives of government at the board table. There may be cases where this is not in the best interests of an independent NBIF. One comment from a government board member may be illustrative:

... You have to separate your fiduciary responsibilities as a board member to serve the best interest of the organization [i.e. government]. There's no point having an organization [i.e. NBIF] working at cross purposes from what we are doing here [in a government department]...

4.71 Also, as previously noted, government, through its four representatives on the board of NBIF, is currently reviewing the mandate of NBIF under *Our Action Plan to be Self-Sufficient in New Brunswick*.

4.72 Our primary concern is from a public sector perspective, and government representatives on the board of NBIF do appear to be acting in the best interests of government. However, we feel that government should consider carefully the ramifications of this potential conflict for government representatives on the NBIF board.

Government control over NBIF operations and activities

4.73 Notwithstanding the presence of government deputy ministers on the board and executive management committee of NBIF, the key control that government has over the activities of NBIF lies in the fact that NBIF's operations are primarily funded through public money transferred to the Trust. As discussed previously, without the funds provided by government, NBIF is unlikely to be able to continue to operate in its present form. However, government has not used this leverage to make a formal agreement with NBIF specifying the performance it expects of NBIF and any other specific requirements it has in connection with the current arrangement. We feel that many of the problems with the arrangement, as described earlier in this report, have arisen as a direct result of the lack of such a formal agreement.

4.74 The Department of PETL has taken a more proactive approach in this area. As mentioned above, NBIF currently delivers the funding for two programs on behalf of the Department, the Research Assistantship Initiative and the Research Technicians Initiative. For each of those programs, the Department requires that NBIF sign a detailed letter of offer specifying the rights and

responsibilities of both parties to the agreement. This creates a contractual arrangement between the Department and NBIF. Specific terms of the letter of offer most recently prepared by the Department include the following:

- The amount and timing of funding to flow from the Department to NBIF and the period covered, and any details relating to the process for NBIF accessing those funds.
- The objectives assigned to NBIF relating to its delivery of the program.
- The requirement for NBIF to provide a written activity report periodically and in prescribed form to the Department that includes specified details about each project funded.
- The requirement to provide a written final report to the Department in prescribed form upon completion of the funding period covered by the letter of offer.
- The Department's right to withdraw, roll-over to future years, or to otherwise terminate funding, where in the Department's determination, yearly objectives are not being met.
- The requirement for NBIF to keep books, records and account for 36 months after the completion of the program for departmental audit purposes, and to provide such statistical data as required by the Department.
- NBIF indemnification of the Department from all claims, demands, actions and causes of action of third parties arising from the agreement.
- The requirement that all NBIF public announcements regarding the program shall be prepared in consultation with and/or approved by the Department.

4.75 NBIF reporting associated with these requirements feeds into monitoring carried out by the Department of PETL, as discussed in the next section of this report.

4.76 If government decides it will continue to provide funding to the Trust, we feel it will create an excellent opportunity for BNB, as the responsible department, to formalize the arrangement on a "go forward" basis with NBIF. The approach used by the Department of PETL could serve as a model. We feel that BNB should be requiring that NBIF agree to certain performance and operational requirements set by the Province in exchange for receiving innovation funding.

Roles and responsibilities - conclusion

4.77 Based upon our audit, we would conclude that the roles and responsibilities of the NBIF and government, including government

representatives on the board of the NBIF, have not been clearly defined and linked to the overall provincial innovation strategy.

4.78 While the roles of the various government organizations responsible for delivering innovation funding or related support services are clear, there is no documented agreement between BNB and NBIF specifying the performance expectations, and other terms and conditions under which BNB provides funding to NBIF. Further, we have concerns that the government representatives on the board of NBIF could be in a conflict position relating to their dual roles as representatives of the Province and board members of NBIF.

Monitoring

Audit criterion

4.79 The following audit criterion relating to BNB monitoring of the performance of NBIF was agreed upon with BNB.

BNB should regularly monitor the performance of NBIF and take corrective action where that performance does not meet provincial expectations.

Effective monitoring process

4.80 BNB needs to monitor the performance of NBIF in order to ensure that government is getting value for the funds it is providing to NBIF. Included in the document New Brunswick Innovation Foundation – A Framework that was formally approved by the Policy and Priorities Committee on June 18, 2002 were the following comments relating to accountability.

Appropriate accountability mechanisms will ensure proper stewardship of public funds. The Innovation Foundation will focus on concerted actions designed to achieve measurable success in improving our innovation capacity and capabilities. The Innovation Foundation will be fully accountable to its funding agents for the development and implementation of strategic plans that achieve expected results. The Foundation will report its results on a regular basis to the Minister of Business New Brunswick, as it will to its other financial stakeholders. As part of its reporting structure, the auditor of the Foundation may be the Auditor General of the Province of New Brunswick.

4.81 However, as previously discussed, while BNB was originally intended to be given responsibility for setting up appropriate accountability mechanisms relating to the arrangement with NBIF, it

was never given a mandate by government to take on these responsibilities.

4.82 There are a few key elements needed in order to implement an effective monitoring process. They include:

- established performance expectations,
- established reporting requirements linked to those performance expectations; and
- specified action in cases of non-performance

Performance expectations

4.83 BNB should set specific performance expectations of NBIF. These should be clear, measurable, and focused on outcomes. BNB has not provided NBIF with a list of its performance expectations for the arrangement. However, government has communicated to NBIF, through government board representatives, the general expectation that NBIF should support projects representing the five strategic clusters identified in the BNB strategic plan wherever possible.

4.84 NBIF has, for the most part, had to make its own assumptions about government's performance expectations. It has interpreted government's expectations as being focused primarily on NBIF's project leveraging ratio. Leveraging is the process through which the commitment of provincial government funding to a project is used as a springboard to attract other funds to that project. Other funding organizations for innovation projects may include for example, the Atlantic Canada Opportunities Agency, and the National Research Council through its Industrial Research Assistance Program. NBIF operates on the basis that a minimum 5 to 1 leveraging ratio is necessary on its funding of projects. In fact, its actual leveraging ratio has been over 7 to 1 during the period from 2002/03 to mid-2008/09, so it has exceeded its own target in this area. Based upon our discussions with NBIF, it appears that they use leveraging ratio as a key determinant in funding decisions.

4.85 A BNB representative with whom we discussed NBIF's focus on leveraging ratio expressed concern that in the absence of other balancing indicators, primary reliance on this indicator could lead to suboptimal decisions. A board member also questioned the value of leveraging ratios as an overall indicator of performance for NBIF.

4.86 As stated in the background section of this chapter, the government's purpose for setting up the existing innovation structure,

as described in the Trust Agreement, was in part to meet the following objectives:

- Increased private sector R&D investment
- Increased R&D investment in and by universities
- Enhanced take-up of federal R&D programs and “university chairs”
- More small and medium sized enterprise knowledge-based start-ups
- Stronger collaborative linkages amongst governments, private sector and universities.

4.87 If these government objectives have not changed, we feel it is these objectives upon which BNB should base clear, measurable performance expectations for NBIF.

Reporting

4.88 In order to do appropriate strategic monitoring, BNB needs timely information on NBIF’s stewardship, outcomes achieved, and overall compliance with terms and conditions associated with the arrangement. However, BNB has not provided specific reporting requirements to NBIF.

4.89 In the absence of direction from government, ongoing reporting provided to BNB by NBIF has been determined by NBIF management. At present this reporting includes:

- Provision of the NBIF annual financial statements to BNB.
- Provision of a semi-annual leveraging report to BNB. NBIF considers this to be its key performance-related report.

4.90 The NBIF annual report is also publicly available through the NBIF website.

4.91 Very little is done with this information by BNB. At one time, the leveraging report was reviewed by a departmental staff member and a summary was passed on to the departmental executive management committee, but that process has been discontinued. Information provided does not seem to address stewardship or outcomes achieved beyond the leveraging ratio. There are no formal terms and conditions associated with the arrangement because of the lack of a written agreement between BNB and NBIF.

4.92 Government representatives on the board of NBIF are provided with any necessary information pursuant to their duties as

board members. However, according to a representative of BNB, this information is held separately because of confidentiality concerns and is not generally made available to staff for any potential monitoring use.

Non-performance

4.93 Because BNB does no formal monitoring of NBIF's performance, it has had no impetus to develop or implement any procedures to be followed in cases where NBIF has not performed in accordance with government expectations. Further, BNB has established no formal dispute resolution mechanisms that provide guidance for resolving any disputes between the NBIF and BNB. This may be primarily due to the fact that given there is no formal agreement between BNB and NBIF, disputes related to interpretation of the arrangement are unlikely to arise, but it would expose government to a significant risk in the case where a significant dispute did arise.

4.94 Under the current arrangement, BNB has no recourse when it feels NBIF is not performing adequately besides recommending that government withhold future transfers to the Trust. We feel it is important that BNB be able to intervene in the exceptional case where the public purpose of the arrangement is clearly not being met or circumstances have changed considerably since the creation of the arrangement, without necessarily having to cut off funding to NBIF.

4.95 We would also note that at present, government cannot recover public money once it is transferred to the Trust. Under the terms of the Trust, any residual money remaining in the Trust after an NBIF wind-up would be distributed to provincial universities. We feel that government should be able to recover any remaining provincial funds in that event.

Monitoring by BNB

4.96 At the time of establishment of NBIF and the Trust, government was in a position to set performance objectives, reporting requirements, and assign other key responsibilities to NBIF in exchange for funding provided through a formal agreement. However, no such accountability mechanisms were put in place.

4.97 Significant work is required for BNB to be in a position to effectively monitor the performance of NBIF in order to ensure that the Province is receiving value for the money it is providing to NBIF. Only after

- government expectations have been communicated to NBIF;

- appropriate performance reports have been developed and are being prepared by NBIF and forwarded to BNB;
- report review processes within BNB have been implemented; and
- processes have been developed covering action to be taken when NBIF performance is not as expected,

will BNB have all the tools it needs to effectively monitor NBIF. These key elements of an effective monitoring process could be detailed in a letter of agreement from BNB to NBIF, as discussed earlier in this chapter.

Monitoring by government representatives on the NBIF board of directors

4.98 The only substantive government monitoring of NBIF performance since it was established has been by way of the four deputy ministers who serve on the NBIF board of directors.

4.99 Based upon our discussions with them, it appears that the current focus of government representatives on the NBIF board is on the rationalization of administrative costs at NBIF, the ongoing review of NBIF's mandate and structure under the government's *Our Action Plan to be Self-Sufficient in New Brunswick*, ensuring that government-identified strategic clusters are considered by NBIF in making funding decisions, and most significantly the decision whether government should continue to fund NBIF.

4.100 One government representative indicated that it has been difficult to rationalize a decision on the future of NBIF due to a lack of performance information upon which to base that decision. Pursuant to their analysis, the government representatives on the board requested that NBIF have an evaluation done of its operations. In response, NBIF provided the report, *New Brunswick Innovation Foundation – Outcomes and Performance Measures* dated 3 November 2008 to both its board and the Minister of BNB. However, one board member we talked to had concerns about the independence and objectivity of those who completed the evaluation. Consequently, government board members are hesitant to rely on the information contained in the report in recommending a particular decision on the future of government funding to NBIF.

Monitoring by Finance

4.101 As mentioned previously, the Department of Finance established the New Brunswick Innovation Trust in 2002. It also hired the private sector trust fund manager, CIBC Mellon, at that time. They use the monthly statement prepared by the trust fund manager as the basis for providing investment instructions, and also monitor the performance of the manager. As NBIF has never

provided any sort of cash flow requirements statement, Finance has always assumed that all money invested in the Trust needs to be available on short notice and therefore invests all funds in 30 day treasury bills.

4.102 Finance also receives periodic requests for funds from NBIF. As a courtesy, Finance clerical staff also contact NBIF when each issue of thirty day treasury bills are about to mature. Money required by NBIF is not reinvested, but rather transferred to NBIF for their use. Each transfer is documented and signed off by the Deputy Minister of Finance before it is completed.

4.103 Finance has no other contact with NBIF, performs no reconciliations to ensure that money drawn from the Trust agrees with that reported in NBIF's financial statements, and completes no other monitoring activity in relation to NBIF.

Monitoring by Post-Secondary Education, Training, and Labour

4.104 Department of PETL monitoring of NBIF's delivery of the Research Assistantship and Research Technicians Initiatives follows directly from the terms of the letters of offer signed for those programs. The Department reviews reports required under the letter of offer as they are provided by NBIF. These reports focus on the degree of success that NBIF has had in achieving expected program outcomes as established by the Department. NBIF also provides the Department with the portion of its leveraging report that specifically relates to the two programs. Also, on invitation from NBIF, Department of PETL staff participates in the internal NBIF committee which evaluates research proposals and makes awards.

Conclusion - monitoring

4.105 Based upon our audit we would conclude that, at present, BNB does not regularly monitor the performance of NBIF. It therefore does not have access to sufficient information to evaluate NBIF's performance, or to identify cases where corrective action is necessary to address performance that does not meet provincial expectations. We would, however, like to acknowledge the monitoring effort undertaken by the Department of PETL in monitoring NBIF delivery of the Research Assistantship Initiative and the Research Technicians Initiative.

***Code of conduct
Audit criterion***

4.106 The following audit criterion relating to the application of public sector values at NBIF in the delivery of innovation funding was agreed upon with BNB.

BNB should ensure that, as an organization delivering provincial funding, NBIF has a code of conduct in place for board members and staff that supports and protects public sector values (i.e. fairness, impartiality, equity, honesty, prudence, transparency and openness, respect for the public good and the rule of law, provincial standards and policies, conflict-of-interest, accountability, stewardship of the public trust, privacy, and protection of the environment), including sanctions that apply to breaches of this code of conduct.

Public sector values and ethics

4.107 It is important that, in an arrangement where government is not directly delivering a publicly-funded program, it gain assurance that public sector values and ethics are being applied in the delivery of that program. In the case of the arrangement with NBIF, this should include ensuring that:

- NBIF has created a notion of public trust within the organization. (i.e. NBIF board of directors and staff.) This would involve instilling corporate values such as fairness, impartiality, equity, honesty, prudence, and openness, respect for the public good and the rule of law. There should be sanctions for breaches of these rules.
- NBIF is respecting the public interest, the rule of law, and provincial standards, policies, and values. For example, this would require compliance with relevant provincial laws and policies, such as those governing the environment and official languages.
- NBIF is responsive when citizens express concerns about the services being delivered by the organization.
- NBIF has procedures in place to ensure fairness in the decision-making process for the payment of grants to eligible recipients.
- BNB has remedies available to it in cases where it has determined that NBIF is not acting in accordance with public sector values and ethics.

Code of conduct

4.108 Within NBIF, the most effective way to ensure that the expected corporate values and ethics are understood by both NBIF board members and staff would be to have them documented in a code of conduct, and have each individual sign a declaration of their understanding. However, as discussed in the previous section, BNB was not given a mandate to communicate government performance expectations nor to monitor or report on results. Consequently, BNB has not required NBIF to develop a code of conduct, nor have they

implemented any performance monitoring procedures in this area. And NBIF has not developed such a document on its own. Further, at present directors are not required to sign a conflict-of-interest or other declaration pursuant to their membership on the NBIF board.

4.109 A member of the board of directors did indicate that deputy ministers on the board of directors do monitor the reported operations of NBIF to ensure that provincial values and policies are respected. They also indicated that many of the staff members of NBIF are former public employees who would understand what is expected in this area. However, without a documented code of conduct, they have no way of knowing how staff and other board members interpret their ethical responsibilities in connection with NBIF.

4.110 We feel that government expectations, related NBIF reporting to BNB, and consequences of a failure to meet government expectations could be communicated through the previously-recommended letter of agreement between BNB and NBIF. The letter of agreement could also specify the role of government board members in monitoring NBIF performance in this area.

Code of conduct - conclusion

4.111 Based upon our audit we would conclude that BNB has not ensured that, as an organization delivering provincial funding, NBIF has a code of conduct in place for board members and staff that supports and protects public sector values. And NBIF has not developed such a code of conduct, nor does it require its directors to sign a conflict-of-interest or other declaration pursuant to their membership on the NBIF board.

Audit and evaluation ***Audit criterion***

4.112 The following audit criterion relating to the audit and evaluation of NBIF was agreed upon with BNB.

BNB should ensure that NBIF is subject to the same level of attest, compliance, and performance audit as departments and Crown agencies, and that periodic program evaluations of the arrangement are undertaken. Key findings from these audits and evaluations should be reported to the board of directors, BNB, and the Legislative Assembly.

Audit of public innovation funding

4.113 Under the *Auditor General Act*, departments and Crown agencies are subject to audit by the Office of the Auditor General. This involves not only financial audit, but also compliance audit, and performance or value-for-money audit. Even in situations where a

Crown agency has appointed an external financial auditor, our Office retains the right in law to undertake compliance and performance audits.

4.114 However, even though NBIF is funded entirely through public dollars, our Office does not have the legal right to perform audits at NBIF because NBIF was created as an entity that is independent of government. Further, NBIF has contracted its external auditor to perform only an annual financial statement audit. Therefore public funds transferred to the Trust are not subject to the same level of scrutiny as those expended through Crown agencies and government departments. As a result, our Office is unable to provide the Legislative Assembly and the public with any assurance that funds transferred to NBIF through the Trust have been used appropriately in pursuing public policy objectives.

4.115 We believe that the NBIF should be subject to both compliance and performance audits. Further, as suggested in our 2006 Report, Chapter 8, Strengthening the Role of the Auditor General, we feel that our Office should have the legal right to follow public dollars in order to ensure that they have been properly used. In other words, we believe that our Office should be given the legal right to conduct compliance and performance audits at NBIF. This would mean that results of compliance and performance audits of NBIF would be reported to both the Minister of Business New Brunswick and the Legislative Assembly. This would mirror the reporting practices followed by our Office for government departments and Crown agencies. The results of NBIF financial audits are currently only provided to the NBIF board of directors.

Evaluation of the delivery of public innovation funding

4.116 Evaluations can provide valuable, objective decision-making information about:

- the continued relevance of a program;
- the cost-effectiveness of a program; and
- the extent to which a program is successful in achieving its objectives.

4.117 We feel that as part of the arrangement between government and NBIF, periodic independent evaluations of the delivery of innovation funding through NBIF should be conducted. Further, recognized evaluation standards should be applied in carrying out these evaluations. And, because of their value as inputs to public

policy decisions around the delivery of innovation funding, evaluation reports should be tabled in the Legislative Assembly.

4.118 As mentioned earlier in this chapter, a government representative on the board requested that NBIF have an evaluation done of its operations. Specifically, it was requested that someone independent of NBIF look at what NBIF had accomplished to date and compare that with what was intended by government when the organization was established.

4.119 As indicated, the evaluation was completed, but at least one government board member had concerns about the independence and objectivity of those who completed the evaluation, and felt that the information provided was not particularly valuable in assessing the real success of the organization. Consequently, government board members are hesitant to rely on the information contained in the report, and they would still like to have a full formal and independent evaluation completed comparing what has been accomplished through the present delivery arrangement in comparison with what was originally intended.

4.120 Finally, as discussed in the previous section, BNB was not given a mandate to communicate government performance expectations to NBIF nor to monitor or report on its results. Consequently, BNB has not been involved in setting requirements for the audit or evaluation of NBIF.

***Audit and evaluation -
conclusion***

4.121 Based upon our audit we would conclude that BNB has not ensured that NBIF is subject to the same level of attest, compliance, and performance audit as departments and Crown agencies, nor has it ensured that periodic program evaluations of the arrangement are undertaken. The report for the single evaluation that was completed was not provided to the Minister of Business New Brunswick or the Legislative Assembly by NBIF.

**Effectiveness
reporting
*Audit criterion***

4.122 The following audit criterion relating to BNB effectiveness reporting for the innovation funding delivery arrangement with NBIF was agreed upon with BNB.

BNB should have established procedures to measure and report on the effectiveness of NBIF in accomplishing its provincial policy objectives, and in acting as a good steward for public assets.

Public effectiveness reporting

4.123 We believe that public effectiveness reporting by BNB with regards to this arrangement would have a number of benefits.

- It would provide legislators and the public with information they could use in evaluating the effectiveness of the arrangement for delivering public innovation funding.
- It would allow legislators and the public to hold Business New Brunswick accountable for its administration of the funding arrangement.
- It would provide decision-makers within government with information upon which to base future funding decisions pertaining to NBIF.

4.124 In 2006, the New Brunswick Board of Management (BOM) made a request to BNB that it provide an update to BOM on projects awarded from the Trust. Because NBIF is independent of government, BNB had to reply to BOM, in a memo dated 8 August 2006, that it could not provide this information. In effect then, under the current arrangement BOM does not have ready access to information about how public dollars are being spent. As already discussed, government has made no reporting requirements of NBIF in return for funding provided. Therefore, as an independent organization, NBIF is acting prudently in protecting its private information. However, this makes BNB's task of measuring and reporting on the effectiveness of NBIF much more difficult.

4.125 In the absence of direction from government, actual reporting provided to BNB by NBIF is solely at the discretion of NBIF. As previously noted, regular ongoing reporting available to BNB includes the NBIF annual report, NBIF annual financial statements, and a semi-annual leveraging report that NBIF considers to be its key performance-related report.

4.126 While BNB does feel that information contained in the leveraging report could be useful in reporting on performance, as already noted it does not feel that information contained in the report should be relied upon exclusively in evaluating the performance of NBIF.

4.127 We feel that the current lack of comprehensive performance reporting from NBIF to BNB would preclude BNB from effectively measuring and reporting on the performance of NBIF. Not surprisingly, BNB provides no leveraging or other information about how NBIF is contributing to provincial innovation in its annual

report. Also, no other NBIF-related documents have been tabled at the Legislative Assembly.

4.128 We feel the following steps need to be taken to allow BNB to adequately report on the effectiveness of the arrangement with NBIF. In order to carry out these steps, BNB would first have to be assigned responsibility for establishing appropriate accountability mechanisms for the arrangement by government.

1. BNB should communicate its performance expectations to NBIF.
2. BNB should ensure that it receives adequate reporting from NBIF to allow it to evaluate the degree to which NBIF has met those performance expectations.
3. BNB should report information on the extent to which the arrangement has accomplished its provincial policy objectives, and at what cost, in its annual report.
4. BNB should require NBIF to be as open as possible regarding access to information on the agreements, objectives, activities, and achievements. Appropriate provisions should be made for legitimate concerns of personal privacy, commercial confidence, and intergovernmental negotiations.
5. BNB should ensure that key findings from compliance and performance audits, and evaluation studies of NBIF are reported to the Legislative Assembly.

Effectiveness reporting - conclusion

4.129 Based upon our audit, we would conclude that BNB has not established procedures to measure and report on the effectiveness of NBIF in accomplishing its provincial policy objectives, and in acting as a good steward for public assets.

Departmental comments

4.130 The Department of Business New Brunswick provided the following response to our report and recommendations:

Thank you for your letter dated October 8, 2009 with your audit report on The Provincial Innovation Funding Delivered through the New Brunswick Innovation Foundation.

The department has noted that the overall audit conclusion is:

Based upon our audit work, we conclude that governance structures and practices established by Business New Brunswick in connection with the delivery of innovation funding through the New Brunswick Innovation Foundation do not currently ensure accountability and protection of the public interest.

With respect to this finding, the department continues to advise the Auditor General that the emphasis during the time period was to ensure that the New Brunswick Innovation Foundation (NBIF) operated at “arms length to government” and was effectively not responsible to Business New Brunswick. Thus Business New Brunswick was not directed to nor empowered to handle the NBIF as a reporting agency. This “hands off” relationship between the department and NBIF has been respected and carefully maintained. Only in recent months has there been a new expression of support for Business New Brunswick being accountable for NBIF’s performance.

On this issue of departmental responsibility, we wish to acknowledge your audit findings in which you stated:

BNB was originally intended to be given responsibility for communicating government performance expectations to NBIF and monitoring and reporting on NBIF’s performance in order to ensure transparency and accountability. However, it was never given a mandate by government to carry out these responsibilities.

With respect to your audit of the delivery of innovation funding to NBIF and the actual alignment of such activity with the priorities of the government, your audit also states:

Based upon our work, we conclude that the delivery of innovation funding through the New Brunswick Innovation Foundation appears to be aligned with overall provincial innovation strategy.

Given the “hands-off” relationship, Business New Brunswick did what it could, to encourage and support

NBIF in addressing the innovation priorities of the provincial government. It appears that we were successful in this endeavor.

Lastly, I wish to comment on one area that we see is vital to strengthening and advancing our provincial innovation strategy. Specifically it concerns the financing of innovation initiatives, including the New Brunswick Innovation Foundation. In order to reap the rewards provided through innovation, it is important that sustainable funding be provided by government. We think that solutions that offer longer term financial support to NBIF need to be carefully considered. We offer this comment specifically in light of your recommendation for year-by-year funding of NBIF.

Again thank you for the opportunity to provide these limited comments. We look forward to working closer with NBIF as we continue to pursue economic self-sufficiency for our province.