

Audit of Timber Harvesting and Road Construction, Maintenance and Deactivation

**International Forest Products Ltd.
Forest Licence A19220**

**9096 Investments Ltd.
(affiliated with Homalco
First Nation)**

**Terminal Forest Products Ltd.
Forest Licence A19229**

**F.A.B. Logging Co. Ltd.
Timber Sale Licence A20492**

**Northwest Hardwoods
(a division of Weyerhaeuser Company Ltd.)
Non- Replaceable Forest Licence A47297**



FPB/ARC/88

April 2007

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Board Commentary

In fall 2006, the Board conducted a limited scope compliance audit of five forest tenure holders in the Sunshine Coast Forest District (see map on page 2) - International Forest Products Ltd., Terminal Forest Products Ltd., Northwest Hardwoods, 9096 Investments Ltd., and F.A.B. Logging Co. Ltd.

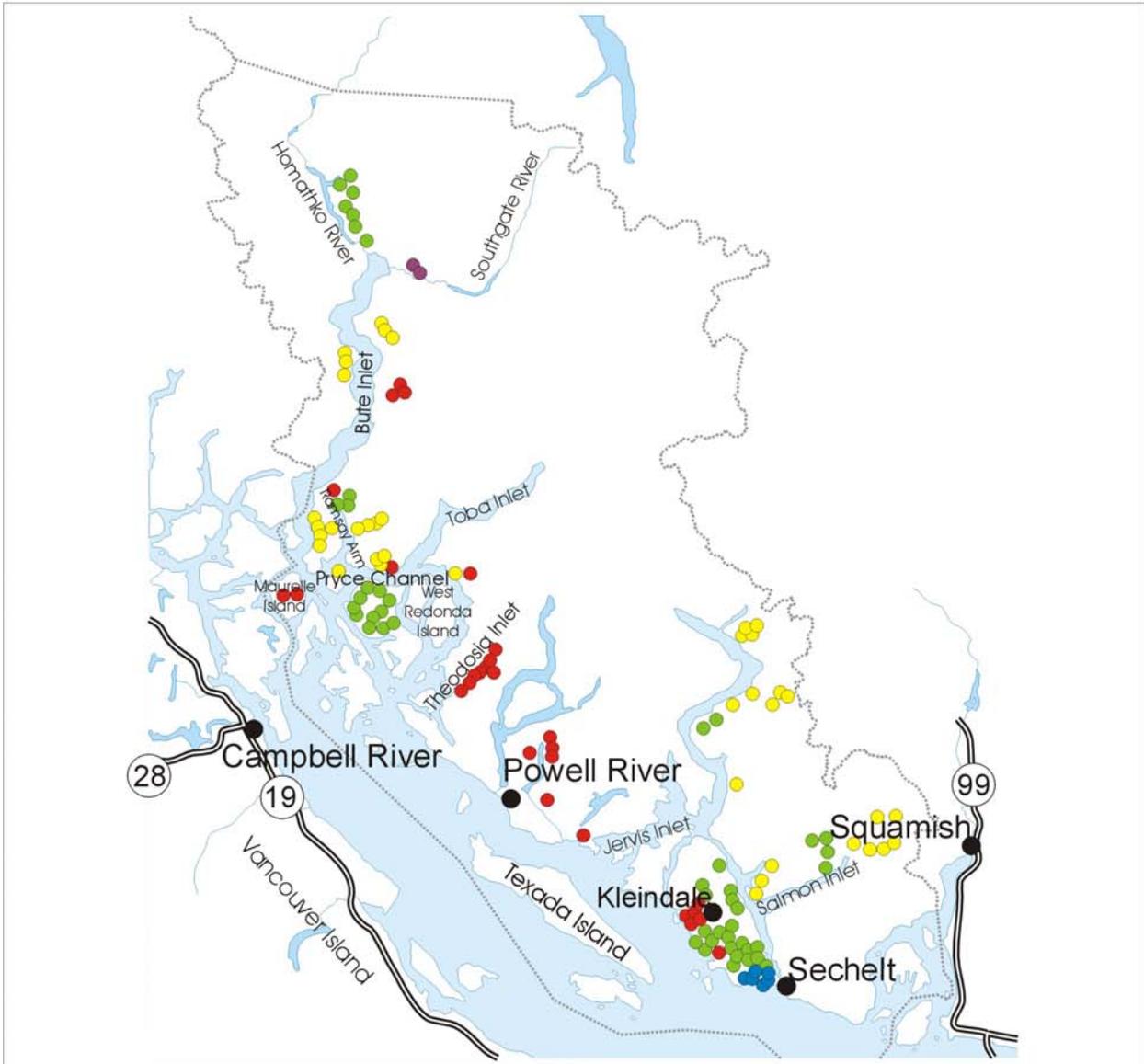
The audit examined activities and obligations associated with timber harvesting; road construction, maintenance, and deactivation; bridge construction and maintenance. The assessments included a review of site-level planning specifically associated with these activities. A review of higher level planning was not within the scope of this audit.

The audit assessed the activities and obligations of these tenure holders from a population consisting of:

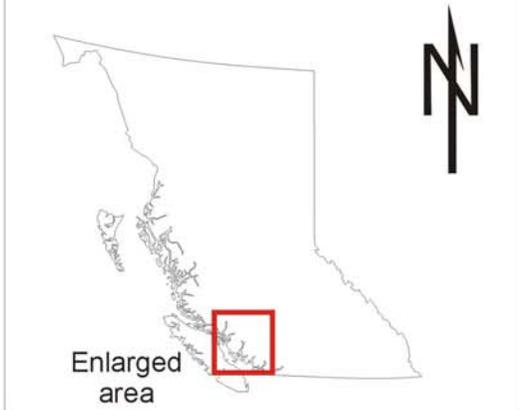
- harvesting of 120 cutblocks,
- approximately 800 kilometres of road work or obligations,
- construction and maintenance of 120 bridges, and
- operational planning specific to harvesting and roads

The allowable annual cut of these five licences is over 700,000 cubic metres or approximately sixty percent of the allowable annual cut within the Sunshine Coast Forest district. The Board is pleased to note that Interfor, Terminal, Northwest Hardwoods, 9096 Investments and F.A.B. Logging complied with legislative requirements in all significant respects, and encourages them to continue to comply with legal requirements for planning and forest practices.

Roads and Harvesting Audit Sunshine Coast Forest District



- Northwest Hardwoods
 - Interfor
 - Terminal Forest Products
 - FAB Logging
 - Homalco First Nation
 - ■ ■ Forest District Boundary
 - ══ Highway
- (Map not to scale)



Audit Results

Background

As part of the Forest Practices Board's 2006 compliance audit program, the board selected five licences in the Sunshine Coast Forest District for audit. The licences selected were:

- International Forest Products Ltd. (Interfor) forest licence A19220;
- Terminal Forest Products Ltd. (Terminal) forest licence A19229;
- Northwest Hardwoods (Northwest) non-replaceable forest licence A47297;
- 9096 Investments Ltd. (9096 Investments) non-replaceable forest licence A65197; and
- F.A.B. Logging Co. Ltd. (FAB Logging) timber sale licence A20492.

The Board randomly selected the Sunshine Coast Forest District for a multi-licence limited scope audit in 2006. Interfor, Terminal, Northwest Hardwoods, 9096 Investments, and F.A.B. Logging were selected as the five major licence agreement holders in the district and they were not selected on the basis of location or past performance. Information about the Board's compliance audit process is provided in Appendix 1.

- Interfor holds forest licence A19220, with operations dispersed throughout the Sunshine Coast Forest District. The operating areas included Bute Inlet (Purcell Point, Alpha Bluffs) and Pryce Channel (Frances Bay, Ramsay Arm, Homfray Creek, Quatam River, Raza Island) to the north. Operations where activities were audited to the south included Jervis Inlet (Potato, Stakawus, Glacial, Perketts), Narrows Inlet and Clowhom Lake at the head of Salmon Inlet. The annual allowable cut for this licence is 487,031 cubic metres.



Close-up of Interfor harvest block showing retention in patches, clumps, and single tree configurations.

- Terminal holds forest licence A19229, with operations dispersed throughout the Sunshine Coast Forest District. The most northerly operating area was located at the head of Bute Inlet, in the Homathko River drainage. Other operating areas where activities were audited included Ramsay Arm and West Redonda Island to the north; and Jervis Inlet (Princess Royal Reach), Sechelt Inlet, Salmon Inlet (Misery Creek), and in the vicinity of the District of Sechelt to the south. The annual allowable cut for this licence is 125,966 cubic metres.
- Northwest holds non-replaceable forest licence A47297. Northwest's licence requires harvesting in stands with a higher percentage of hardwoods and its operations focus on alder which it supplies to its mill located on the lower mainland. As a result of targeting hardwoods, their operations were dispersed throughout the Sunshine Coast Forest District. To the north, activities were located in Orford River, Maurelle Island, Pryce Channel, and Homfray Creek. Operating areas were also located north of Powell River, in the Theodosia River drainage, at the head of Theodosia Inlet and in the vicinity of Kleindale to the south, in close proximity to Sechelt. The annual allowable cut for this licence is 95,000 cubic metres.



Aerial overview of Northwest harvested openings where focus is on the deciduous component of the forested landbase.

- 9096 Investments Ltd. holds non-replaceable (five-year term) forest licence A65197. The licence was awarded to the Homalco First Nation in 2002 (operating as 9096 Investments). This licence had three main objectives: to encourage the participation of First Nations in the management of the forest resource; to create and maintain employment opportunities for First Nations in the harvesting and forestry sector; and to promote the utilization of cottonwood-leading stands. The operating area was solely in the Southgate River drainage located at the head of Bute Inlet. The annual allowable cut for this licence is 10,000 cubic metres.
- FAB Logging held cutting rights under a replaceable timber sale licence (major) A20492 and the annual allowable cut for this licence was 6,381 cubic metres. In 2005, the licence was converted to a forestry licence to cut A80501, with a term of five years and a cut of 102,096

cubic metres (this cut level is based on the original AAC projected out 16 years). The licence is no longer a replaceable licence and will expire at the end of its term. The operating area was focused in Snake Bay which is near the District of Sechelt.

Terrain in most of the audit area is steep. The majority of the operations are located in isolated inlets on the mainland coast or on islands within Georgia Strait.

The Board's audit fieldwork took place over a four week period between October 10 and November 1, 2006.

Higher Level Plans¹

As this audit covered a large geographic area, there are numerous higher level plans that apply to the operating areas for each licensee. The following is a summary of the plans and other guidance documents that licensees used for on-the-ground operations.

Interfor is operating under the Skwawka Land Use Plan (LUP), Chapman LUP, Brittain LUP (draft), Bute West LUP (draft) and Bute East LUP (draft); including an Order establishing Provincial Non-Spatial Old Growth Objectives and the Identified Wildlife Management Strategy. Other guidance to operations is provided through the Jervis, Homfray, and Quatam draft Old Growth Management Areas (OGMAs), draft Goat Winter Range Plan, and Marbled Murrelet (MAMU) mapping.

Terminal operates under an Order to Establish a Landscape Unit and Objectives and both the approved Sechelt Landscape Unit and Homathko Landscape Unit provide that guidance.

Northwest Hardwoods operates under various LUPs (similar to Interfor and Terminal, because operating areas either overlap and/or are adjacent to their operations) and, where LUPs are approved, Wildlife Habitat Areas (WHA) and OGMAs have been identified.

F.A.B Logging follows the approved Sechelt Landscape Unit Plan and 9096 Investments Ltd. follows the Southgate Landscape Unit Plan which has been designated as a "High Biodiversity Emphasis Option LU".

The LUPs tend to set landscape level requirements which fall outside the scope of this audit. Where applicable, the audit assessed site level requirements that were identified in these plans, such as meeting a visual quality objective or the requirement to ensure cutblock boundaries did not infringe on goat winter range.

¹ A higher level plan is a forest resource management objective that is established as legally binding by a written order. The objective applies to a resource management zone, landscape unit, sensitive area, recreation site, recreation trail, or interpretive forest site. Higher level plans are a provision of the *Forest Practices Code of British Columbia Act* that give direction to operational plans.

Audit Approach and Scope

The Board conducted a “limited scope” audit which means that only harvesting, road activities and associated planning were examined. Harvesting and road activities that took place between September 1, 2005, and November 1, 2006 were included in the scope of the audit. These activities were assessed for compliance with the *Forest Practices Code of British Columbia Act* (the Code), the *Forest and Range Practices Act* (FRPA²) and related regulations.

The Board’s audit reference manual, *Compliance Audit Reference Manual, Version 6.0, May 2003*, and the addendum to the manual for the 2006 audit season, set out the standards and procedures that were used to carry out the audit.

Planning and Practices Examined

Planning

Interfor conducted activities during the audit period under four forest development plans³ (FDPs). Three plans cover the time period 2002-2006: the Bute Inlet, Quatam River, and Sechelt FDPs. The Jervis covers the time period 2001-2005. All four FDPs have been amended since initial approval.

Terminal conducted activities during the audit period under the 2001-2005 forest development plan. The plan has been amended several times since it was approved

Northwest conducted activities during the audit period under the 2001-2005 forest development plan. The plan has been amended several times since it was approved.

9096 Investments conducted activities during the audit period under the 2004-2007 development plan. There were no amendments to this plan.

FAB Logging conducted activities during the audit period under the 2001-2005 forest development plan and it has been amended several times since it was approved.

Practices

The activities and obligations that occurred during the audit period, which were subject to audit, are described in Table 1. The audit work on selected roads and cutblocks included ground-based procedures and assessments from the air using a helicopter.

Table 1: Audit Sample and population for activities and obligations during the audit period.

Activity/Obligation	Interfor FL A19220	Terminal FL A19229	Northwest Hardwoods NRFL A47297	9096 Investments NRFL A65197	F.A.B. Logging TSL A20492
Harvesting	26 of 43 cutblocks	20 of 39 cutblocks	18 of 30 cutblocks	2 of 2 cutblocks	4 of 6 cutblocks
Road Construction	13 of 41 kilometres	10 of 25 kilometres	5 of 6 kilometres	2 of 2 kilometres	6 of 7 kilometres
Road Deactivation	24 of 33 kilometres	5 of 9 kilometres	5 of 6 kilometres	2 of 2 kilometres	2 of 4 kilometres
Road Maintenance	64 of 343 kilometres	46 of 259 kilometres	22 of 58 kilometres	None ²	4 of 7 kilometres
Bridge Construction	5 of 7 bridges	7 of 10 bridges	1 of 1 bridge	None ³	None ³
Bridge Maintenance	13 of 47 bridges ¹	28 of 51 bridges	4 of 4 bridges	None ³	None ³

¹An additional three bridges were removed during deactivation activities in the audit period.

² Auditors did not examine road maintenance because 9096 Investments was not responsible for that.

³ 9096 Investments and FAB logging did not install any bridges or have any bridge maintenance obligations during the audit period.

² Most of the *Forest Practices Code of British Columbia Act* (the Code) was repealed on January 31, 2004, and replaced with the *Forest and Range Practices Act* (FRPA). The transitional provisions of FRPA state that the Code continues to apply to forest practices carried out under a forest development plan. This continues until there is an approved forest stewardship plan, at which point, the requirements of FRPA apply. Therefore, although FRPA came into effect prior to the audit period, the legislated forest practices requirements that applied to the auditee were the requirements of the Code.

³ A forest development plan is an operational plan that provides the public and government agencies with information about the location of proposed roads and cutblocks for harvesting timber over a period of at least five years. The plan must specify measures that will be carried out to protect certain forest resources prescribed by regulation. It must also be consistent with any higher level plans. Site-specific plans are required to be consistent with the forest development plan.

Audit Opinion

In my opinion, the timber harvesting; road construction, deactivation and maintenance; and the associated operational planning, carried out under forest licence A19220 by International Forest Products Ltd.; forest licence A19229 by Terminal Forest Products Ltd.; non-replaceable forest licence A47297 by Northwest Hardwoods; non-replaceable forest licence A65197 by 9096 Investments Ltd.; and timber sale licence A20492 by F.A.B. Logging Co. Ltd., in the Sunshine Coast Forest District for the period September 1, 2005, to November 1, 2006, complied in all significant respects with the requirements of the *Forest Practices Code of British Columbia Act*, and the *Forest and Range Practices Act* and related regulations as of November 2006.

In reference to compliance, the term “in all significant respects” recognizes that there may be minor instances of non-compliance that either may not be detected by the audit, or that are detected but not considered worthy of inclusion in the audit report.

The *Audit Approach and Scope* and the *Planning and Practices Examined* sections of this report describe the basis of the audit work performed in reaching the above conclusion. The audit was conducted in accordance with the auditing standards of the Forest Practices Board. Such an audit includes examining sufficient forest planning and practices to support an overall evaluation of compliance with the Code, and FRPA.



Christopher R. Mosher CA, CEA(SFM)
Director, Audits
March 23, 2007

Appendix 1: Forest Practices Board Compliance Audit Process

Background

The Forest Practices Board conducts audits of government and agreement-holders for compliance with the *Forest Practices and Range Practices Act* (FRPA) and the *Wildfire Act* (WA). The Board has the authority to conduct these periodic independent audits under section 122(1) of FRPA and section 68(1) of WA. Compliance audits examine forest planning and practices to determine whether or not they meet FRPA and WA requirements.

Most of the *Forest Practices Code of British Columbia Act* (the Code) was repealed on January 31, 2004 and replaced with FRPA. The transitional provisions of FRPA state that the Code continues to apply to forest practices carried out under a forest development plan, until there is an approved forest stewardship plan, at which point the requirements of FRPA apply.

The Board audits agreement holders who have forest licences or other tenures under the *Forest Act* or the *Range Act*. The Board also audits government's British Columbia Timber Sales (BCTS) program. Selection for audit, of both areas and licensees or agreement-holders to be audited, is made randomly to ensure a fair, unbiased selection.

Audit Standards

Audits by the Board are conducted in accordance with the auditing standards developed by the Board. These standards are consistent with generally accepted auditing standards.

The audits determine compliance with the Code, FRPA and WA, based on criteria derived from those Acts and related regulations. The criteria reflect judgments about the level of performance that constitutes compliance with each requirement.

The standards and procedures for compliance audits are described in the Board's *Compliance Audit Reference Manual*.

Audit Process

Conducting the Audit

Once the Board randomly selects an audit licensee and area, all activities carried out during the period subject to audit are identified (such as harvesting or replanting, and road construction or deactivation activities). Items that make up each forest activity are referred to as a population. For example, all sites harvested form the timber harvesting population and all road sections constructed form the road construction population.

A separate sample is then selected for each population (e.g., the cutblocks selected for auditing timber harvesting). Within each population, more audit effort (i.e., more audit sampling) is allocated to areas where the risk of non-compliance is greater.

Audit field work includes assessments of features using helicopters and ground procedures, such as measuring specific features like riparian reserve zone width. The audit teams generally spend one to two weeks in the field.

Evaluating the Results

The Board recognizes that compliance with the many requirements of the Code, FRPA and WA, is more a matter of degree than absolute adherence. Determining compliance, and assessing the significance of non-compliance, requires the exercise of professional judgment within the direction provided by the Board.

The audit team, composed of professionals and technical experts, first determines whether forest practices comply with legislated requirements. For those practices considered to not be in compliance, the audit team then evaluates the significance of the non-compliance, based on a number of criteria, including the magnitude of the event, the frequency of its occurrence and the severity of the consequences.

Auditors categorize their findings into the following levels of compliance:

Compliance – where the auditor finds that practices meet Code, FRPA and WA requirements.

Not significant non-compliance – where the auditor, upon reaching a non-compliance conclusion, determines that one or more non-compliance event(s) is not significant and not worthy of reporting. Therefore, this category of events will not be included in audit reports.

Significant non-compliance – where the auditor determines a non-compliance event(s) or condition(s) is or has the potential to be significant, and is considered worthy of reporting.

Significant breach – where the auditor finds that significant harm has occurred, or is beginning to occur, to persons or the environment as a result of one or many non-compliance events.

If it is determined that a significant breach has occurred, the auditor is required by the *Forest Practices Board Regulation* to immediately advise the Board, the party being audited, and the Minister of Forests and Range.

Reporting

Based on the above evaluation, the auditor then prepares a draft audit report. The party being audited is given a draft of the report for review and comment before it is submitted to the Board.

Once the auditor submits the draft report, the Board reviews it and determines if the audit findings may adversely affect any party or person. If so, the party or person must be given an opportunity to make representations before the Board decides the matter and issues a final report. The representations allow parties that may potentially be adversely affected to present their views to the Board.

The Board then reviews the draft report from the auditor and the representations from parties that may potentially be adversely affected before preparing its final report. Once the representations have been completed, the report is finalized and released: first to the auditee and then to the public and government.