

**Indian and Northern Affairs Canada**

**Prepared by:**

**Industry Canada**

**Assisted by:**

**KPMG**

**Audit of Aboriginal Business Canada's  
Aboriginal Financial Institutions and  
Access to Capital Program  
Project 07/04  
March 2007**

# Table of Contents

---

	<u>Page</u>
<b>Executive Summary</b> .....	<b>i</b>
<b>Section 1 - Introduction</b> .....	<b>1</b>
Background - Aboriginal Financial Institutions .....	1
Background - National Aboriginal Capital Corporation Association .....	1
Aboriginal Financial Institutions Program Objectives .....	2
<b>Section 2 - Objectives, Scope, Approach and Criteria</b> .....	<b>5</b>
Objectives and Scope .....	5
Audit Approach .....	5
Audit Criteria .....	7
<b>Section 3 - Audit Findings</b> .....	<b>8</b>
Management Control Framework and Practices .....	8
Internal Controls Related to the Selection, Approval and Payment of Projects .....	12
Monitoring of Recipient Activity and Compliance .....	16
<b>Appendices</b>	
Appendix 1 - Audit Criteria .....	20
<b>Annex</b>	
Action Plan	

# Executive Summary

---

The objectives of the audit of Aboriginal Business Canada's (ABC's) Aboriginal Financial Institutions program were to provide an independent and objective assessment of: the adequacy of ABC's management control framework and practices, including its risk management strategies and practices and information used for decision-making and reporting purposes; the adequacy of internal controls related to the selection, approval, and payment of projects; and the adequacy of management efforts to monitor recipient activity and determine compliance by recipients, including audits undertaken of recipients of contributions. The scope of the audit was limited to the Aboriginal Financial Institutions (AFI) and Access to Capital (ATC) program components. The audit focused on management practices and contribution agreements in effect between April 2004 and December 2005. The results of the audit are intended to be used by ABC management to improve existing management practices, controls, processes and procedures in its AFI and ATC program areas.

## Background

Aboriginal Business Canada (ABC) is a program that promotes the growth of commerce as one means towards economic self-sufficiency for all Aboriginal people. The program was transferred to Indian and Northern Affairs Canada from Industry Canada on December 1, 2006. Industry Canada together with Aboriginal leaders, created Aboriginal Financial Institutions in the 1980s and 1990s to provide financial lending services to Aboriginal clients in remote, rural, and urban areas across the country that would generally not be provided through conventional financial institutions due to the high risk nature of these loans. In 1996, the National Aboriginal Capital Corporation Association (NACCA) was created by a collective group of Aboriginal Financial Institutions (AFIs) with the objective of serving as a central source for developing and disseminating products and services to its member network of AFIs. A summary of the programs subject to the audit are as follows:

- ***Aboriginal Financial Institutions (AFI)*** – Through contribution agreements with individual AFIs, the AFI program provides financial assistance to support AFI operations, business and market studies and plans, and the establishment and operation of a national coordinating association.
- ***Access to Capital (ATC)*** – The ATC program element provides assistance to strengthen the network of Aboriginal-controlled developmental lending institutions through funding agreements with the National Aboriginal Capital Corporation Association to provide support services to AFIs, monitor AFIs, provide an interest rate buy-down on loans obtained from senior lenders, establish and/or expand existing loan funds, and provide training and support to AFIs.

The ATC program component is delivered by ABC staff and management in headquarters, while delivery of the AFI program component was rolled out to the regional level in fiscal 2003-2004 and is now delivered directly by Institutional Field Officers and Development Officers, located in seven regional offices.

## **Conclusion and Key Findings**

Overall, we found that ABC has developed and implemented key portions of a management control framework, including related practices and internal controls, to help ensure compliance with Treasury Board's *Policy on Transfer Payments* as well as with relevant ABC policies and procedures. Since the devolution of AFI program delivery to the regions three years ago, ABC management have been focussing on strengthening many core elements of their management control framework, including implementing an enhanced and more stringent monitoring regime, strengthening the content of ATC and AFI contribution agreements, and improving the quality and timeliness of recipient reporting. Of particular note is the success of the implementation of Institutional Development Officers (IDO) who are dedicated to the delivery of AFI programming in the three regional offices with the highest AFI volume.

Auditors identified a number of opportunities to further improve and strengthen ABC's existing practices and internal controls. These are summarized below by audit objective.

### **Management Control Framework**

Over the past few years, ABC management has rolled out the responsibility to deliver the AFI program to regional representatives. In conjunction with this change to a more decentralized model, ABC has modified aspects of its organizational structure and procedures to help strengthen AFI program delivery. However, a number of opportunities to improve ABC's existing management control framework were identified.

Currently, there is an inconsistent level of understanding of the vision and performance expectations of the AFI program across the regions. There are also inconsistencies in the use of ABC risk rating tools and there does not appear to be a formal mechanism for identifying and managing risk for the AFI and ATC programs as a whole. Finally, the quality of performance and other information received on individual AFIs varies. To address these issues, it is recommended that ABC enhance its management control and accountability framework through the following key actions: develop and communicate a clear program vision and related performance expectations for the short, medium and long terms; develop a tailored project risk rating tool for the AFI and ATC programs; consolidate reporting on risks and performance for the program as a whole; and consider revising the contribution agreement to require more prescriptive reporting of key financial results.

Differences were noted in the workload and commitment to the AFI program between those offices with dedicated Institutional Development Officers and those without this role. This may be contributing to an uneven level of understanding of roles and responsibilities with respect to the AFI program and to differences in the capacity to deliver the program. It is recommended that ABC re-examine and clarify roles and responsibilities at the program officer and manager levels, giving consideration to creating a dedicated Institutional Development Officer for the Prairie Provinces. It is further recommended that specialized training in financial statement analysis, monitoring and other key AFI program activities be developed and provided to officers responsible for delivering the program.

### **Internal Controls**

Although the criteria for payments of funding claims or advances are clearly described in recipient contribution agreements and reflect the guidelines included in the *Policy on Transfer Payments*, there are inconsistencies in the quality of supporting documentation that is being received to substantiate these financial payments. It is recommended that ABC management communicate and reinforce the need for appropriate documentation to support advances and claims.

Inconsistencies were also identified in the organization and content of project files between regions and project types. In general, files were poorly organized in terms of containing all necessary information and clearly outlining the flow of issues and their resolution with the recipient. It is recommended that the expected content and manner of organizing project files be more clearly defined and communicated to ABC employees.

### **Monitoring**

The terms of reference for conducting monitoring and compliance audits of AFI program recipients do not specifically state the expected level of assurance to be provided and does not refer to any specific standards with which the audit should be conducted. As a result, the depth, comments and content of the recipient compliance reports examined through the audit varied significantly and in some cases, reports did not include a conclusion on the recipient's compliance with their contribution agreement. All of these variables significantly reduce the utility of these reports. It is recommended that ABC revise its terms and conditions for recipient compliance audits to specify the level of assurance and standards by which compliance audits should be conducted. A risk-based approach to help direct future monitoring activities should also be formalized.

Although recipient monitoring activities are currently performed in a variety of forms, evidence of monitoring activities is not currently documented in sufficient clarity or detail. This may create difficulties in determining the current progress of a recipient's project or portfolio, and in identifying issues and the status of any resolutions. It is recommended that file documentation standards be revised to require an appropriate and specific level of documentation as evidence of monitoring activities, such as a sign off on recipient activity reports and the provision of ABC officer's commentary on reports received and meetings attended.

## **Section 1 - Introduction**

---

Aboriginal Business Canada (ABC) is an Industry Canada program that promotes the growth of commerce as one means towards economic self-sufficiency for all Aboriginal people. Through the provision of financing, business support and information, ABC facilitates the development, competitiveness and success of Aboriginal businesses in Canadian and world markets. ABC programming is carried out under the Aboriginal Business Development program which includes three components: Aboriginal Business Development, Aboriginal Financial Institutions (AFI) and Access to Capital (ATC). The scope of this internal audit is limited to the AFI and ATC program elements.

### **Background - Aboriginal Financial Institutions**

Industry Canada, together with Aboriginal leaders, created Aboriginal Financial Institutions in the 1980s and 1990s with the objective of improving program design and delivery through increased Aboriginal control. Originally, a network of thirty-five AFIs were created to provide developmental loans to Aboriginal businesses in recognition of the challenges faced by Aboriginal businesses in securing financial capital. Today, AFIs consist of Aboriginal Capital Corporations (ACC's) and Aboriginal Community Futures Development Corporations (ACFDC's).

ACCs were established as non-governmental entities, owned and controlled by Aboriginal people, to provide loans, loan guarantees and related services to this market in their local constituencies. ACCs typically serve First Nations businesses, First Nations communities, Metis and Non-Status Indians, and other sectors such as agriculture, fishing, energy, etc. In this capacity, ACC's offer a wide geographical service coverage, often in remote locations. ACFDCs are local community-focused institutions that typically have smaller loan portfolios than do ACCs. ACCs were intended to be self-sustaining while ACFDCs were designed to receive annual operating subsidies and selective increases in investment capital.

Currently, there are fifty-nine AFIs in operation. AFIs provide financial lending services to Aboriginal clients in remote, rural, and urban areas across the country that would generally not be provided through conventional financial institutions due to the high risk nature of these loans.

### **Background - National Aboriginal Capital Corporation Association**

In 1996, the National Aboriginal Capital Corporation Association (NACCA) was created by a collective group of AFIs. NACCA's purpose is to serve as a central source for developing and disseminating products and services to its member network of AFIs. Since 1999, ABC and Indian and Northern Affairs Canada (INAC) have worked in partnership with NACCA to enhance NACCA's capacity to provide programs and services to a network of fifty-nine AFIs

through contribution agreements with both departments. Since its inception, ABC has entered into eighteen contribution agreements with NACCA. The majority of individual agreements are intended to support NACCA's operating costs and project costs related to the development of new products and services for the AFI community.

In fiscal 2005, INAC and ABC provided NACCA with a combined total of \$1.4 million in operating funds. However, the majority of dollars funded to NACCA (approximately \$25 million) have been funded to directly support the establishment and delivery of the Access to Capital funds being delivered to AFIs through NACCA.

## **Aboriginal Financial Institutions (AFI) Program Objectives**

Aboriginal Business Canada (ABC) supports AFI through two program components, described below.

### **Aboriginal Financial Institutions (AFI) Program**

The AFI program provides financial assistance to support Aboriginal Financial Institutions for economic benefit to Aboriginal people. The program is delivered to eligible AFIs directly by Institutional Field Officers and Development Officers, located in seven regional offices. Activities include: a) establishing, expanding or diversifying the operation of an AFI; b) conducting studies for feasibility, business planning, market assessments and related marketing activities, negotiation, information gathering, and diagnostic studies, consultations or other requirements; and, c) establishing and operating one National Association (National Aboriginal Capital Corporation Association - NACCA) to coordinate the activities of Aboriginal Financial Institutions (AFIs). The eligible costs under AFI program funding includes expenditures related to the provision of support for eligible business plans and studies, AFI conferences and meetings, diagnostic reviews, top-up funding, and in certain circumstances, operating funding.

Included within the AFI program component is the Aboriginal Youth Business Initiative (AYBI) and the Business Support Officer Initiative (BSO). The AYBI is a program that is delivered by AFIs through funding from ABC to improve Aboriginal youth's access to financing and support services for the purpose of setting up a business. Under the BSO program, funding is provided to ACCs to cover the costs of staffing a Business Service Officer position to assist the ACC in a range of activities within the organization, including the provision of business services (planning, development and financing), business training workshops, client aftercare and mentoring, and market development activities.

In 2004, responsibility for delivering the AFI program was rolled out to the regional office level. Since the late 1990s, this responsibility was centralized at ABC's head office location. The decision to transition ACC program files to the regional level is intended to improve the relationship of regional officers with partner ACCs, reduce staff and resources dedicated to ACC activities, reduce costs, and better integrate ACC program delivery into ABC's existing structure.

## **Access to Capital (ATC) Program**

The ATC program element provides assistance to strengthen the network of Aboriginal-controlled developmental lending institutions. Activities include: a) supporting operations that provide business and financial services to AFIs; b) monitoring AFIs; c) providing an interest rate buy-down on loans obtained from senior lenders, d) establishing and/or expanding existing loan funds; and, e) providing training and support to AFIs. This program was originally approved in October 1999 as a five year national initiative. In March 2003, the program was extended to March 2005, and was subsequently renewed to March 31, 2008. The ATC program is managed through ABC's national office in Ottawa and delivered through funding agreements with NACCA and Peace Hills Trust.

## **Key Risk Factors**

During the planning phase of the audit, interviews were held with representatives from the AFI and ATC program areas and representatives of ABC senior management. During this process, significant risks facing the program were identified and validated, and concerns of management were raised. It is important to note that the following represent *potential* areas of risk for which appropriate risk mitigation strategies and management controls may or may not be in place.

## **Aboriginal Financial Institutions (AFI) Program**

- ***Capacity to Deliver the program*** - Institutional officers may not have the required skills or capacity to appropriately assess and monitor AFI contribution agreements and AFI program delivery may not be administered in a consistent manner across the country.
- ***Program and Delivery Priorities*** - Conflicting priorities may exist as a result of the fact that officers and managers in regions without dedicated AFI program delivery staff may not have sufficient time, training and interest in appropriately managing the AFI program.
- ***Program Effectiveness*** - A key risk in this industry is the financial performance and stability of AFIs and the ability of AFI programming to be effective in relation to the costs and support required for developmental lending institutions. The AFI program model was originally based on a high interest rate model which is of limited relevance given the historically low interest rate environment the country has had over the past few years, increasing the risk of loss. In addition, some AFIs may have less access to programs within other departments and agencies by virtue of their geographic location and the types of programs and services offered in their jurisdictions. This may further challenge the effectiveness of AFI program delivery.
- ***Quality of AFI Financial Information*** - Individual AFIs may not use consistent policies and procedures, which may create difficulties in assessing the reasonableness of ACC financial results and in comparing ACC performance.



### **Access to Capital (ATC) Program**

- ***Program and Delivery Priorities*** - Funding to NACCA may be related to areas outside of their original mandate which may increase the risk that competing objectives or strategies may make it more difficult for NACCA to focus on providing core services and support to AFIs.
- ***Third Party Delivery*** - As a third party service provider, NACCA may not meet ABC's objectives, provide substandard service delivery or may be operating inefficiently (e.g. through weak and/or inappropriate accountability and governance structures).
- ***Information for Decision-Making*** - Information provided by NACCA may not be sufficient (i.e. timely, complete, accurate) to support ABC management's decision-making.

### **General**

- ***Monitoring*** - Difficulties may be experienced in assessing and reporting on long-term outcomes and impacts of the AFI and ATC programs due to insufficient monitoring activities.
- ***Risk Management*** - Risk management practices and processes may not sufficiently consider changes in ABC's risk profile resulting from its third party delivery arrangement with NACCA and/or individual AFI recipients, impairing ABC's ability to make required program delivery changes on a timely basis.
- ***Compliance with Relevant Policies and Procedures*** - Funding may not be used for intended purposes and/or may not be issued in compliance with programs and Treasury Board requirements.

## **Section 2 -**

# **Objectives, Scope, Approach and Criteria**

---

### **Objectives and Scope**

The objectives of the audit of the Aboriginal Financial Institutions (AFI) and Access to Capital (ATC) program components are to provide an independent and objective assessment of:

- the adequacy of Aboriginal Business Canada (ABC) management control framework and practices, including its risk management strategies and practices and information used for decision-making and reporting purposes, with a particular focus on the adequacy of management control practices over third party delivery arrangements and monitoring activities;
- the adequacy of internal controls related to the selection, approval, and payment of projects; and
- the adequacy of management efforts to monitor recipient activity and determine compliance by recipients, including audits undertaken of recipients of contributions.

During our audit we reviewed the availability of timely, relevant, and reliable management information (both financial and non-financial), compliance with relevant authorities and ABC policies and procedures, accountability in the use of resources, monitoring and reporting of actual results, the overall management control framework applied, and the efficient and effective management of risk.

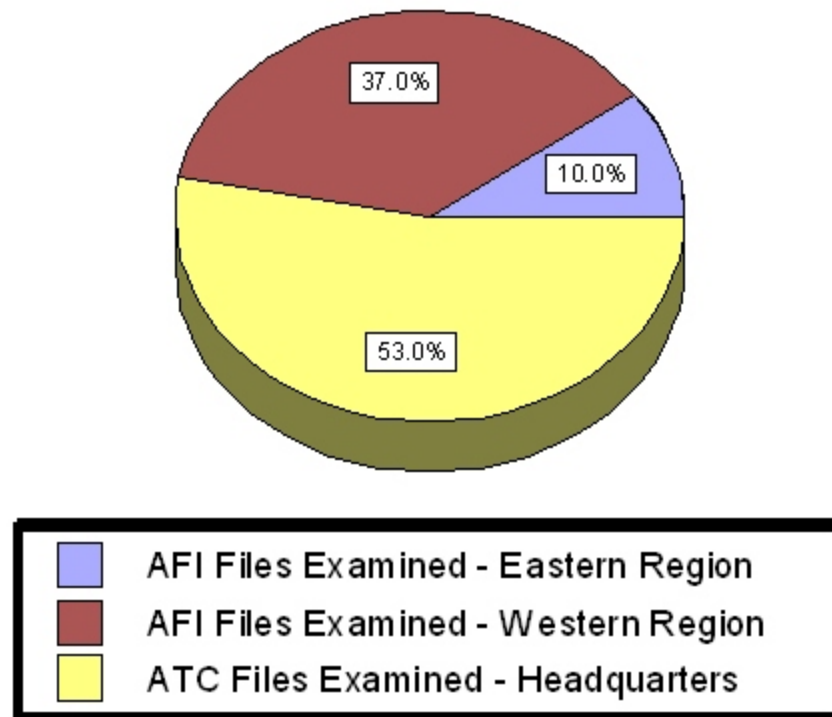
The audit scope focused on management practices and contribution agreements in effect between April 2004 and December 2005.

### **Audit Approach**

The audit was conducted in accordance with the approach detailed in the internal audit plan finalized on November 15, 2005. The audit approach included: a review of a sample of project files related to the AFI and ATC programs; an examination of relevant program documentation including policies, procedures, and reports and other information used for decision making; and interviews with representatives of ABC management and staff in both headquarters and the regions and representatives of funding recipients under the AFI program.

The sample of project files were selected for examination on a judgmental basis, based on the materiality of the funding provided and to ensure an appropriate representation from across the country and across officers. This resulted in a total of nineteen files being examined, representing approximately 57% of the adjusted cashflow forecast for the 2005-2006 year. Our sample of nineteen files was broken down in the following categories:

**Percentage of Files Examined by Type**



Further details on the composition of the sample selected are provided in the table below.

Sample Category	Number of Files	\$ Value - Sample	\$ Value - Category	Sample Coverage by Category
AFI Files - Eastern Region	5	\$520,898	\$1,658,980	31.4%
AFI Files – Western Region	7	\$1,837,000	\$4,201,197	43.8%
ATC Files - Headquarters	7	\$2,618,159	\$2,806,664	93.3%

## Audit Criteria

The audit plan completed in November 2005 describes the criteria applied in the audit. The audit criteria define the standards against which ABC's management practices were assessed. The audit criteria were selected with reference to: legislative and regulatory requirements; standards, policies and practices followed by ABC and by other public sector organizations; and, professional literature. In particular, we referred to Treasury Board's *Policy on Internal Audit*, *Policy on Transfer Payments*, *Policy on Alternative Service Delivery*, the *Alternative Service Delivery Internal Audit Guide* and *Alternative Service Delivery Management Guide*.

The audit criteria are outlined in Appendix 1 of this report. Each of the criteria was examined through our interviews with selected representatives of ABC and the selected recipient organizations, our review of the contribution agreements and related files for the selected recipient organizations included in our sample, our review of relevant program documentation and reporting, and with reference to leading practices in management control frameworks, risk management, and grant and contribution program delivery.

## Section 3 - Audit Findings

---

In accordance with the November 15, 2005 internal audit plan, management practices and procedures within the AFI and ATC programs were examined against each of criteria listed in Appendix 1. Our findings, categorized by each audit objective to which they relate, are provided below.

### Management Control Framework and Practices

#### Observations:

ABC has undertaken a number of studies and reviews of the AFI program over the past five years to identify issues and help management define future strategies for the program. Using this information, ABC has developed a Logic Model that defines short and longer-term priorities, outcomes, and key expected results. The Logic Model is used as the framework from which all business and financial planning is based. The performance targets described in recipient accountability accords link to some of the primary and secondary indicators as defined in the logic model. In addition, ABC's 2005-2006 Business Plan discusses the historical performance of AFI's, including the average yield on loans administered by AFIs and loan losses. The business plan also indicates that AFI funding, including ATC programming, is designed to facilitate the ACC's ability to operate at or near break-even levels. Targets for the program have been defined as 7% to 10% yield on loans disbursed in the ACC portfolio and a targeted loan loss ratio of 5% in recognition of ACC's roles in developmental lending.

A variety of mechanisms are utilized to continue to identify significant changes in the environment and further define the vision for the program. ABC's Executive Director presents an overview of the program's objectives, successes and challenges annually to NACCA. Other noteworthy activities include ABC's co-hosting of a conference with AFI partners in British Columbia in 2004-2005 and a similar conference in conjunction with the Government of the Northwest Territories. These conferences were held to strengthen the partnership between AFIs and government by identifying issues and recommending courses of action.

Detailed policies and procedures for both the AFI and ATC programs are located on ABC's toolkit, an intranet-based repository of key documents that are accessible to all ABC employees. The toolkit is currently in the process of being revised to ensure that all relevant program policy and procedural documents are posted on the site and are current. The toolkit is a key source of information for ABC officers.

With the devolution of AFI program responsibilities to the regional offices in 2003-2004, new Institutional Development Officer positions were created in the British Columbia, Ontario and Quebec regional offices. These officers are solely dedicated to the AFI and Alternative Service Delivery/External Delivery portions of ABC programming. In all other regional offices,

Development Officers are required to assume AFI programming responsibilities in addition to their regular Aboriginal Business Development program caseload. Because they are dedicated to the AFI program, Institutional Development Officers have been able to devote a significant portion of their time conducting monitoring and site visits and maintaining regular contact with their respective AFI recipient organizations over the past two years. The Institutional Development Officers have also formed an informal network through which they share ideas, discuss issues, and work on initiatives to strengthen key program management tools and procedures.

**Issue #1:**

***Opportunities to strengthen key elements of ABC's management control framework were identified.***

Although efforts are underway to establish more stringent and consistent management practices throughout the AFI and ATC programs, a number of issues were identified with the existing management control framework.

- There is an inconsistent understanding of the overall vision and objectives of the programs across the country. Although periodic reports have been prepared and communicated discussing the performance of individual AFIs as well as the overall expectations for the program, results of our interview process indicate that the long-term vision and objectives of the programs are not well understood by regional management and officers.
- There is an inconsistent understanding of AFI performance expectations across the regions. While targeted loan loss ratios and yields on loans disbursed have been reported for the program as a whole, this is not well understood by ABC management and officers based on the results of our interview process. Many ABC employees indicated that they are not aware of any standard against which individual AFI performance can be benchmarked or compared.
- The quality of the data underlying reports and statistics on individual AFI organizations varies, which reduces the ability for management to perform meaningful analyses of the health of the ACC network as a whole or to enable comparisons between AFI organizations. During the course of our audit, it was identified that many AFI organizations that had reportedly had strong ratings in terms of their history, management capacity, and other factors, were subsequently discovered to have significantly overvalued loan portfolios and other issues including conflicts of interest in lending activities. In addition, it was further identified that a variety of methods are used to calculate key financial statement items between the various AFIs, such as loan loss provisions, write downs, and the method of disclosing interest income on non-performing loans. As a result, information obtained by ABC from the individual AFIs may not be readily comparable.

- Information on risks facing AFI and ATC programming as a whole have been identified through numerous studies and evaluations of the program. In addition, the ABC toolkit provides a standard risk assessment matrix to be completed for every ABC project that is intended to guide payment and monitoring activities based on the project's overall risk level. However, this risk assessment tool has not been consistently used within the AFI and ATC programs and is not reflective of some of the unique risks and challenges facing these programs. This may impact management's ability to effectively monitor AFI performance and may lessen the ability of management to proactively identify issues as they arise. In addition, resource allocation decisions on activities such as time spent on monitoring and communications with individual organizations may be sub-optimal if they are not reflective of the relative risk of each recipient organization. Further, there does not appear to be any formal reporting on risks and strategies for the program as a whole.

To address these issues, the program's management control framework should encompass the following components:

- a specific risk assessment tool for assessing AFI and ATC project risk that is reflective of specific risks and critical success factors within AFI organizations. This risk assessment should further guide the nature and timing of monitoring activities expected to be performed for each project;
- a mechanism to formally consolidate and report on information related to the identification, measurement and mitigation of key risks facing AFI and ATC programming as a whole as well as to track the status on key action items required to improve the efficiency and effectiveness of AFI and ATC programming based on the risks identified;
- consider revising contribution agreements to include a statement addressing ABC's expectations for the methodology to be used in calculating key measures of AFI performance, include bad debts, loan provisions and write offs, to allow for better comparability between AFIs;
- clearly defined short-, medium-, and long-term vision and performance expectations for the program, including the development of and reporting against measurable performance indicators that help in assessing the impacts of the program; and
- a formal communication strategy that identifies the specific types of reporting and medium to be used, the frequency of the communication, and the intended audience to ensure that ABC employees involved in AFI and ATC program delivery are actively engaged in understanding the direction and expectations of the program. Consideration should be given to hosting formal annual sessions in which all officers and managers involved in ATC and AFI program delivery can meet face to face to discuss issues and challenges, success factors and provide input into potential program delivery modifications that may be required to continue its improvement.

Additional areas for improvement in the existing management control framework were identified for program and recipient monitoring activities. These are discussed in detail under section of “Monitoring of Recipient Activity and Compliance.”

### **Recommendation**

1. Aboriginal Business Canada’s (ABC) management should enhance its management control and accountability framework to better guide the management and operations of its Aboriginal Financial Institutions (AFI) and Access to Capital (ATC) programming.

### **Issue #2:**

*There are inconsistencies in the capacity to deliver the program across the country.*

While the Institutional Development Officer role is in place and working well in three regional offices, Development Officers in the remaining regional offices have other program caseload commitments and may not have sufficient time to conduct site visits and other monitoring activities required to effectively deliver the AFI program. In addition, results of our interview process indicate an uneven level of understanding of expected roles and responsibilities for AFI program delivery in offices without dedicated Institutional Development Officers.

Although managers and officers were provided with one-on-one overviews of the program and their respective AFI recipient organizations at the time of the rollout of AFI programming responsibilities to the regions, no formal training plan currently exists to assist regional employees in developing specific skill sets and furthering their understanding of expected roles and responsibilities. Development Officers typically receive a standard one week orientation session, but this session is intended to familiarize officers with the high level policies and procedures expected in standard program delivery. The first national orientation session to address roles and responsibilities for the AFI program was conducted in the summer of 2005. Aside from these activities, no tailored or specialized training has been developed for employees with AFI and ATC program delivery responsibilities.

Results of our interview process indicated that most officers and managers felt that additional tailored training for officers in areas that are critical to the ongoing monitoring of AFI and ATC performance would be beneficial, such as specialized training in financial statement analysis and interpretation, monitoring and conduct of site visits, examining loan files and identifying red flags that may trigger issues within the recipient organization, and other training items that are strongly related to core skills required in lending institutions. A formal training plan that allows for the participation of ABC officers on site visits and monitoring activities conducted by third parties would also be a key learning tool to provide hands on experience and further develop the officers’ judgement.



In order to maximize the effectiveness of any specific training plans, existing roles and responsibilities at the officer level may require re-examination, with consideration being given to expanding the number of dedicated Institutional Development Officers. While existing AFI caseloads would not warrant a dedicated officer in each regional office, consideration should be given to providing a dedicated officer to cover a number of specific regions, such as the Prairie provinces. Given the unique and higher risk nature of AFI programming, the need for strong financial and operational analysis skills, and the need to devote a significant portion of time to on-site visits or monitoring activities, it is expected that a dedicated officer would have greater capacity to fulfill all expected roles and responsibilities in delivering the program.

### **Recommendation**

2. Aboriginal Business Canada's (ABC) management should re-examine and clarify roles and responsibilities at the program officer and manager levels and identify and resolve related training needs.

## **Internal Controls Related to the Selection, Approval and Payment of Projects**

### **Observations:**

Standard contribution agreements are in place for all AFI and ATC arrangements, requiring the submission of periodic activity and financial reports to ABC, specifying ABC's right to conduct an annual audit of the arrangement, and defining expected performance targets. Applicants are required to submit a detailed business plan in conjunction with their application for funding and prior to the renewal of any existing agreements that should outline the organization's planned activities and performance targets for funded projects. All AYBI and BSO applications are required to go through a national screening committee to help achieve consistency in the approval process while also serving as a means of training and developing officers.

The criteria for payments of claims or advances of funding are clearly described in contribution agreements and are reflective of the requirements as specified in the *Policy on Transfer Payments*. The contribution agreements also provide specific performance targets in most accountability accord sections of the agreement. Performance targets include the number of jobs created, number of businesses established, number and value of credit lines, and the number and value of loans. More recent contribution agreements also provide reporting templates to be used by the recipient in reporting its progress against these performance targets. Contribution agreements also provide clauses dealing with restricted investments and self-dealings to address potential conflict of interest situations. For example, contribution agreements require loans to officers, directors and members of loan committees of the recipient and their immediate family to be referred to the Board of Directors and the conflict recorded in the minutes of the board meetings.

In addition to quarterly activity reporting, most agreements require quarterly reporting against specific performance measures and the submission of annual audited financial statements. Officers typically examine the financial statements for information on the loan portfolio and related write offs, bad debts, financial statement notes, reasonableness of expenses, and the identification of any unusual items. More recent contribution agreements contain more directed target deliverable dates and items than do agreements dating back several years. This is in reflection of the efforts made by ABC management over the past few years to continue to improve and strengthen its existing practices for AFI and ATC programming.

### **Issue #3:**

#### ***Inconsistencies were identified in the quality of supporting documentation for financial payments.***

Many of the files selected in our sample did not contain sufficient supporting documentation to substantiate either claims for payment or requests for advances. Five key issues in this area were identified:

- in general, there is a high degree of reliance placed by ABC on recipient financial statements as a key tool to be used in reconciling advances to actual costs incurred. This is particularly true under the ATC program. However, financial statements are intended to illustrate the financial position and results of operations for the organization as a whole at a point in time and are not provided in a level of detail that would enable an appropriate conclusion regarding the use of project funding in accordance with the terms of the recipient's contribution agreement. In addition, financial statements are prepared on an accrual basis, while advances and claims are based on cash accounting principles. Based on the results of our interview and file review process, there does not appear to be a strong understanding of the differences between accrual and cash accounting at the officer level;
- recipients in both the ATC and AFI program obtain advance funding from ABC based on projected cash flows. In many cases, there was insufficient supporting documentation on file to determine the specific cost elements for which the advance was being requested and/or the specific time period to be covered (e.g. rather than state the specific month, comments were on file that the advance related to a fiscal year);
- in a few instances, advances were provided for a time period that appeared to have already past or for advance requests that included actual costs incurred. There was not sufficient information on the file to determine if this time period discrepancy was the result of delays in processing the payment or related to an instance in which a claim should have been filed;
- three of the seven ATC files examined had payments approved despite the fact that the deliverables required to be received by ABC in order for payments to be processed had not in fact been received by ABC as of the date of payment approval;

- contribution agreements with NACCA under which joint funding is received from ABC and INAC do not specifically require a recipient audit for both programs to be conducted jointly, although this is implied under Treasury Board Guidelines. This reduces ABC's ability to determine whether the same costs have been reimbursed by both federal departments.

Without sufficient supporting documentation on file, it is difficult for ABC management to verify that funding is being used for intended purposes and is in accordance with program Terms and Conditions and Treasury Board Guidelines. The provision of additional training sessions that clarify ABC management's expectations and requirements in processing claims and advances may be of benefit in building more consistency in existing practices. Training should be supported by documentation and communication of procedures requiring officers to receive appropriate supporting invoices, general ledger details, and other information to support material claims submitted. Consideration should also be given to coordinating payment and monitoring activities with other funding departments to reduce the potential for recipients to receive reimbursement for the same costs twice.

### **Recommendation**

3. Aboriginal Business Canada (ABC) management should reinforce the need for officers to receive and maintain appropriate supporting documentation for advances and claims and provide some "refresher" training to clarify Treasury Board and Aboriginal Business Canada (ABC) requirements.

### **Issue #4:**

#### ***Inconsistencies were identified in the organization and content of project files.***

Based on our review of a sample of project files from both the ATC and AFI programs, a number of discrepancies were identified in the types of information contained in the file and the organization of the files:

- a number of files did not have required documentation on file in accordance with ABC procedures, including proposal screening forms, evidence of any discussions or communications with the recipient to clarify elements of the recipient's proposal, environmental assessments, or authorized cash commitment screens;
- six of the ten AFI files examined had a high-level analysis of project costs in the Project Summary and Authorization Form (PSF), but did not specifically demonstrate how the costs were eligible and in accordance with program guidelines and terms and conditions;
- all of the projects examined had a high level assessment of why the project should be accepted. However, many files did not clearly support how the proposed project related to AFI or ATC program objectives;

- in some instances, the decision to recommend the project for approval appeared to be in conflict with the analysis, which focussed heavily on issues with the existing management capacity and financial strength of the recipient organization;
- three of the AYBI files that were examined under the AFI program did not have documentation to evidence that any analysis of their financial statements had been performed, including the calculation and analysis of financial ratios. According to the ABC toolkit, ratio analysis should be performed in accordance with the risk assessment analysis. Consideration should be given to performing a reduced number of ratio analyses for the AYBI program given that funding under this program is typically considerably less than under the core AFI program and is more targeted in terms of the use of funding;
- eight of the files that were examined did not have the same conditions in the contribution agreement as those that had been authorized in the PSF. These primarily related to differences in the annual funding allocations for specific years between the agreement and the PSF and minor inconsistencies in the detail in PSFs for BSO and AYBI regarding the need for quarterly reporting and specific payment conditions to be met;
- three of the AFI contribution agreements for capital and BSO funding did not include conditions on holdbacks and two AFI capital agreements did not have clearly defined eligible costs;
- three of the projects (2 capital and 1 BSO) examined had effective dates before the contribution agreement was signed. This increases the potential for recipients to claim costs incurred prior to the project acceptance date;
- as mentioned earlier (Issue #1), the use of project risk assessments varied, with only four out of ten AFI projects and no ATC projects having the standard ABC risk assessment matrix on file. Although all files included a risk rating on the PSF, 68% of the files examined did not provide any supporting rationale for the level of risk assessed. Further discrepancies in risk ratings were identified through the categorization of projects over \$250,000 as low or moderate risk, which is contrary to ABC's current risk assessment guidelines;
- white-out was noticed in a few instances in the ATC files. As a standard practice, when information needs to be corrected or revised, the original information should be crossed out in such a manner that the original writing is still visible. This permits an appropriate audit trail of key decisions and changes in decisions to be on file.

In addition to the above, it was also noted that files are not organized consistently between the regions, with some regions maintaining all project documentation in one file, other regions maintaining separate files for legal documents and claims, and still other regions adopting other modifications. Irrespective of the manner in which files were physically bound, in general, most files were poorly organized in terms of flow and clarity of supporting documentation for claims and reports. In addition, in several instances, additional requests for specific information had to

be made during the course of the file review as the documentation necessary for substantiate claims and other monitoring activities could not be located in the files provided to the audit team. Inconsistent and/or incomplete file documentation may create difficulties in determining the current progress of a recipient and in identifying issues and the status of their resolution. This becomes even more critical when files change hands or when issues arise that require attention, as the paper trail to provide a history of events on the recipient may be unclear.

File documentation could also be improved through the development of specific tools and templates that reflect the unique nature of AFI and ATC programming. These would include an AFI/ATC Project Risk Assessment Template, clarifying expectations for documenting financial statement ratio analysis, and giving consideration to placing a checklist or other organizing document in front of project files to serve as a reminder of key pieces of documentation required to be on file. Such a checklist could also be used to track the receipt of required recipient activity reports and other reports as required in the contribution agreement.

### **Recommendation**

4. Aboriginal Business Canada (ABC) management should continue to improve the clarity of its file documentation requirements, including the development of tailored tools and templates for the Aboriginal Financial Institutions (AFI) and Access to Capital (ATC) programs, and province related training as necessary to Aboriginal Business Canada (ABC) employees.

## **Monitoring of Recipient Activity and Compliance**

### **Observations:**

Aboriginal Business Canada (ABC) is required to monitor the progress of recipients to help ensure that funding is being used for intended purposes and that objectives are being achieved. Program monitoring takes many forms, including the filing and assessment of recipient claims, filing of scheduled recipient activity reports, frequent communication between the program and the recipient organization, and the conduct of recipient compliance audits and site or monitoring visits.

Outside of the filing and assessment of recipient claims, there are two primary forms of monitoring within the AFI program component.

- ***Recipient Compliance Audits*** – funding is provided to NACCA to coordinate the conduct of recipient audits of all recipients with which ABC has current agreements under the AFI program element. Compliance audit reports are sent to the Senior Portfolio Manager who then forwards the reports to the appropriate Regional Manager and Institutional or Development Officer for their review. The conduct of recipient compliance audits is guided by formally documented terms of reference that states that reports are expected to address six key areas of the recipient organization: management

and governance; credit approval and loan disbursement process; loan management monitoring and reporting; financial performance; market development; and, compliance with ABC's contribution agreement.

- **Site Visits** – ABC conducts monitoring through site visits performed by third parties and/or ABC employees. Documented monitoring guidelines exist to assist ABC employees in conducting site visits. The guidelines propose specific questions that should be asked on the visit and describe the critical success factors and key elements that should be examined within the recipient organization.

Historically site visits were primarily conducted by ABC in conjunction with a request for additional funding. Site visits conducted over the past few years have identified a number of issues, including the need for additional loan portfolio write downs and high levels of loans to recipient organization's board members. Over the past year, ABC has increased its monitoring activities by implementing plans to conduct site visits for all sixteen active AFI recipient organizations over a two-year period. While no formal approach was developed to select the organizations to be visited this fiscal year and next fiscal year, management has tried to ensure that any organizations for which issues have been identified were included in the fiscal 2005-2006 monitoring schedule.

Under the ATC program element, a recipient audit of NACCA was conducted in February 2006 and quarterly program management reports are provided by NACCA to ABC. These quarterly reports describe activities under each fund delivered by NACCA as well as statistics on a range of performance benchmarks defined in the accountability accord of their contribution agreement.

At a global level, ACC performance data is collected and shared with ABC senior management. This data is primarily quantitative in nature and provides comparisons of average, mid, profitable and loss AFI organizations based on specific financial statement line items. This performance data also includes statistics on loan data, operational data, liquidity statistics, and provisions for loss and liquidity. Extracts from this data, along with explanatory narratives, are provided to the National Aboriginal Economic Development Board on an annual basis. These annual reports provide overviews and some analysis of key performance indicators, including percentage of bad debts, history of write offs of loans advanced, and yields on loans and operating expenses as a percentage of gross loan portfolio.

#### **Issue #5:**

***There are inconsistencies in the quality, timeliness and use of the results of recipient compliance audits.***

As described above, the terms of reference for the conduct of monitoring and compliance audits describe the elements subject to be examined under six categories. The terms of reference refer to auditor findings and the need for the auditor to send copies of the report to ABC, NACCA and the recipient's board and management team. The terms of reference also state that compliance with the contribution agreement is to be examined by explicit reference to the Contribution Agreement and through the review of each section to ensure there is compliance with the

agreement. However, there is no stipulation in the terms of reference that the compliance portion of the audit be conducted in accordance with Canadian Institute of Chartered Accountants Handbook standards and generally accepted auditing standards. As a result, the depth and content of the recipient compliance reports received over the past two years has varied significantly.

Compliance audit reports funded through NACCA were often received late, in some cases close to one year after the recipient's fiscal year end and/or after the compliance audit was completed. Few of the compliance reports referred to the audit having been conducted in accordance with Canadian generally accepted auditing standards. Various terms were used to describe the nature of the reports, including operational review, monitoring review, and compliance audit. Because not all reports provided an opinion or referred to an audit that was conducted in accordance with Canadian generally accepted auditing standards, the extent of procedures performed and the level of assurance provided by these reports varied. In addition, the depth and quality of comments provided in the reports varied significantly. In some cases, no specific comment was provided on compliance with the agreement, and in other cases, certain elements expected to be examined, such as the compliance of payments or transfers out of the loan account with the agreement, were not examined due to the fact that the procedures applied did not extend to tracing each payment. ABC should consider directly funding the conduct of these audits to enable a more direct involvement in the planning considerations and a more timely receipt of the results of these activities.

Variations in the level of assurance, the depth and quality of explanations, and the specific procedures applied may reduce the utility of these reports in identifying issues or instances of non-compliance within the recipient organization. In addition, there was no evidence that the results of compliance and monitoring activities were consolidated and analyzed by ABC to identify common issues and areas where elements of the program require strengthening. It is our understanding that this type of consolidated analysis has not been formally conducted due to resource constraints. It is our further understanding that ABC has recently contracted a third party to consolidate the results of compliance audits and site visits and extrapolate the findings from these monitoring activities over the recipient population.

### **Recommendation**

5. Aboriginal Business Canada's (ABC) management should enhance its risk-based audit framework with a formal risk-based approach to guide the selection and nature of Aboriginal Financial Institutions (AFI) and Access to Capital (ATC) programs monitoring activities.

#### **Issue #6:**

##### ***There is little documented evidence of monitoring activities in project files.***

Based on our review of a sample of ATC and AFI project files, there is little documented evidence of monitoring activities, such as the review of recipient activity reports and other supporting documentation, the resolution of issues identified, the results of both formal and informal meetings or discussions with recipients including the attendance of ABC representatives at recipient board meetings. In many cases, recipient activity reports were not received in the required time frame (within 30 days of the end of the quarter and within 90 days of the recipient's fiscal year end). In some cases, copies of e-mail correspondence with recipients are included in the files to demonstrate ABC's follow up to receive outstanding information; however in the majority of files examined, there was no documentation of any monitoring other than information associated with claims and payments. In addition, none of the files examined contained any evidence to support the requirement for recipients to maintain separate bank accounts for project funds.

More formally defined and communicated expectations for the formal documentation of key monitoring activities in project files would assist in ensuring that an appropriate level of documentation is provided as evidence of monitoring activities, such as sign offs on recipient activity reports and the provision of commentary on the recipient's progress against their business plan or objectives. Similarly, discussions with the recipient, required action steps, and any follow-up undertaken should be clearly documented and dated in a summary form at the front of the file. This would allow for a clear history of client discussions, issues and actions, and a clear identification of the officer's or manager's last date of contact with the recipient.

#### **Recommendation**

6. Aboriginal Business Canada (ABC) management should revise existing guidelines to address documentation standards and expectations with respect to monitoring activities.



# Appendix 1 - Audit Criteria

---

## **Objective 1:**

Assessment of the adequacy of ABC's management control framework and practices.

### **General**

- A mechanism exists to systematically identify, assess, monitor and report on risks facing the program.
- Roles and responsibilities for managing and delivering the program are well defined.
- Staff and management responsible for delivering the program have the required skills, knowledge and capacity.
- Results expected from the program are clear, measurable, communicated, and directly related to program objectives.
- Expected results are monitored and communicated on a regular basis and support management decision making.
- The guidelines in the ABC's program policies and procedures are fully consistent with the *Policy on Transfer Payments*.

### **Third Party Delivery Arrangements**

- A detailed business case was performed to support third party delivery and encompassed factors such as the purpose, description of services to be delivered by third parties, human resource issues, assumptions and constraints, and accountability requirements.
- Third party delivery agreements clearly define terms, service levels, and performance targets and include appropriate consequences if performance is not achieved.
- Appropriate arrangements for ongoing and regular monitoring and centralized reporting of performance and actual results of the third party service provider have been established.

## **Objective 2:**

Assessment of the adequacy of internal controls related to the selection, approval, and payment of projects.

### **Project Selection**

- Applicant eligibility is documented and consistent with program requirements.
- Applicant demonstrates appropriate knowledge and capability, and supporting structures to undertake the project.
- Mechanisms exist to identify and resolve potential conflicts of interest in the funding approval process.

### **Project Approval**

- Assessment criteria supports program objectives.
- Project complies with program eligibility and assessment criteria.
- There is appropriate approval or rejection by a delegated authority based upon review of the PSF.
- There is certification by a responsible officer that sufficient funds were available in the appropriation before the agreement was signed under Section 32 of the FAA.
- The rationale for each funding decision is appropriately documented to permit appropriate supervision and review.
- Terms and conditions in Contribution Agreements are consistent with the program's terms and conditions and the PSF and clearly outlines expected project results.
- Contribution Agreements meet effective accountability requirements including:
  - statement of objectives;
  - clear understanding between parties on required outcomes or expected results before funding begins;
  - monitoring provisions based on assessment of risk; and
  - conditions that must be met to receive payments.

## **Project Payment**

- Officers have complied with financial controls including:
  - Section 34 – there is proof that performance conditions of the agreement were met before each payment was made; and
  - Section 33 – proof that finance officer signing was assured that Section 34 was met prior to payment authorization.
- claims are reviewed for reasonableness and accuracy and are examined for compliance with terms of contribution agreements;
- advance payments are properly authorized on the PSF and contribution agreement and are in accordance with Treasury Board Guidelines; and
- an appropriate segregation of duties between those who review and approve applications and those who approve payments exists.

## **Objective 3:**

Assessment of the adequacy of management efforts to monitor recipient activity and compliance, including audits undertaken of recipients of contributions.

- A mechanism exists to verify that the terms of contribution agreements have been met by the recipient. Consequences for non-compliance have been defined and are adhered to in practice.
- A risk-based approach to the monitoring of contribution agreements exists and is followed.
- Monitoring and audit requirements of the program's Risk-Based Audit Framework are met and issues identified are resolved on a timely basis.
- Reporting on project results against the achievement of objectives is timely and accurate.
- Lessons learned from performance monitoring are incorporated into revisions of the program design.
- Appropriate arrangements for ongoing and regular monitoring and centralized reporting of performance and actual results has been established.

# **Action Plan**

## Action Plan

**Project Title:**        **Audit of Aboriginal Business Canada's - Aboriginal Financial Institutions and Access to Capital Program**

**Project: 07/04**  
**Page: 1 of 6**

**Region or Sector:**    **Aboriginal Economic Development**

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>1.    Aboriginal Business Canada's (ABC) management should enhance its management control and accountability framework to better guide the management and operations of its Aboriginal Financial Institutions (AFI) and Access to Capital (ATC) programming.</p>	<p>Aboriginal Business Canada's (ABC) has an informal management and accountability framework in place to guide management of its Aboriginal Financial Institutions (AFI) and Access to Capital (ATC) programming. General program policies are contained on the ABC toolkit. Where necessary, Aboriginal Business Canada's (ABC) will enhance and formalize policies and procedures affecting AFI programming. Specifically, Aboriginal Business Canada's (ABC) will:</p> <ul style="list-style-type: none"> <li>•    update its existing Risk Management Plan to include AFI and ATC components of the Aboriginal Business Development Program (ABDP) to better recognize and consider risks facing the program;</li> <li>•    develop a specific risk assessment tool and guidelines to address AFI and ATC projects being funded under the ABDP;</li> <li>•    enhance the schedule of recipient audits for AFI and ATC projects;</li> <li>•    provide additional clarification on the roles and responsibilities of each party involved in the delivery of AFI/ATC programming;</li> <li>•    define a clear set of communication guidelines to ensure the efficient transfer of information between Aboriginal Business Canada's (ABC) and AFIs; and</li> <li>•    finalize the performance measures associated with AFI programming, prepare related reporting schedules, and develop a standardized reporting template for AFIs.</li> </ul>	<p>Manager, Program Services Corporate Affairs Aboriginal Business Canada Aboriginal Economic Development</p>	<p>March 31, 2007</p> <p>Final approval and translation First Quarter FY 2007-2008</p>

## Action Plan

**Project Title:**        **Audit of Aboriginal Business Canada's - Aboriginal Financial Institutions and Access to Capital Program**

**Project: 07/04**  
**Page: 2 of 6**

**Region or Sector:**    **Aboriginal Economic Development**

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>2.    Aboriginal Business Canada's (ABC) management should re-examine and clarify roles and responsibilities at the program officer and manager levels and identify and resolve related training needs.</p>	<p>An Institutional Development Officers (IDO) Team was established in the Summer 2005 to discuss Aboriginal Financial Institutions (AFI) program and third-party delivery issues, resolve concerns and identify on-going training needs for IDOS. The IDO Team is involved with on-going quarterly teleconferences and participates in semi-annual meetings/training sessions.</p> <p>ABC will update the roles and responsibilities of IDOs and Regional Managers, job descriptions and identify related training needs. A job description for the IDO function has been in place since inception of Aboriginal Capital Corporation programming. These roles and responsibilities will be reflected in proposed MCF.</p> <ul style="list-style-type: none"> <li>•    Clarify roles and responsibilities of IDO functions;</li> <li>•    Examine and, if required, redistribute the number of IDOs in the regions to maximize use of resources, and</li> <li>•    Develop and deliver a tailored training program to IDOs., on AFI programming and its delivery.</li> </ul>	<p>Manager, Program Services Corporate Affairs Aboriginal Business Canada Aboriginal Economic Development</p>	<p>March 31, 2007</p>

## Action Plan

**Project Title:**        **Audit of Aboriginal Business Canada's - Aboriginal Financial Institutions and Access to Capital Program**

**Project: 07/04**  
**Page: 3 of 6**

**Region or Sector:**    **Aboriginal Economic Development**

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>3.    Aboriginal Business Canada's (ABC) management should reinforce the need for officers to receive and maintain appropriate supporting documentation for advances and claims and provide some "refresher" training to clarify Treasury Board and ABC requirements.</p>	<p>All policies and procedures with respect to processing of advances and claims for payments are clearly articulated on the Aboriginal Business Canada's (ABC) toolkit. The following actions will be undertaken:</p> <ul style="list-style-type: none"> <li>•    ABC will re-emphasize Treasury Board and ABC guidelines on requirements for the inclusion of supporting documentation for advances and payment claims;</li> <li>•    ABC will review existing toolkit guidelines to ensure clarity and precision on the processing and proofs of payment required for advances and payment claims;</li> <li>•    the Quality Assurance Team will conduct follow-up Quality Assurance reviews of advances and payment claims to ensure the appropriate guidelines are followed and proofs of payment are attached to file; and</li> <li>•    tailored training for new and existing staff will be developed and conducted as an on-going learning opportunity at ABC.</li> </ul>	<p>Director, Corporate Affairs Aboriginal Business Canada Aboriginal Economic Development</p>	<p>December 31, 2007</p>

## Action Plan

**Project Title:**        **Audit of Aboriginal Business Canada's - Aboriginal Financial Institutions and Access to Capital Program**

**Project: 07/04**  
**Page: 4 of 6**

**Region or Sector:**    **Aboriginal Economic Development**

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>4.    Aboriginal Business Canada's (ABC) management should continue to improve the clarity of its file documentation requirements, including the development of tailored tools and templates for the Aboriginal Financial Institutions (AFI) and Access to Capital (ATC) programs, and provide related training as necessary to Aboriginal Business Canada's (ABC) employees.</p>	<p>Aboriginal Business Canada's (ABC) currently has specific tools, letters and forms in place related to the delivery and administration of Aboriginal Financial Institutions (AFI) and Access to Capital (ATC) programming. These will be updated as required and included in the MCF for AFI/ATC programming. Further:</p> <ul style="list-style-type: none"> <li>•    ABC will develop "Model" File procedures and standards to ensure a common file format is communicated to staff and adopted;</li> <li>•    appropriate tools, templates and forms will be developed as a part of the MCF to ensure consistency in the administration of AFI/ATC programming; and</li> <li>•    ABC will develop and rollout tailored training for those responsible for the delivery of AFI/ATC programming.</li> </ul>	<p>Director, Corporate Affairs Aboriginal Business Canada Aboriginal Economic Development</p>	<p>December 31, 2007</p>



## Action Plan

**Project Title:**        **Audit of Aboriginal Business Canada's - Aboriginal Financial Institutions and Access to Capital Program**

**Project: 07/04**  
**Page: 5 of 6**

**Region or Sector:**    **Aboriginal Economic Development**

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>5.    Aboriginal Business Canada's (ABC) management should enhance its risk-based audit framework with a formal risk-based approach to guide the selection and nature of Aboriginal Financial Institutions (AFI) and Access to Capital (ATC) programs monitoring activities.</p>	<p>Aboriginal Business Canada's (ABC) conducts compliance reviews and financial audits of all Aboriginal Financial Institutions (AFIs) still under contract with the program. This activity has been carried out in the past by the National Aboriginal Capital Corporation Association (NACCA) on behalf of the program. To ensure greater consistency in timeliness and quality of reporting, ABC will:</p> <ul style="list-style-type: none"> <li>•    enhance the terms of reference for monitoring and compliance reviews of AFIs under the control period;</li> <li>•    explicitly indicate that recipient audits must adhere to Sections 5100, 5805 and 9100 of the Canadian Institute of Chartered Accountants Handbook. These sections provide guidance to an auditor when engaged to express an opinion on financial information they have reviewed; and</li> <li>•    take a risk based approach to monitoring and compliance of AFIs as per recommendation 1 above.</li> </ul>	<p>Manager, Program Services Corporate Affairs Aboriginal Business Canada Aboriginal Economic Development</p>	<p>March 31, 2007</p>

## Action Plan

**Project Title:**        **Audit of Aboriginal Business Canada's - Aboriginal Financial Institutions and Access to Capital Program**

**Project: 07/04**  
**Page: 6 of 6**

**Region or Sector:**    **Aboriginal Economic Development**

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
6.    Aboriginal Business Canada's (ABC) management should revise existing guidelines to address documentation standards and expectations with respect to monitoring activities.	<p>Currently Aboriginal Business Canada's (ABC) has a number of measures to monitor Aboriginal Financial Institutions (AFI) and Access to Capital (ATC) programs performance including quarterly contact with Aboriginal Financial Institutions (AFIs) delivering Aboriginal Youth Business Initiative (AYBI) and Business Support Officer (BSO) programming. Evidence of contact with the recipient should be documented on the file. In this respect, ABC will:</p> <ul style="list-style-type: none"><li>formally define and communicate expectations for the formal documentation of key monitoring activities in project files, such as sign offs on recipient activity reports and the provision of commentary on the recipient's progress against their business plan or objectives. Similarly, discussions with the recipient, required action steps, and any follow-up undertaken, should be clearly documented and dated in a summary form at the front of the file.</li></ul>	Manager, Program Services Corporate Affairs Aboriginal Business Canada Aboriginal Economic Development	March 31, 2007