

Chapter 10

Indian and Northern Affairs
Canada
Funding Arrangements for First
Nations: Follow-up

Table of Contents

	Page
Main Points	10-5
Introduction	10-7
The significance of funding arrangements	10-7
The 1996 audit issues	10-7
Departmental commitment to improvements	10-7
Focus of the follow-up	10-7
Observations	10-8
Initiatives Undertaken Since 1996	10-8
The New Financial Transfer Arrangement	10-8
Co-ordination of Federal Funding to First Nations	10-9
First Nations Self-Assessments of Accountability and Management	10-10
Self-assessment issues	10-10
Development plans	10-11
Redress and Accountability	10-11
Significance of allegations	10-12
Guidelines for managing allegations	10-12
Information for managing allegations	10-13
Allegation cases	10-14
First Nations Perspectives on Funding Arrangements	10-14
Conclusion	10-15
About the Follow-up	10-16



Indian and Northern Affairs Canada

Funding Arrangements for First Nations: Follow-up

Main Points

10.1 Indian and Northern Affairs Canada still needs to better match the level of flexibility attached to funding arrangements with the willingness and ability of First Nations to assume responsibility for billions of dollars they receive annually through the Department.

10.2 The Department is not taking adequate steps to ensure that allegations of wrongdoing, including complaints and disputes related to funding arrangements, are appropriately resolved. Redress (resolution mechanisms) needs to be improved as an element of accountability.

10.3 The Department has stated that it has slowed the rate at which the Financial Transfer Arrangement (FTA), a new type of funding arrangement, is being implemented in order to address issues concerning the willingness and ability of First Nations to adopt it. The Department still has a long way to go if it wishes to achieve its objective of implementing the FTA as the appropriate funding mechanism to replace other types of funding arrangements. It will need to find ways to expedite the conversion process while improving co-ordination of funding with other federal departments.

Background and other observations

10.4 Funding arrangements are a key element in the relationship between First Nations and the federal government. Parliament appropriates about \$4 billion annually to Indian and Northern Affairs Canada to fund several programs for First Nations communities. The programs include social assistance, education, capital facilities, housing, and economic development for approximately 600 First Nations and other Aboriginal groups.

10.5 In our November 1996 Report, we made recommendations relating to funding arrangements, including the FTA, and to the co-ordination of funding across federal departments. We also made recommendations on accountability issues and on the suitability of funding arrangements for the needs of the Department and First Nations.

10.6 This follow-up focusses on the Department's implementation of our 1996 recommendations.

The Department believes that with respect to redress, the follow-up extends beyond the issues raised in 1996; however, it has acknowledged that continuing effort is needed to improve certain aspects of funding arrangements, including accountability.

Introduction

The significance of funding arrangements

10.7 Parliament appropriates about \$4 billion annually to Indian and Northern Affairs Canada to fund several programs for First Nations communities. The programs include social assistance, education, capital facilities, housing, and economic development for approximately 600 First Nations and a number of other Aboriginal groups.

10.8 Funding arrangements for First Nations are mainly in the form of contribution agreements. These agreements set out specified terms and conditions for expenditures, including community service standards and accountability and performance expectations.

10.9 The nature of funding arrangements between First Nations and the Government of Canada reflects the evolving relationship between the federal government and Aboriginal peoples by providing mechanisms to address the willingness and the capacity of First Nations to manage their affairs. These arrangements set out the means by which First Nations and the federal government ensure that programs are delivered, as agreed between parties, to the benefit of those mainly living on reserves. As of 1996, six types of funding arrangements were being used in the Department, each reflecting different responsibilities and expectations between parties.

The 1996 audit issues

10.10 In 1996 we carried out an audit of funding arrangements and made recommendations relating to:

- a newly developing type of funding arrangement — the Financial Transfer Arrangement (FTA);

- the co-ordination of funding across federal departments;
- the suitability of funding arrangements for meeting departmental and recipient needs, including the willingness and capacity of recipients to enter into these agreements; and
- accountability issues and other matters.

Departmental commitment to improvements

10.11 In December 1996, shortly after publication of our audit report, the Standing Committee on Public Accounts met to deliberate the issues. At the hearing, the Department indicated that it had taken measures during the audit and would continue to take further steps to address the audit recommendations.

10.12 In response to the 1996 Report of the Royal Commission on Aboriginal Peoples, the Department indicated its commitment in Gathering Strength — Canada's Aboriginal Action Plan, to develop stable financial arrangements that promote accountability and foster self-reliance of Aboriginal communities.

10.13 In its 1998–99 Report on Plans and Priorities, the Department states that developing a new fiscal relationship is a priority and that the ultimate outcome of efforts to achieve this and strengthen accountability will be the establishment of government-to-government fiscal transfers that provide more stable funding, integrate self-generated revenues and taxation with strong information systems, and enhance local accountability.

Focus of the follow-up

10.14 The overall objective of the follow-up was to determine progress in implementing the recommendations made in our 1996 Report Chapter 33, Funding Arrangements for First Nations. We took into account the Department's commitments and the actions taken in

Canada's Aboriginal Action Plan emphasizes the need to promote accountability and foster self-reliance through funding arrangements.

response to our 1996 audit, including the progress the Department reported up to December 1998. Further details on the follow-up are found at the end of the chapter in **About the Follow-up**.

Observations

Initiatives Undertaken Since 1996

10.15 Several initiatives are being implemented. Indian and Northern Affairs Canada embarked on a new Financial Transfer Arrangement (FTA) as the replacement, by March 1998, of most other funding arrangements. In its published response to our 1996 audit, the Department pointed to the development of the new FTA as “an important step in the right direction” in addressing the audit issues.

10.16 The FTA is intended to:

- strengthen accountability;
- enable First Nations to better meet community needs;
- establish a stable funding base; and
- achieve better value for money.

10.17 Steps by the Department toward improving funding arrangements include:

- the development of a First Nations accountability and management self-assessment workbook and a requirement that every First Nation self-assess and report its accountability and management regimes to the Department as a prerequisite to receiving departmental funding;
- the use of development plans to improve accountability and management where indicated in the applicable First Nations self-assessments;
- support of external initiatives to enhance financial capacity and governance in First Nations communities;

- the development of national allegations (redress) guidelines; and
- the development of a generic interdepartmental funding agreement to better co-ordinate First Nations funding across federal departments.

10.18 Since all of the initiatives are relatively new, tests of their effectiveness during the follow-up were limited. The observations that follow do not necessarily apply equally to each of the four departmental regions that we visited.

The New Financial Transfer Arrangement

10.19 In 1996, the Department set a target of March 1998 for finalizing the conversion of all funding arrangements to Financial Transfer Arrangements. An FTA is typically a five-year funding contract that is more flexible than the other arrangements presently in use. However, along with flexibility and greater certainty of funding levels over a longer term, First Nations take on greater risks. Surplus funds in any one year may be carried over to the next year but shortfalls must be covered by First Nations.

10.20 Progress in adopting the FTA is considerably behind the Department’s target. According to the Department, 117 First Nations and tribal councils, less than 20 percent, were using FTAs as of January 1999. At the rate of progress since 1996, it will take at least another 10 years to completely replace existing funding arrangements. For example, the Department has identified 39 recipients whose current or expiring Alternative Funding Arrangements are being considered for extension beyond the normal expiry date because of issues to be addressed relating to capacity or willingness to adopt the FTA.

10.21 The Department has stated that it has slowed the rate at which the FTA is being implemented to address issues

concerning the willingness and ability of First Nations to adopt it.

10.22 Information obtained during the follow-up suggests four major challenges to progress in implementing the FTA. These are consistent with the audit issues reported in 1996.

- There is a perception among many First Nations that they will receive less overall funding under the FTA than through existing funding arrangements.
- Some First Nations believe that they did not have sufficient input to the design of the FTA.
- Some First Nations are unable or unwilling to assume the additional responsibilities (and control) that may accompany the more flexible FTA.
- There is a lack of training opportunities to enable First Nations to deal with the requirements of the FTA.

10.23 We further noted that the Department does not have a plan and strategy to facilitate progress in adopting FTAs, where appropriate. We could find no plans in the four departmental regions we visited that would address this, or that would apply to any other new funding arrangement that may be considered.

10.24 Such a plan would include:

- the considerations and approach to be used in achieving the objective;
- the identification of departmental and First Nations risks;
- the development of a realistic conversion timetable that all parties could agree to; and
- the identification of alternative courses of action (including the possible replacement of the FTA if circumstances so dictate) to address challenges along the way.

10.25 Finally, we believe that the FTA, or any other funding arrangement that may evolve in the future, will not achieve the necessary objectives if there is no will and effort by First Nations and the Department to work together effectively toward the right arrangement for the circumstances.

Co-ordination of Federal Funding to First Nations

10.26 The Department is attempting to better co-ordinate funding to First Nations with other federal departments. Most, if not all, First Nations appear to be eligible for funding from several federal departments. Appropriate co-ordination can benefit all the parties in several ways, including increased efficiency of administration, appropriate accountability and reduced duplication of reporting requirements.

10.27 With a view to improving co-ordination, the Department developed another funding arrangement, the Canada/First Nations Funding Arrangement (CFNFA). The CFNFA is the current generic arrangement for multi-departmental funding as represented by the national model introduced in December 1998. The Department believes that the CFNFA will replace and improve upon the FTA, which is already being used for multi-departmental funding.

10.28 The Department's experience with the development of funding arrangements since 1986 shows that progress has been slow. Officials in one regional office believed that the proposed CFNFA was more restrictive than the FTA and that First Nations were not provided adequate opportunity for input to its design; we reported on this issue in 1996 regarding the FTA. It is too early to conclude whether the CFNFA approach will be effective.

**Indian and Northern
Affairs Canada is
missing many of the
self-assessments it
needs to tailor funding
arrangements.**

**First Nations Self-Assessments of
Accountability and Management**

10.29 In 1996, we reported that almost one third of First Nations and tribal councils were in financial difficulty. The Department has recognized the need to respond to the capacity and willingness of First Nations to assume the challenges of greater responsibility and accountability. In this regard, funding arrangements must be tailored to meet the needs of both parties.

10.30 The Department developed a 40-page self-assessment workbook to be completed by First Nations. A wide range of topics are covered, including community leadership and structures, governance, human resources management, program management and redress.

10.31 A major purpose of the self-assessment is to provide information necessary to assure Parliament and First Nations that an adequate system of accountability for the delivery of funded programs is in place. Where a self-assessment identifies areas for improvement, a development plan is required to address specific deficiencies.

10.32 When properly completed and applied, the self-assessments and development plans can also play an important role in managing risks and enhancing First Nations capacity to assume greater responsibilities. The implementation of the development plan becomes a requirement under the funding arrangement. Ultimately, these self-assessments should advance the financial relationship between the parties toward increasing self-governance responsibilities.

10.33 We therefore expected that:

- the Department would determine the reasonableness of completed self-assessments;

- First Nations would properly approve and authorize their self-assessments;

- adequate development plans would be prepared and applied where indicated; and

- an appropriate database on self-assessments and development plans would be maintained to help measure progress against the objectives of the FTA and other funding arrangements.

Self-assessment issues

10.34 In 1996, the Department wrote to First Nations chiefs and councils requesting that they complete an assessment of their accountability and management regimes. In our follow-up, we selected a sample of self-assessments related to the FTA and other funding arrangements. We found inconsistencies in how the Department had determined the reasonableness of the information provided. For example, there was often no evidence that the Department had assured itself that positive responses (those that indicated no deficiencies) were justified. And positive responses were received more often than negative ones. While it should not be necessary for the Department to document a detailed review in every self-assessment, some level of corroboration is needed on a test basis and for high-risk cases.

10.35 We noted that none of the self-assessments that we reviewed were signed by the First Nations, nor was there evidence in the Department of Band Council Resolutions that could attest to the authority and commitment of the self-assessments provided. In our view, the self-assessments have limited value unless there is evidence that they are accepted and endorsed by First Nations leadership.

10.36 We further noted that many self-assessments were missing. For example, one departmental region had received completed self-assessments from only 14 of 61 First Nations (23 percent).

10.37 In another region, about 50 of 130 First Nations (38 percent) had completed self-assessments. In this region, none of the four FTAs with First Nations were supported by self-assessments. Instead, the regional office continued to rely on older assessments that were completed many years earlier and that related to a different type of funding arrangement. In our view, this reliance is inappropriate given the Department's objectives for improved accountability and enhanced capacity building through the FTA. In the absence of departmental data, the Department is unable to determine whether it is relying on potentially obsolete information for other funding arrangements in this region and in other regions.

10.38 Further, officials in the above-noted region observed that the requirement for self-assessments was poorly managed. They noted that the departmental directive and First Nations guidelines were issued two years after First Nations were formally notified of the requirement to provide self-assessments. Furthermore, in 1998, they were considering the establishment of a project team to deal exclusively with issues such as completion and evaluation of self-assessment reports and negotiation of management development plans for inclusion in funding arrangements.

10.39 The Department reported that, nationally, 407 of the required 644 self-assessments (63 percent) had been completed by October 1998. Although the Department maintains databases on various activities related to funding arrangements, there is no national database that discloses essential information from the self-assessments received. This should include information by type of funding arrangement, by year in which the self-assessments were prepared, and showing whether a development plan was necessary and completed.

10.40 Consequently, the Department is unable to determine overall progress in tailoring funding arrangements to the needs of all parties, an issue noted in our 1996 audit.

Development plans

10.41 Completed self-assessments are used to prepare development plans. However, it was often questionable whether the plans were sufficiently comprehensive to effectively address the identified deficiencies. For example, in many cases the plan was simply a listing of the negative responses to the assessment questionnaire.

10.42 We believe that development plans should explicitly identify:

- the nature and extent of the necessary remedial action;
- the expertise needed to achieve this action;
- the approach to be taken; and
- the time frames for completion, and other related matters.

10.43 Finally, we believe that the Department and First Nations will need to re-examine their experience with self-assessments at appropriate intervals to determine the ongoing effectiveness of the assessments, the reasonableness of the expectations and their compatibility with the needs of First Nations.

Redress and Accountability

10.44 In 1996, the Department published certain principles of accountability, including redress. In its guidance to First Nations on how to complete the accountability and management self-assessments, the Department elaborates on redress as a key principle of accountability as follows:

Formalized review and appeal rules and procedures are in existence for operating programs and key governance functions that impact on the rights/entitlements of individuals and/or the community.

**Development plans
require greater rigour
to address First
Nations needs.**

Funding arrangements contain provisions for accountability, including redress.

This means that First Nations and their members will have the opportunity for an objective review and resolution of allegations.

10.45 The concept is that strong redress mechanisms in First Nations communities will enhance accountability of all parties. The terms and conditions in funding arrangements include redress as a principle of accountability to be followed.

10.46 The Department considers that its responsibility to manage allegations stems from its role as a major provider of funding to First Nations, and from its obligations under the *Indian Act*. It also believes that under its legislative mandate, there are limits to the actions it may take.

10.47 Effective redress includes the adequate resolution of allegations. This means that the Department would take proper action, including, where appropriate, referral of the allegations to other parties. The Department recognizes that the ultimate responsibility for addressing an allegation may lie within a First Nation, the Department, another funding agency, or a law enforcement or other investigative authority.

10.48 A major and challenging departmental decision applicable to every allegation the Department receives is to determine the extent of its responsibility for resolution and where the case should be referred, internally and possibly externally.

Significance of allegations

10.49 The Department reported that it had received over 300 allegations relating to 108 First Nations during the two-year period prior to this follow-up. The allegations relate to such matters as social assistance issues, mismanagement of funds and other concerns. Because departmental data are incomplete, the total reported is the minimum known number of allegations.

10.50 Allegations can be challenging to resolve. They can be reported for frivolous or politically motivated reasons, or they can be legitimate and have serious consequences for an entire departmental program, for First Nations members and for living conditions on reserves. They may reflect criminal activity or simply managerial negligence without intent to deceive. Serious allegations that are proved could impair the relationship between First Nations and the government.

10.51 Different types of allegations may require different action. For example, reported issues of non-compliance with a funding arrangement or regulation and alleged deficiencies in program management may require different approaches for disposition. As well, some allegations are best resolved by the First Nation community. Inappropriate disposition of allegations can be detrimental to effective management of funding arrangements and can unnecessarily overburden other agencies.

10.52 We performed a selective overview of how the Department manages its caseload of allegations. As part of the overview, we examined a sample of allegation files in the Department; however, we did not investigate any allegations, and we do not take a position on any of them. Nor did we review redress practices in First Nations. These are matters for the Department, other authorities and First Nations to act upon.

Guidelines for managing allegations

10.53 In February 1998, the Department issued a national guideline to senior officials on how to deal with allegations. The guideline defines and categorizes the types of allegations, outlines the procedures to be followed, and discusses the importance of departmental follow-up and related matters.

Effective redress includes the adequate resolution of allegations.

10.54 There are also draft directives on allegations that have been developed by some departmental regional offices.

10.55 The way in which an allegation is processed and disposed of will always require careful judgment, which can vary even in similar cases and among different departmental officials. We therefore expected to find departmental guidelines on:

- how to evaluate the merit of an allegation;
- how to decide what additional information is needed;
- who should collect any additional information; and
- how to decide whether the allegation should be resolved by the Department or referred to other authorities or First Nations.

10.56 Although we found that guidance is given on how to control the flow of documents and communications, there is little guidance on how to evaluate an allegation.

10.57 We believe that departmental guidelines need to further clarify the responsibilities of the Department and First Nations respecting the determination of merits of an allegation, the nature of the risks, the setting of priorities, the identification of alternative actions, and preventative measures.

Information for managing allegations

10.58 Although some departmental regions maintain a control listing of cases in progress, the Department does not have a national reporting system to help manage allegations. Consequently, it does not have an overall picture of the nature and frequency of allegations that shows:

- their ultimate disposition;

- the conditions leading to the allegations;

- the areas of high and low risk within and among different First Nations; and

- the impact on accountability and funding arrangements.

10.59 In response to our request for information on allegations, one regional office reported that it did not know how many allegations it had received during the past two years.

10.60 Another regional office maintains a listing of allegations but there was no summary report available that disclosed the initial inventory of allegations, the quantity of monthly intake and dispositions, the category of the allegations and programs affected, their ultimate disposition, and the current balance of unresolved allegations and their age. We believe this information is necessary for managing allegations.

10.61 We further believe that the absence of a national reporting system for allegations and of a self-assessments database makes it more difficult for the Department to obtain the assurance it needs on the validity of the self-assessments and the suitability of the funding arrangements. It is also more difficult to identify where and how redress, and hence accountability, can be enhanced.

10.62 With respect to the coverage of redress by the self-assessment workbook (see paragraph 10.30), the self-assessment questionnaire contains only one question. This question asks whether a dispute resolution and appeal process to address complaints is in place. In our view, this is a cursory and inadequate attempt to identify and evaluate redress. We believe that additional information on the structure of the redress system, how it is applied, and the safeguards in place needs to be included in the self-assessment questionnaire.

Little guidance has been provided in the Department on how to evaluate an allegation.

Allegation cases

10.63 We examined a sample of allegations to determine whether case files were active. We did not evaluate the appropriateness of the action or the disposition of the cases.

10.64 We found that there was activity in most cases in this sample. However, in a region with a large number of cases, it was often difficult to determine what exactly was being done and what was being achieved. This was because of ambiguous file notations that contained unclear references to inquiries and other actions. Because of deficient documentation and the absence of documentation standards, the Department is at risk should it need to demonstrate to other parties that it acted appropriately.

10.65 We believe that the Department needs to develop and apply an appropriate standard of documentation for use by all regions.

First Nations Perspectives on Funding Arrangements

10.66 In 1996, we surveyed and reported the opinions of a sample of First Nations on whether funding arrangements with the Department needed to be improved and, if so, how this could be achieved. In this follow-up, we again surveyed a sample of First Nations, including those that had responded to the 1996 survey. For the most part, both surveys contained identical questions.

10.67 Thirty-eight First Nations responded to this survey (forty in 1996). In both surveys, we received responses from several regions and from different-sized communities, and they related to different types of funding arrangements.

10.68 No audit of the survey responses was performed and, since the opinions provided by the respondents do not necessarily reflect the opinions of those

who did not respond or who were not surveyed, no generalizations can be made. However, we believe that the views presented below provide valuable perspectives that need to be considered in the evolving financial relationship between the government and First Nations.

10.69 Of the 38 First Nations who responded, 25 believe that their current funding arrangements (FTA and others) meet their needs for flexibility in allocating funds and in implementation; 33 stated that the terms and conditions of their funding arrangements were clear and reasonable.

10.70 However, 15 First Nations believed that they did not have sufficient input to the terms and conditions; 14 stated that improvement was needed in the co-ordination of funding across federal departments; 11 believed that the Department's reporting requirements were overly burdensome.

10.71 Other comments include the following:

- “There was really no other choice than the FTA, which we felt was forced on us.”
- “It would be important for Indian and Northern Affairs Canada to involve First Nations communities in the design of new funding arrangements that would allow for the proper reporting of results. This would help remove current fears and negative perceptions that First Nations have about the Department's unilateral approach on this issue. The FTA agreement has its benefits and limitations and it is important for First Nations to be well informed and prepared before considering this funding agreement.”
- “Need more clearly defined reporting requirements...”
- “The clauses on accountability in the funding arrangement are reasonable but implementation by First Nations and verification by the federal government is sometimes weak.”

10.72 Overall, the perspectives are not substantially different from those we reported in 1996. The variety of views,

both positive and negative, continues to imply that funding arrangements need to be tailored to meet the different needs of First Nations as well as those of the Department. We would expect this need to be addressed as the Department continues to implement its initiatives for improvement.

Conclusion

10.73 Indian and Northern Affairs Canada has taken action to address our 1996 recommendations and is committed to ongoing improvements. More rigorous attention is still needed, however, in better matching the level of flexibility attached to funding arrangements with the willingness and ability of First Nations to assume responsibility for funds provided. In addition, the Department's role with respect to redress needs to be clarified, and guidelines on the management and disposition of allegations further developed.

10.74 The Department will also need to develop an appropriate database for First Nations self-assessments and a national reporting system for allegations.

10.75 We believe that if improvements to funding arrangements are not achieved, it will be more difficult for the Department to successfully manage the risks associated with them, such as the risk of failing to improve living conditions on reserves in a cost-effective way. As well, the ability of some First Nations to strengthen their capacity to become more self-reliant will be hindered.

Department's response: *The Auditor General acknowledges the Department's continuing efforts to address the 1996 recommendations. In particular, the Department accepted that First Nations input needed to be considered in addressing the most appropriate type of funding arrangements. This is consistent with Gathering Strength – Canada's Aboriginal Action Plan, which commits this department and other federal departments to work with Aboriginal*

peoples and governments to build a renewed partnership and a new fiscal relationship. Accordingly, the Department has adopted a plan to consult extensively with First Nations and other government departments over the next year on the Canada/First Nations Funding Agreement. This agreement will be introduced gradually, commensurate with First Nations acceptance and capacity to manage under this type of multi-year funding arrangement. As well, the Department will increase the level of effort required to complete the management and accountability assessments and attendant development plans. The Department is encouraged to note that of the 38 First Nations that responded to the survey, 25 (66 percent) felt that their current funding arrangements met their needs for flexibility in allocating funds and 33 (87 percent) felt that the terms and conditions of their funding arrangements were clear and reasonable.

As reported in the 1996 audit, the Department introduced the accountability principles of transparency, disclosure and redress. These have been accepted by First Nations and have been incorporated into all funding arrangements. In the context of the accountability framework required by First Nations, redress means an internal mechanism or process whereby citizens can appeal decisions affecting them. The Department's view is that the Auditor General has broadened the scope of this follow-up audit (vis-à-vis redress) well beyond the context of the original 1996 audit by investigating how the Department manages allegations, many of which are unrelated to the management of funding arrangements. Nevertheless, the Department is presently considering the need for a national reporting system and will give due consideration to the observations concerning allegations, which have been included under the section of this chapter entitled Redress and Accountability.

**Indian and Northern
Affairs Canada needs
to improve funding
arrangements to
manage risks and
enhance self-reliance
of First Nations.**



About the Follow-up

Objective

The objective of this follow-up was to determine the progress made by Indian and Northern Affairs Canada in implementing the recommendations made in our 1996 Report Chapter 33, Funding Arrangements for First Nations.

Scope

The follow-up concentrated on:

- the implementation of the new Financial Transfer Arrangement (FTA);
- the co-ordination of funding to First Nations with other federal entities;
- the completion of First Nations self-assessments of their management and accountability regimes and the use of such assessments by the Department; and
- the development and application of certain accountability principles, such as redress.

The follow-up was performed in four departmental regions that were responsible for planned contributions totalling about \$2 billion to First Nations and other recipients during 1998–99. This represents about 60 percent of the total planned contributions of all regions for the year.

In addition to reviewing selected departmental initiatives, we examined 14 FTAs. At the time of our follow-up, these arrangements had an estimated value of more than \$500 million over their terms, which in some cases was five years.

We also reviewed 22 First Nations self-assessments of their accountability and management regimes, including those applicable to the FTAs and other funding arrangements. Further, we inquired into redress practices in all nine departmental regions and reviewed 25 allegations files selected from four regions.

In addition, we obtained the written perspectives of a sample of First Nations on funding arrangements currently in use.

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