

Audit of ISC's Processes to Support Participation in the 10-Year Grants

Internal Audit Report

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Indigenous Services
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TABLE OF CONTENTS

- ACRONYMS II**
- EXECUTIVE SUMMARY 1**
- 1. CONTEXT 4**
- 2. ABOUT THE AUDIT..... 7**
 - 2.1 Why it is important..... 7*
 - 2.2 Audit objective..... 7*
 - 2.3 Audit scope 7*
 - 2.4 Audit approach and methodology..... 8*
- 3. KEY FINDINGS AND RECOMMENDATIONS 9**
 - 3.1 Outreach and Capacity Development Activities 9*
 - 3.2 Initial Eligibility..... 11*
 - 3.3 Ongoing Eligibility..... 13*
- 4. CONCLUSION 15**
- 5. MANAGEMENT ACTION PLAN 16**
- ANNEX A: AUDIT CRITERIA 27**

ACRONYMS

AFN	Assembly of First Nations
CFRDO	Chief Finances, Results and Delivery Officer
CIRNAC	Crown–Indigenous Relations and Northern Affairs Canada
EOI	Expression of Interest
FAB	Financial Administration By-Law
FAL	Financial Administration Law
FMB	First Nations Financial Management Board
FNIHB	First Nations and Inuit Health Branch
ISC	Indigenous Services Canada
NFR	New Fiscal Relationship
P&ID	Professional and Institutional Development Program
RO	Regional Operations
SPP	Strategic Policy and Partnerships
TPAS	Transfer Payment Advisory Services

EXECUTIVE SUMMARY

Context

The Government of Canada is working with the Assembly of First Nations (AFN) to establish a New Fiscal Relationship (NFR) that moves towards sufficient, predictable, flexible and sustainable funding for First Nations communities.

The Government of Canada and the AFN both recognize the need for an improved fiscal relationship, which will be a key step in addressing the disparities and inequities in the socio-economic conditions between First Nations and other Canadians. In support of this, the Government of Canada has committed to actioning priority recommendations stemming from the 2017 AFN-ISC Joint Report *A NEW APPROACH: Co-Development of a New Fiscal Relationship Between Canada and First Nations*, which includes the following recommendations:

1. Establish an advisory committee on fiscal relations;
- 2. Create ten-year grants for qualified First Nations;**
3. Co-develop an approach to repeal the *First Nations Financial Transparency Act*; and,
4. Replace the Default Prevention and Management Policy.

As part of the priority recommendations, Indigenous Services Canada (ISC) committed to taking immediate action to create renewable 10-year Grants (“the Grant”) for qualified First Nations.

The Grant provides a number of significant benefits, including:

- Flexibility to design and deliver services;
- Flexibility to allocate, manage and use funding to better accommodate local needs and changing circumstances and priorities;
- Ability to retain unspent funds;
- Annual escalation based on inflation and population growth starting in 2021/2022; and
- Reduced administrative and reporting burden.

An additional element of the Grant process is the use of the First Nations Financial Management Board (FMB) to assess eligibility for the Grant. Eligibility criteria have been established based on a number of FMB standards.

As of February 2022, the Department had entered into NFR Grant agreements with 117 First Nations.

Why it is important

For First Nations, the implementation of the 10-Year Grant provides a concrete step towards flexible and predictable funding to address their needs and priorities. For ISC, the implementation

of the 10-Year Grant demonstrates commitment to building a new relationship with First Nations. Performing this audit allows an assessment of the process established by the Department to engage eligible First Nations and First Nations that are interested in participating in the 10-Year Grant, as well as evaluation of the processes in place to support the 10-Year Grant.

What we examined

The audit covered the processes and controls that support the assessment of outreach activities, initial and ongoing eligibility of First Nations, and capacity development activities related to the Grant based on information provided by management. The audit covered the period from April 2019 to February 2022. The audit did not look at the activities and assessments performed by the FMB related to assessment, eligibility and compliance of First Nations.

What we found

Positive Observations

The audit noted the following positive observations:

- The Department has developed an Operating Guide which provides a framework for the implementation of the Grant.
- The Department has collaborated with stakeholders like the AFN and FMB, which are critical to the effective implementation and ongoing policy development of the Grant.
- The Department performed a rollout of the Grant and has subsequently engaged in outreach efforts to get First Nations to participate in the Grant.
- Guidance on the process of testing for initial and on-going eligibility has been developed.

Opportunities for Improvement

The audit team identified areas where management control practices and processes could be improved, resulting in the following recommendations:

1. The Assistant Deputy Minister of Strategic Policy and Partnerships should ensure that the distinct roles of Strategic Policy and Partnerships and Regional Offices in outreach activities and the Grant process in general are well understood, while also ensuring that the outreach material provided to First Nations is consistent across regions and contains sufficient detail about how the Grant differs from other funding models, including its short and long-term benefits.
2. The Assistant Deputy Minister of Strategic Policy and Partnerships should ensure capacity development resources for First Nations are identified and linked to the respective eligibility criteria and clearly communicated in outreach material to First Nations. This should include establishing and implementing an approach to collect, track, and analyze the results of outreach activities and capacity development needs and use this information

to tailor outreach material and identify capacity development needs and facilitated on-going improvement.

3. The Assistant Deputy Minister of Strategic Policy and Partnerships should develop a standard risk based rationale for the areas assessed by the ISC Grant Eligibility Review Committee to ensure the appropriate areas of risk are being assessed by the committee. This should be done in a way to provide guidance for the identification and assessment of risks to committee members as part of the Grant Eligibility Review Committee's due diligence process.
4. The Assistant Deputy Minister of Strategic Policy and Partnerships should work with the relevant stakeholders and establish a framework that tracks and monitors the status of ongoing eligibility activities for all participating First Nations and effectively manages risks associated with the limited performance of monitoring and oversight activities.
5. The Assistant Deputy Minister of Strategic Policy and Partnerships should work with the relevant stakeholders to assess the type and level of risk the Department is taking on due to the issues with the completion of on-going assessments at the time of this audit. Once the level of risk is determined, mitigation plans should be identified and implemented as needed.
6. The Assistant Deputy Minister of Strategic Policy and Partnerships should ensure that the Grant Eligibility Review Committee is part of the on-going eligibility review process, so that those risks that were reviewed by the committee when assessing initial eligibility continue to be assessed.

Overall conclusion

The NFR initiative's goals are clear and highlight the expected benefits for First Nations. A key element to ensuring the implementation of the NFR is the implementation of the Grant, which aims to provide First Nations with overall flexibility in managing funds and with reduced reporting requirements. The Department has done a lot of work in developing a framework for the implementation of the Grant and collaboration with stakeholders including AFN and FMB has been on-going and supports the implementation of the Grant.

However, the audit found that although a framework and guidance are in place, there are still gaps with respect to implementation in the areas of outreach, capacity development, initial and on-going eligibility, and identification of risk mitigation strategies with respect to on-going eligibility assessments that cannot be completed. There is also an opportunity to bring regions along, with improved communication as the audit noted gaps in the understanding of roles and responsibilities with respect to the implementation of elements of the Grant.

It should be noted that the work of the NFR Secretariat on the Grant was impacted by the COVID-19 pandemic. The first cohort of First Nations entered the Grant in 2019 and in early 2020 the pandemic had started, which resulted in policy flexibilities around reporting and general disruption to work.

Statement of conformance

The audit conforms with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and the Government of Canada's *Policy on Internal Audit*, as supported by the results of the Quality Assurance and Improvement Program.

Management's response

Management is in agreement with the findings, has accepted the recommendations included in the report and has developed a management action plan to address them. The management action plan has been integrated into this report.

1. CONTEXT

The Government of Canada is working with the Assembly of First Nations (AFN) to establish a New Fiscal Relationship (NFR) that moves towards sufficient, predictable and sustainable funding for First Nations communities. The Government of Canada and the AFN both recognized the need for an improved fiscal relationship, which will be a key step in addressing the disparities and inequities in the socio-economic conditions between First Nations and other Canadians. In support of this, the Government of Canada has committed to actioning priority recommendations stemming from the 2017 AFN-ISC Joint Report titled *A New Approach: Co-Development of a New Fiscal Relationship Between Canada and First Nations*, which includes the following recommendations:

1. Establish an advisory committee on fiscal relations;
- 2. Create 10-Year Grants for qualified First Nations;**
3. Co-develop an approach to repeal the *First Nations Financial Transparency Act*; and,
4. Replace the Default Prevention and Management Policy.

As part of the priority recommendations, ISC committed to taking immediate action to create Grants for qualified First Nations. The Grant was first made available for the 2019/2020 financial year with an effective date of April 1, 2019 and eligibility to receive funding are limited to First Nations under the *Indian Act* and does not include Tribal Councils and other Indigenous entities.

The Grant endeavors to provide a number of significant benefits, including:

- Flexibility to design and deliver services;
- Flexibility to allocate, manage and use funding to better accommodate local needs and changing circumstances and priorities;
- Ability to retain unspent funds;
- Annual escalation based on inflation and population growth starting in 2021/2022; and
- Reduced administrative and reporting burden.

An additional element of the Grant process is the use of the First Nations Financial Management Board (FMB) to assess eligibility for the Grant. Eligibility criteria have been established based on a number of FMB standards.

As of February 2022, the Department had entered into Grant agreements with 117 First Nations. The following table illustrates the breakdown by region.

Region	# Of First Nations entered into 10-Year Grant agreements
British Columbia	60
Ontario	19
Saskatchewan	13
Atlantic	11
Manitoba	9
Quebec	4
Alberta	1
Total	117

NFR 10-Year Grant Characteristics

The scope of eligible programs by which funding is provided to First Nations under the Grant encompasses the following 11 service delivery areas:

1. Band Support Funding
2. Employee Benefits
3. Capital Facilities and Maintenance
4. Income Assistance
5. Assisted Living
6. Elementary and Secondary Education
7. Post-Secondary Education
8. Primary Health Care, except in British Columbia
9. Health Infrastructure Support
10. Lands and Economic Development Services
11. Registration Administration

It should be noted that funding is not provided under all programs to all participating First Nations.

Role of the First Nations Financial Management Board

A Memorandum of Understanding (MOU) was established on November 6, 2018, between the FMB and the Government of Canada. As part of this MOU, the FMB accepted the role of assessing whether a First Nation meets the eligibility criteria for a Grant, on behalf of ISC.

The 10-Year Grant is available to First Nations that submit a request and meet the eligibility requirements. The eligibility requirements, co-developed by the Department, the AFN and the FMB, assess the financial performance and governance structures of recipients.

Eligibility criteria include:

- Have in place a financial administration law (FAL) or by-law (FAB), that meets the co-developed standards for Grant eligibility; and,
- Meet prescribed financial performance ratios as calculated by FMB.

The eligibility requirements are based on the agreed-upon standards for financial management certifications. FMB conducts the analysis of eligibility of First Nations by evaluating audited financial statements from the previous five years and by verifying that the First Nations' FALs or FABs are aligned with FMB's standards for such laws, with requirements in terms of specific FAL/FAB provisions enumerated in the ISC funding agreement model. FMB also provides a Financial Management Systems (FMS) Certification, which certifies the use of good governance and finance practices as outlined in the First Nation's FAL.

FMB provides the eligibility assessment results to the Department (NFR Secretariat), then the Grant Eligibility Review Committee discusses the results of the assessment, examines additional risk areas and prepares a recommendation to the Minister of Indigenous Services (the Minister), who makes the final decision to offer the Grant agreement.

FMB also supports ISC's implementation of the co-developed risk assessment and ongoing eligibility monitoring activities required to continue receiving the Grant.

Departmental roles and responsibilities

The NFR Secretariat, which is within the Strategic Policy and Partnerships (SPP) Sector, is responsible for overseeing and leading the implementation of the Grant. Specifically, the NFR Secretariat is responsible for policy development, coordination of eligibility information, risk assessment of potential candidates, ongoing eligibility monitoring activities, and development of operational guidelines and information products.

Transfer Payments Advisory Services (TPAS) within the Chief Finances, Results and Delivery Officer (CFRDO) sector supports implementation through development of the Grant sections of the departmental comprehensive funding agreement model. CFRDO is also responsible for providing support during eligibility reviews of potential recipients as part of the Grant Eligibility Review Committee.

Members of Regional Operations (RO) sector and the First Nations and Inuit Health Branch (FNIHB) are responsible for supporting the administrative activities across the Grant lifecycle

including supporting the Minister's decision to offer the Grant agreement. This includes the issuance of the call letters to First Nations based on materials developed and provided by the NFR Secretariat, and meeting with interested recipients to address their questions and concerns on the Grant agreements. For the assessment and ongoing eligibility, RO and FNIHB provide input into initial eligibility reviews, supports the conduct of ongoing eligibility monitoring, and corresponds with First Nations regarding capacity development support.

The Department co-developed the Grant Operational Guide (the "Operational Guide") with FMB and the AFN, which identifies key activities and corresponding roles and responsibilities related to the Grant. The Operational Guide was drafted and neared completion in June 2021 but remains in draft as of February 2022.

2. ABOUT THE AUDIT

The Audit of ISC's Processes to Support Participation in the 10-Year Grants in the Crown–Indigenous Relations and Northern Affairs Canada (CIRNAC) and Indigenous Services Canada (ISC) Risk-Based Audit Plan for 2021-22 to 2022-23. This audit was one of two audits that evolved from the former Audit of Funding Mechanisms.

2.1 Why it is important

For First Nations, the implementation of the Grant provides a concrete step towards flexible and predictable funding to address their needs and priorities. For ISC, the implementation of the 10-Year Grant demonstrates commitment to building a new relationship with First Nations. Performing this audit allows an assessment of the process established by the Department to engage eligible First Nations and those that are interested in participating in the Grant, as well as evaluation of the internal processes in place to support the Grant.

2.2 Audit objective

The objective of the audit is to provide assurance that the Department's activities support the assessment of initial and ongoing eligibility of First Nations participating in the Grant and also support First Nations that may be interested and have not yet participated in the Grant.

2.3 Audit scope

The audit covered the processes and controls that support the assessment of outreach activities, initial and ongoing eligibility of First Nations, and capacity development activities related to the Grant based on information provided by management. The audit covered the period from April 2019 to February 2022.

The audit examined the work of the NFR Secretariat (part of SPP), RO, FNIHB and CFRDO. It did not examine the work of external partners such as FMB, as the activities of external partners fall outside of the scope of the audit.

Regional offices selected as part of this audit were British Columbia, Alberta, Ontario, Quebec and Atlantic. These regions were selected based on the number of grants issued. The audit looked at regions with high grant issuance rates and those that didn't issue as many, as well as the resulting work by regional offices for outreach activities, ongoing eligibility assessments and capacity development support.

The audit focused on evaluating the following activities related to implementing and operationalizing the Grant.

- **Outreach activities:** First Nations receive communications and information annually from the Department seeking Expressions of Interest to enter the Grant. Outreach activities provide First Nations that are not currently participating in the 10-Year Grant with information that supports an informed decision for participation in the new program.
- **Initial eligibility:** The Grant is available to First Nations that provide a written request and that meet the eligibility requirements. The eligibility requirements, co-developed with the AFN and the FMB, assess the financial performance and financial governance of recipients. The initial eligibility assessment of the Grant offer is performed by FMB, who provides the eligibility assessment results to the Department (NFR Secretariat). The Grant Eligibility Review Committee then discusses results and reviews additional areas of potential risk before preparing a recommendation to the Minister of Indigenous Services, who makes the final decision to offer the Grant agreement.
- **Ongoing eligibility:** To continue to receive grant funding, recipients have to demonstrate that they continue to meet the eligibility requirements during the entire term of the Grant. FMB supports ISC in the implementation of the co-developed risk assessment and ongoing eligibility activities.
- **Capacity development support activities and resources:** Capacity development support is available to First Nations from both the Department and FMB to support developing and continued eligibility requirements as well as governance capacity.

The audit did not include testing of individual grant agreements. The audit also excluded the activities and assessments performed by the FMB related to assessment, eligibility and compliance of First Nations.

2.4 Audit approach and methodology

The audit was conducted in accordance with the requirements of the Treasury Board *Policy on Internal Audit* and was conducted in accordance with the Institute of Auditors *International Standards for the Professional Practice of Internal Auditing*. The audit examined sufficient, relevant evidence and obtained sufficient information to provide a reasonable level of assurance in support of the audit conclusion. The approaches used to address the audit objective included the development of audit criteria, against which observations and conclusions were drawn. The audit criteria can be found in Annex A.

The audit consisted of three phases: planning, conduct and reporting. The main audit techniques used included:

- Interviews with key stakeholders involved in the design and delivery of the Grant;
- Process walkthroughs of outreach (awareness) activities, initial and ongoing eligibility activities as well as capacity development and ongoing support activities;
- Documentation review including policies, procedures and guidance to support stakeholders responsible for activities related to Grant funding within a comprehensive funding agreement, monitoring responsibilities and workflows, tools used to fulfill responsibilities, reporting on recipient monitoring activities and results.

3. KEY FINDINGS AND RECOMMENDATIONS

3.1 Outreach and Capacity Development Activities

Outreach is a critical part of growing participation in the Grant. Communication needs to be consistent and clear, and highlight the key components of the Grant as well as why participation in the Grant is beneficial. Along with this outreach, the Department should have capacity development support available to assist those First Nations that are interested but may have challenges meeting the eligibility criteria.

Accordingly, the audit expected that outreach activities would be performed by the Department to provide awareness and accurate information about the Grant to seek interest from those First Nations that were not currently enrolled. Furthermore, the audit expected that those First Nations interested in participating in the Grant that also had capacity development needs be identified by the Department and be provided with available departmental support to assist with grant eligibility.

There was a risk that the Department's outreach activities may not provide sufficient information about the Grant to First Nations which would impact participation in the Grant. There was also a risk that the Department may miss an opportunity to provide capacity development support to First Nations who are interested but would not qualify due to capacity development needs. Without effective outreach and capacity development support, the overall effectiveness of the NFR initiative would be impacted as participation in the Grant may be limited to communities that already have capacity to meet the eligibility criteria and understand the 10-Year Grant.

FINDINGS

Outreach Activities

The Operational Guide includes guidance on the departmental roles and responsibilities related to communicating with First Nations on matters such as issuing call letters for expressions of interest (EOI) for the Grant. As per the Operational Guide, the Department initiates the Grant process annually by issuing call letters for EOIs to First Nations.

The NFR Secretariat coordinates the issuance of call letters for the EOI process, including the development of a template letter and Frequently Asked Questions document, and the Regional

Offices subsequently issue the call letters for EOI to First Nations. In addition to call letters, supplemental information is provided to First Nations as part of the their engagement process for interested First Nations. As an example, Regional Offices provide a frequently asked questions document, present an outreach deck, and have held information sessions for First Nations with standardized materials developed by the NFR Secretariat.

This information presented to First Nations regarding the Grant in the outreach material was accurate, however, the level of detail provided in the standardized outreach material was missing some important details. The audit noted the following gaps with respect to details in the outreach material provided to regions that was to be shared with First Nations:

- Material provided to the regional offices did not include a detailed breakdown on the differences in funding models between traditional contribution program funding and funding under the Grant, which could impact Regional Offices' ability to provide First Nations with all relevant information pertaining to the benefits of the Grant.
- Details differentiating the reporting requirements between existing funding models and the 10-Year Grant were limited in the standard outreach material. To offset the information gap, one region had created its own customized outreach material to provide more tailored information to present the financial comparisons between current funding structures and the 10-Year Grant but this is not consistently shared across other regions.

The varying levels of information being provided to First Nations across regions impacts the consistency of messaging around the 10-Year Grant, which could hinder overall 10-Year Grant participation rates. The audit noted inconsistency in understanding across regions with respect to outreach activities and what regions should be doing.

The audit also observed that while tracking of interest from eligible First Nations was performed, The NFR Secretariat has not developed or communicated a tool or mechanism to track and monitor the results of outreach activities. As such, results/outcome of outreach activities are not being tracked, monitored, nor used to improve the future quality and effectiveness of outreach materials and methods. Collecting feedback from Regional Offices, including concerns raised by uninterested First Nations could be used to improve outreach material and the 10-Year Grant with an aim of addressing concerns and increasing participation rates. Furthermore, tracking and monitoring of outreach activities could be used to develop more strategic targeting of potentially interested First Nations.

Capacity Development Resources and Support

The audit team noted that outreach material included some general information on the available capacity development resources that can be sought by First Nations that do not currently meet the eligibility requirements, such as resources provided by FMB and the Professional and Institutional Development Program (P&ID) offered by the Department. Information within the outreach material included an explanation that all First Nations, including those interested in the Grant, are eligible to apply for project-based funding under the P&ID. The audit could not determine if the capacity development resources identified are indeed relevant for the needs of First Nations attempting to meet the very specific requirement of the Grant. There was no analysis

conducted that links the requirements of the Grant to the offering of the capacity development resources identified.

Also, First Nations may be unaware of how the available capacity resources can support them in meeting eligibility requirements and information provided to First Nations on capacity development does not clearly link eligibility requirements to the available capacity development resources. This type of linkage between needs and resources would allow First Nations to know exactly where they can go to get support they need to become eligible.

Although the NFR Secretariat tracks expressions of interest annually, there is an opportunity to strengthen the identification and tracking of capacity development needs. At the time of the audit, guidance related to the tracking and monitoring of First Nations that are receiving capacity development resources to meet eligibility criteria, including mechanisms for tracking, was not available. This means there is currently limited information on First Nations that may require capacity development support, what type of support they require to become eligible, and information on those that are currently receiving capacity development support. As a result, the Department has a limited view into whether capacity development supports are functioning as intended and assisting First Nations that are interested in the Grant in meeting the eligibility requirements.

RECOMMENDATION

1. The Assistant Deputy Minister of Strategic Policy and Partnerships should ensure that the distinct roles of Strategic Policy and Partnerships and Regional Offices in outreach activities and the Grant process in general are well understood, while also ensuring that the outreach material provided to First Nations is consistent across regions and contains sufficient detail about how the Grant differs from other funding models, including its short and long-term benefits.
2. The Assistant Deputy Minister of Strategic Policy and Partnerships should ensure capacity development resources for First Nations are identified and linked to the respective eligibility criteria and clearly communicated in outreach material to First Nations. This should include establishing and implementing an approach to collect, track, and analyze the results of outreach activities and capacity development needs and use this information to tailor outreach material and identify capacity development needs and facilitated on-going improvement.

3.2 Initial Eligibility

The Minister has the final approval authority to determine whether to offer the Grant to a recipient. The Minister may also decide to impose conditions on an offer, including enhanced monitoring or requirement to obtain an FMB Financial Management Systems (FMS) Certification. The FMB Financial Management Systems Certification process provides verification of the implementation of a First Nation's FAL, including provisions related to grant eligibility.

The audit expected the Department to consistently identify, assess and communicate eligibility risks as part of the Grant approval process as well as a defined dispute resolution process that seeks input from relevant stakeholders in the event ISC's risk assessment does not align with the results of FMB's review.

Failure to identify and communicate eligibility risks could result in ineligible recipients entering into the Grant or a missed opportunity to provide capacity development support to a First Nation that is interested but has capacity development needs.

FINDINGS

The Operational Guide, which was co-developed with AFN and FMB, defines the expectations of the Department regarding its role to support the Minister with the decision of whether to offer the Grant to a recipient. Specifically, the NFR Secretariat is expected to review the information provided by FMB and meet with the Grant Eligibility Review Committee, which includes senior management from SPP (Chair), CFRDO, RO, FNIHB, and a representative from the Department's Audit and Evaluation Sector. Currently, First Nations that are eligible to receive funding under the Grant are limited to First Nations under the *Indian Act*. Tribal Councils and other Indigenous entities are not currently eligible for the 10-Year Grant.

For FMB to conduct the analysis of initial eligibility, First Nations must prepare and provide the five most recent years of financial statements and their respective Financial Administration Law or Financial Administration By-Law. However, depending on the risk rating and tier classification assigned to a First Nation at the onset, additional ongoing eligibility activities may be required of the First Nation such as enhanced monitoring, enhanced engagement with FMB and/or follow-up meetings to monitor progress.

Rather than re-performing or reviewing FMB's assessment, the focus of the Department's due diligence review is to complement FMB-provided information by scanning potential Grant recipients' environments for factors outside of the eligibility criteria assessed by FMB, including risks to the health and well-being of the community, the existence of fraud related issues and the existence of risks or issues that may impact the success of the Grant over time. Should significant risks be identified, the ISC Grant Eligibility Review Committee may recommend risk mitigation measures such as enhanced monitoring and/or capacity development support measures.

Follow-up discussions may also be held between relevant members of the Grant Eligibility Review Committee, the NFR Secretariat, and FMB to discuss significant risks identified from the Department's due diligence review, to corroborate whether eligibility criteria are met, and identify risk mitigation measures to be considered for the Grant. At the time of the audit, the audit team was informed that all applications that were brought to the Eligibility Review Committee were approved without conditions.

The NFR Secretariat is expected to communicate the recommendation regarding the recipient's eligibility along with results of the due diligence review, including any significant risks identified, and corresponding mitigation measures, to the Minister through a briefing note. While the expectations of the Department's due diligence review are clearly defined in the Operational Guide, the audit found some weaknesses in how it is has been operationalized.

For example, the Department has not specified or standardized the criteria to be examined as part of the due diligence, nor has it provided guidance on what constitutes a factor or risk to the health and well-being of the community in the context of the Grant. Furthermore, a framework for assessing and prioritizing the risks does not exist. Additionally, Regions indicated that while they participated in the Grant Eligibility Review Committee meetings, it is unclear on what they are required to prepare or present when convening a review committee meeting, other than general health and safety risks. Regions asserted that the guidance for performing their role is lacking.

The audit also could not determine why the Grant Eligibility Review Committee would participate in the initial eligibility review and not the on-going eligibility review to assess the same factors it assesses at the initial state since concerns with health and well-being and fraud are subject to change from the time the grant is initially awarded to when on-going eligibility is assessed.

A lack of standard criteria and guidance for performing due diligence could lead to inconsistent execution of due diligence across regions, including varying interpretations of what constitutes a relevant risk factor as well as inconsistency in how an identified risk factor is assessed, prioritized, and communicated, which heightens the risk that the Department's due diligence results fail to identify a risk that is material to the Grant approval decision.

RECOMMENDATION

3. The Assistant Deputy Minister of Strategic Policy and Partnerships should develop a standard risk based rationale for the areas assessed by the ISC Grant Eligibility Review Committee to ensure the appropriate areas of risk are being assessed by the committee. This should be done in a way to provide guidance for the identification and assessment of risks to committee members as part of the Grant Eligibility Review Committee's due diligence process.

3.3 Ongoing Eligibility

ISC, FMB, and the AFN have co-developed a risk assessment and ongoing eligibility activities approach. As per the Operating Guide, the stated objectives of the risk assessment and ongoing eligibility activities is to identify and mitigate risks related to a First Nation's ability to maintain eligibility, assist First Nations in identifying opportunities for increased capacity support, support First Nations in increasing accountability to its citizens, and to ensure that the risk assessment and ongoing eligibility activities are minimal and non-intrusive and make use of the information that is to be provided through the terms of the Grant agreement. The ongoing monitoring responsibilities of ISC are defined in the Operational Guide.

Accordingly, the audit expected to see the Department's roles and responsibilities operationalized, including carrying out monitoring activities to identify and mitigate ongoing eligibility risks or issues.

There is a risk that ineffective ongoing monitoring could lead to inadequate risk management, as well as ongoing eligibility issues not being identified or adequately addressed. If this risk were realized, grant funding would be provided to recipients that may become ineligible over time.

FINDINGS

The Department's roles and responsibilities of the ongoing eligibility activities are defined in the Operational Guide, and include the following activities:

- An annual risk assessment includes a review of the Annual Financial Performance Report provided by FMB, reports prepared by the First Nations and shared with ISC in accordance with the Comprehensive Funding Agreement as well as the record of discussion from the Annual Implementation meeting between ISC and the First Nations;
- Determining the risk rating and tier classification and the performance of ongoing eligibility activities, based on the tier classification;
- A Grant Annual Implementation Meeting that is informed by an environmental scan; and
- Communication of ongoing eligibility results and the risk assessments to First Nations.

While the expectations of risk management and ongoing eligibility activities of the Department have been defined in the Operational Guide, the audit found that the implementation of risk management and ongoing eligibility activities have yet to be performed. The Department has been unable to conduct the full scope of ongoing eligibility monitoring activities due to the receipt of late reports or missing reports from First Nations. Furthermore, the Department has not outlined or conducted an analysis to mitigate the risks related to reporting flexibility due to the pandemic, and the risks associated with receiving late, incomplete or missing reports.

The audit also observed that the Department is not tracking First Nations' information related to maintaining ongoing eligibility, such as which First Nations have or have not been assessed according to ongoing eligibility requirements, which (if any) reports were missing when conducting the assessment, and when the Department will conduct the subsequent round of ongoing eligibility assessments.

There are currently gaps with regards to the risk management and monitoring of a recipient's ongoing eligibility. Due to the limited information received, the Department has not been able to carry out its ongoing eligibility monitoring roles and responsibilities. The Department has also not implemented a mitigation strategy to address risks associated with late or missing information nor has it stated the level of risk being accepted.

RECOMMENDATION

4. The Assistant Deputy Minister of Strategic Policy and Partnerships should work with the relevant stakeholders and establish a framework that tracks and monitors the status of ongoing eligibility activities for all participating First Nations and effectively manages risks associated with the limited performance of monitoring and oversight activities.
5. The Assistant Deputy Minister of Strategic Policy and Partnerships should work the relevant stakeholder to assess the type and level of risk the Department is taking on due to the issues with the completion of on-going assessments at the time of this audit. Once the level of risk is determined, mitigation plans should be identified and implemented as needed.

6. The Assistant Deputy Minister of Strategic Policy and Partnerships should ensure that the Grant Eligibility Review Committee is part of the on-going eligibility review process, so that those risks that were reviewed by the committee when assessing initial eligibility continue to be assessed.

4. CONCLUSION

The NFR initiative's goals are clear and highlight the expected benefits for First Nations. A key element to ensuring the implementation of the NFR is the implementation of the Grant, which aims to provide First Nations with overall flexibility managing funds and with reduced reporting requirements. The Department has done a lot of work in developing a framework for the implementation of the Grant and collaboration with stakeholder including AFN and FMB has been on-going and supports the implementation of the Grant.

However, the audit found that although a framework and guidance is in place, there are still gaps with respect to implementation in the areas of outreach, capacity development, initial and on-going eligibility, and identification of risk mitigation strategies with respect to on-going eligibility assessments that cannot be completed. There is also an opportunity to bring regions along, with improved communication as the audit noted gaps in the understanding of roles and responsibilities with respect to the implementation of elements of the 10-Year Grant.

It should be noted that the work of the NFR Secretariat on the Grant was impacted by the COVID-19 pandemic. The first cohort of First Nations entered the Grant in 2019 and in early 2020 the pandemic started, which resulted in policy flexibilities around reporting and general disruption to work.

5. MANAGEMENT ACTION PLAN

Strategic Policy and Partnerships welcomes the findings and recommendations of the Audit of ISC's Processes to Support Participation in the 10-Year Grants. Advancement of the New Fiscal Relationship is a shared responsibility across the Department and Government of Canada, and a key component is the NFR Grant as a funding mechanism supporting predictability, flexibility and ongoing sufficiency through the NFR Grant Escalator. Strategic Policy and Partnerships leads co-development and implementation of the NFR Grant, but also continues to heavily rely on co-development partners, national programs and regional offices to support further co-development and promotion of the NFR Grant, as the Grant itself is not a program but rather an overarching approach to delivery of funding for core services to First Nations that supports self-determination in design and delivery of services.

To date, over 40% of all First Nations have expressed interest in NFR Grant, and many continue to work towards meeting eligibility criteria. The Grant has now been adopted by over 20% of all First Nations. In all, more than \$1 billion in transfer payments funding is projected to flow to First Nations via NFR Grant funding agreements in 2022-23, and this amount will increase over time, representing a growing share of ISC's total transfer payments to First Nations. As the NFR Grant is an optional funding mechanism, the Department has not set a timeframe for all First Nations to adopt the Grant, however it is estimated that an average of 18 additional First Nations per year will adopt the NFR Grant for the next decade.

To ensure sustained success of the Grant initiative as ISC continues to explore opportunities for collaborative fiscal relationship reform, Strategic Policy and Partnerships is creating a dedicated team to lead coordination of the NFR Grant, while a separate team will lead other New Fiscal Relationship policy co-development activities.

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
<p>1. The Assistant Deputy Minister of Strategic Policy and Partnerships should ensure that the distinct roles of Strategic Policy and Partnerships and Regional Offices in outreach activities and the Grant process in general are well understood, while also ensuring that the outreach material provided to First Nations is consistent across regions and contains sufficient detail about how the Grant differs from other funding models, including its short and long-term benefits.</p>	<p>The NFR Grant Operational Guide provides an overview of key roles and responsibilities for outreach activities and will continue to communicate and provide clear guidance to ensure those responsibilities are well understood.</p> <p>1) New Fiscal Relationship Secretariat will develop and deliver training to regional offices and national programs over NFR Grant processes, including the division of roles and responsibilities, in addition to continued active participation at meetings of Directors of Funding Services.</p> <p>2) Existing outreach materials such as a presentation and frequently asked questions are reviewed and updated annually, including most recently in June 2022 ahead of the launch of the expression of interest process, with the support of co-development partners, regional offices and national programs. New Fiscal Relationship Secretariat will continue to ensure there is sufficient detail in outreach materials, including key differences between funding mechanisms such as set, fixed, flex, block and grant.</p>	<p>Director, New Fiscal Relationship</p>	<p>1) Q4 22/23 2) Q1 23/24 3) Q1 23/24</p>

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
	<p>As requested, the New Fiscal Relationship Secretariat will also continue to support regional offices in individual meetings with communities and/or the development of specific outreach materials for an individual community to consider the NFR Grant, as requested.</p> <p>3) New Fiscal Relationship Secretariat's will maintain consistency and integrity of Grant processes while providing flexibility to Regions to manage their relationships and reinforce the use of standardized messaging and program coordination.</p> <p>Specifically, the New Fiscal Relationship Secretariat will continue to develop various tools that identify and monitor gaps in operational process guidance material. New Fiscal Relationship Secretariat will develop an operational control matrix assessment that identifies gaps in guidance and support within Grant processes.</p>		

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	<p>New Fiscal Relationship Secretariat will identify improvements and deliver policy guidance and procedures on the coordination of the Grant Funding Escalator and Budget Management Regime. New Fiscal Relationship Secretariat will coordinate with regions to ensure updated tools and templates are being used effectively.</p>		
<p>2. The Assistant Deputy Minister of Strategic Policy and Partnerships should ensure capacity development resources for First Nations are identified and linked to the respective eligibility criteria and clearly communicated in outreach material to First Nations. This should include establishing and implementing an approach to collect, track, and analyze the results of outreach activities and capacity development needs and use this information to tailor outreach material and identify capacity development needs and facilitated on-going improvement.</p>	<p>New Fiscal Relationship Secretariat agrees with this recommendation. While the NFR Grant does not currently have a dedicated source of capacity building funding, the New Fiscal Relationship Secretariat has been focused on leveraging existing capacity support programs offered by the department and Indigenous organizations, recognizing that available capacity support and the communication of capacity support requires enhancement.</p> <p>New Fiscal Relationship Secretariat is in the process of conducting the following activities to increase capacity support, and awareness of available support:</p>	<p>Director, New Fiscal Relationship</p>	<p>1) Q4 22/23 2) Q1 23/24 3) Q1 23/24 4) TBD 5) Q2 22/23</p>

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
	<ol style="list-style-type: none"> 1) Identifying available supports and current programs, tools and resources available to First Nations to better provide guidance over available supports. 2) Update the NFR Grant Operational Guide and information materials for First Nations with additional capacity support information. 3) Update external communications at various checkpoints to include opportunities for First Nations to identify capacity development needs, including the Expression of Interest process and annual processes to maintain Grant eligibility. 4) Collaborate with the departmental partners (RO and CFRDO) as well as co-development partners (AFN, FMB, AFOA Canada) to provide holistic governance capacity support to First Nations. 5) New Fiscal Relationship Secretariat has developed national tracking tools to collect, track and analyze the results of outreach 		

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	<p>activities, including requests for capacity support driven by First Nations' interest in the Grant. This information will inform ongoing development of options to strengthen capacity supports including additional financial resources, and will allow for specific capacity needs to be addressed by analyzing the data and information available.</p>		
<p>3. The Assistant Deputy Minister of Strategic Policy and Partnerships should develop a standard risk-based rationale for the areas assessed by the ISC Grant Eligibility Review Committee to ensure the appropriate areas of risk are being assessed by the committee. This should be done in a way to provide guidance for the identification and assessment of risks to committee members as part of the Grant Eligibility Review Committee's due diligence process.</p>	<p>The NFR Grant Operational Guide outlines the elements included in risk assessments for ongoing eligibility and has been shared with the ISC Grant Eligibility Review Committee.</p> <p>1) New Fiscal Relationship Secretariat will expand on the role and responsibilities of the Review Committee in the Operational Guide, with a focus on the opportunity to identify capacity development opportunities to mitigate any risks for First Nations which have met eligibility criteria. An inventory of risks and mitigation activities will also be included in the Operational Guide.</p> <p>2) New Fiscal Relationship Secretariat will continue to provide</p>	<p>Director, New Fiscal Relationship</p>	<p>1) Q3 22/23 2) Q3 23/24 3) Q3 23/24</p>

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
	<p>enhanced communication and training to regional office staff over the risk assessment process and links to eligibility criteria to ensure that decisions are made based on set criteria and that any extraneous factors are only considered for forms of risk mitigation, such as monitoring activities. New Fiscal Relationship Secretariat will provide interim guidance to Regions on risk assessment elements and communicated to Grant Eligibility Review Committee.</p> <p>3) There will also be annual refresher material shared with the Grant Eligibility Review Committee regarding eligibility criteria review each year in September.</p>		
<p>4. The Assistant Deputy Minister of Strategic Policy and Partnerships should work with the relevant stakeholders and establish a framework that tracks and monitors the status of ongoing eligibility activities for all participating First Nations and effectively manages risks associated with the limited performance of monitoring and oversight activities.</p>	<p>Accountability, reporting and ongoing activities and requirements to maintain eligibility for the NFR Grant are explained and defined within the NFR Grant Operational Guide.</p> <p>Testing, monitoring and implementation of oversight activities and communication with relevant stakeholders regarding the risk management framework and status of ongoing eligibility activities was</p>	<p>Director, New Fiscal Relationship</p>	<p>1) Q3 22/23 2) Q1 23/24 3) Q1 23/24</p>

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
	<p>delayed and limited due to the impacts of COVID-19.</p> <ol style="list-style-type: none"> 1) New Fiscal Relationship Secretariat has developed a process to refresh data related to reporting requirements and application of the eligibility risk management framework. Training will be provided to regions and all individual First Nations in the NFR Grant will receive an update on the status of their reporting and ongoing eligibility, and any additional action to be taken. This process will provide information on the scope of need for new capacity supports and scope of risks. New Fiscal Relationship Secretariat will continue to implement this process in partnership with regional offices. 2) New Fiscal Relationship Secretariat is continuing to work with partners national tracking tools including additional capacity supports that support managing risk and monitoring oversight activities. 3) New Fiscal Relationship Secretariat will continue to promote 		

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	<p>the NFR Grant Operational Guide, training for regional offices and national programs, as well as available capacity support to ensure that First Nations are able to provide required information to conduct the monitoring activities required to maintain ongoing eligibility.</p>		
<p>5. The Assistant Deputy Minister of Strategic Policy and Partnerships should work with the relevant stakeholders to assess the type and level of risk the Department is taking on due to the issues with the completion of on-going assessments at the time of this audit. Once the level of risk is determined, mitigation plans should be identified and implemented as needed.</p>	<p>The department's completion of testing and on-going risk assessments have been delayed and limited based on the impacts of COVID-19 both internally to Departmental resources as well as within First Nations communities and their auditing/accounting partners.</p> <p>New Fiscal Relationship Secretariat is prioritizing on-going testing and assessments, including completion of backlogged assessments in order to ensure consistent application and risk mitigation.</p> <p>1) New Fiscal Relationship Secretariat will implement the risk management process as outlined in the NFR Grant Operational Guide, and enhance the guide to include additional measures to support the elimination of any</p>	<p>Director, New Fiscal Relationship</p>	<p>1) Q3 22/23 2) Q3 22/23</p>

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
	<p>backlogged assessments. Training will be provided to regions and all individual First Nations in the NFR Grant will receive an update on the status of their reporting and ongoing eligibility.</p> <p>2) New Fiscal Relationship Secretariat will continue to communicate with CFRDO and regional offices to ensure efforts to address backlog in reporting and risk management is aligned with overall efforts of the Department to address backlog created during the pandemic.</p>		
<p>6. The Assistant Deputy Minister of Strategic Policy and Partnerships should ensure that the Grant Eligibility Review Committee is part of the on-going eligibility review process, so that those risks that were reviewed by the committee when assessing initial eligibility continue to be assessed.</p>	<p>New Fiscal Relationship Secretariat manages risks related to ongoing eligibility as identified in the NFR Grant Operational Guide. Additional guidance as to process will be added to the Operational Guide to ensure internal partners have access to ongoing eligibility status of Grant recipients, in order to determine where significant capacity development and/or ongoing eligibility decisions may be required.</p> <p>1) New Fiscal Relationship Secretariat will expand on the role</p>	<p>Director, New Fiscal Relationship</p>	<p>1) Q1 23/24 2) Q1 23/24</p>

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
	<p>and responsibilities of the Review Committee in the Operational Guide, with a focus on the opportunity to monitor ongoing eligibility as well as identify capacity development opportunities to mitigate any risks for First Nations which have already adopted the NFR Grant.</p> <p>2) New Fiscal Relationship Secretariat will elaborate oversight procedures for implementation of the framework. Oversight of the framework will be informed by the Grant Eligibility Review Committee members and process.</p>		

ANNEX A: AUDIT CRITERIA

The following audit criteria were developed to address the objectives:

AUDIT CRITERIA		Sub Criteria
1.	Outreach activities provide awareness and accurate information about the 10-Year-Grant to First Nations that are not currently enrolled in the 10-Year Grant.	<p>1.1 Standardized outreach tools, template and guidance are provided to regions.</p> <p>1.2 Guidance for outreach activities is provided to regions and follows the minimum Expressions of Interest requirements.</p> <p>1.3 Information provided to First Nations as part of outreach activities provides clear distinctions between the 10-Year Grant and current funding arrangements.</p> <p>1.4 Processes are in place to monitor the results of outreach activities.</p>
2.	The Department identifies and communicates eligibility risks as part of the 10-Year Grant approval process.	<p>2.1 Grant eligibility reviews by ISC consider diverse criteria that may impact FMB's assessment or be outside the scope of FMB's mandate.</p> <p>2.2 A process is in place to address situations where significant risks are identified by the 10-Year Grant Eligibility Review committee that could impact the recommendation.</p> <p>2.3 A dispute resolution process is in place in case the Department's risk assessment does not reflect the results of FMB's review.</p>
3.	Capacity development is provided to support First Nations that are interested in grant participation and may have capacity development needs.	<p>3.1 Processes are in place to identify First Nations that are interested in participating in the 10-Year grant and have capacity development needs.</p> <p>3.2 The Department undertakes capacity development activities by assisting First Nations in identifying opportunities for increased capacity support and providing capacity supports.</p>
4.	Monitoring of ongoing eligibility activities is performed and identifies ongoing eligibility issues.	<p>4.1 The Department monitors ongoing eligibility activities in order to verify that First Nations continue to meet the terms and conditions of the agreement.</p> <p>4.2 When ongoing eligibility risks are identified for grant recipients, support is provided and results are monitored</p>