

10-YEAR GRANT MONITORING

POLICIES AND GUIDELINES



**LE CONSEIL
DE GESTION
FINANCIÈRE** des
Premières Nations

www.fnfmb.com

MARCH 27, 2020

BACKGROUND CONTEXT

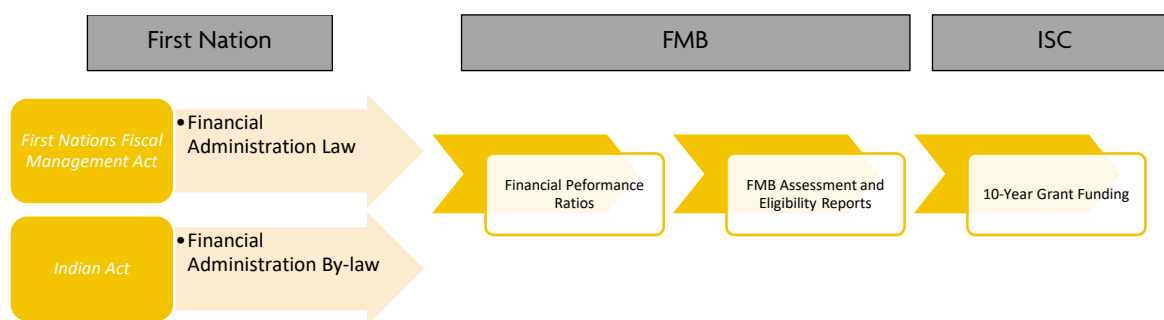
With the announcement of the New Fiscal Relationship (“NFR”) developed jointly by the Assembly of First Nations (“AFN”) and the Government of Canada, made public in December 2017, the Government of Canada through ISC has committed to providing 10-year grants to First Nations beginning April 1, 2019. The grant funding, offered under the [Grant to support the new fiscal relationship for First Nations under the Indian Act](#) program authority, provides First Nations with more funding flexibility by replacing all core funding currently provided to First Nations by ISC. The grant is available to First Nations who demonstrate the ability to meet eligibility criteria co-developed by ISC, the AFN and the FMB. In order for a First Nation to be evaluated for grant eligibility, the First Nation must submit an expression of interest in writing to ISC requesting to be considered for a 10-year grant.

While ISC will make the final determination on a First Nation’s grant eligibility, the FMB will provide services under a Memorandum of Understanding¹ (“MOU”) with the Minister of Indigenous Services Canada and the Minister of Crown-Indigenous Relations (“the Ministers”) dated November 6, 2018 to evaluate and report on a grant applicant’s compliance with the eligibility criteria. The grant eligibility requirements that a First Nation will need to meet are as follows:

1. Enact either a Financial Administration Law (“FAL”) under section 9 of the *First Nations Fiscal Management Act* or a Financial Administration Bylaw (“FAB”) under section 83 of the *Indian Act* that meet the FMB’s Financial Administration Law Standards and ensure that specific provisions are brought into force as set out in this document;
2. Demonstrate that a selected number of financial performance ratios as set out in this document have been met as at March 31st of the financial year preceding the effective date of the grant; and
3. Demonstrate the implementation of the minimum FAL or FAB provisions referenced in the eligibility criteria within 24 months of the effective date of the grant.

This grant eligibility pathway is illustrated in Figure 1 below.

Figure 1 Grant Eligibility Pathway



The first criterion for grant eligibility requires that the First Nation develop and then enact a FAL or FAB that complies with the FMB’s FAL Standards and ensures that the minimum provisions (agreed to by ISC and the AFN) and described

¹ Since the date of this MOU section 50.1 of the *First Nations Fiscal Management Act* was enacted and brought into force that provides the FMB with the authority to review a law, the financial performance or financial management system of any First Nation government and to provide a report containing an opinion on whether FMB standards have been met.

in this document are brought into force within the required time periods. The FMB has developed a Sample FAL / FAB to facilitate this step.

The second criterion for grant eligibility requires that the First Nation demonstrate that its financial performance meets minimum requirements in five financial ratios. The independent calculation and evaluation of these ratios will be performed by the FMB upon receipt of an Expression of Interest by the First Nation and availability of the most recent five years of audited annual financial statements.

The third criterion for grant eligibility requires the First Nation to implement certain minimum provisions² of its FAL or FAB within a specified time period and obtain a report from the FMB to help indicate whether this implementation has occurred. The role of the FMB will be to conduct a set of agreed-upon procedures and to communicate the results of these procedures. While this report will not contain an opinion, it will provide enough information for ISC to determine whether this eligibility criterion has been met.

Once these three main eligibility criteria have been met and reported on by the FMB, an annual risk-based monitoring framework is needed to assist ISC in the assessment of ongoing eligibility. The FMB has been informed that this framework is needed to allow ISC to meet its risk management objectives and to demonstrate compliance with existing Treasury Board of Canada risk management policies. It is noted that compliance with the terms of a grant agreement is solely the responsibility of the First Nation grant recipient. As a third party, the FMB is limited in what monitoring services it can provide to ISC. It is therefore important to determine what actions and responsibilities all stakeholders will have within an overall grant monitoring model.

² Commonly referred to as the “minimum highlighted provisions” based on colour coding contained in the FMB’s Sample Law, these are identified in the ‘Coming Into Force’ provision of the law.

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A. FINANCIAL ADMINISTRATION LAW MONITORING POLICIES

The following policies and guidelines will apply after a 10-year grant recipient's FAL has been approved by the FMB under section 9 of the *First Nations Fiscal Management Act*. The objective of these policies and guidelines is to support ISC's monitoring of ongoing compliance with 10-year grant eligibility criteria contained in the *Grant to support the new fiscal relationship for First Nations under the Indian Act* program authority.

1. Upon request by a First Nation, the FMB will review amendments to an existing FAL. The FMB will review any amendments made to a 10-year grant recipient's FAL to determine whether the amended FAL remains in compliance with the 10-year grant eligibility criteria.
2. Upon receipt of a notice that a 10-year grant recipient intends to repeal a FAL, the FMB will determine what impact this will have on the 10-year grant recipient's compliance with 10-year grant eligibility criteria.
3. The FAL reviewer will summarise the results of any monitoring review and any recommendations in a report to the FMB's Board of Directors through the Standards, Approvals and Certification Committee ("SAC Committee").
4. The decision reached by the FMB's Board of Directors will be communicated in writing to the First Nation and the Minister of Indigenous Services Canada within a reasonable amount of time.

B. Financial Administration Law Monitoring Guidelines

1. The FMB will only respond to requests it receives in writing for provision of its FAL review services.
2. The FMB will not perform any active monitoring procedures that would otherwise be necessary to identify any amendments to a FAL or any repeal of a FAL that are not disclosed to the FMB by a 10-year grant recipient.
3. The outcome of any monitoring activity should be communicated to the First Nation verbally or by email immediately following the meeting held by the FMB's Board of Directors to approve this content.
4. A signed letter or report communicating the outcome of the FMB's FAL monitoring should be transmitted to the First Nation and the Minister of Indigenous Services Canada within five business days following the meeting held by the FMB's Board of Directors.

C. FINANCIAL ADMINISTRATION BY-LAW MONITORING POLICIES

The following policies and guidelines will apply after a 10-year grant recipient's FAB has been enacted and approved under section 83 of the *Indian Act*. The objective of these policies and guidelines is to support ISC's monitoring of ongoing compliance with 10-year grant eligibility criteria contained in the *Grant to support the new fiscal relationship for First Nations under the Indian Act* program authority.

1. These policies and guidelines do not apply to assistance the FMB will provide to a first nation wishing to enact, amend or repeal and replace a FAB. For these purposes, see the FMB's separate Policy on Assistance to First Nations Enacting a FAB. These policies and guidelines only apply to monitoring compliance with 10-year grant eligibility criteria.
2. Upon request by a First Nation, the FMB will review amendments to an existing FAB. The FMB will review any amendments made to a 10-year grant recipient's FAB to determine whether the amended FAB remains in compliance with the 10-year grant eligibility criteria.
3. Upon receipt of a notice that a 10-year grant recipient intends to repeal a FAB, the FMB will determine what impact this will have on the 10-year grant recipient's compliance with 10-year grant eligibility criteria.

4. The FAB reviewer will summarise the results of the review and any recommendations in a FAB review report to the FMB's Board of Directors through the SAC Committee. The SAC Committee will make its own recommendation to the Board of Directors.
5. The decision reached by the FMB's Board of Directors will be communicated in writing to the Minister of Indigenous Services Canada, the Minister of Crown Indigenous Relations and the First Nation within a reasonable amount of time.

D. Financial Administration By-law Monitoring Guidelines

1. The FMB will only respond to requests it receives in writing for provision of its FAB review services.
2. The FMB will not perform any active monitoring procedures that would otherwise be necessary to identify any amendments to a FAB or any repeal of a FAB that are not disclosed to the FMB by a 10-year grant recipient.
3. The outcome of any monitoring activity should be communicated to the First Nation verbally or by email immediately following the meeting held by the FMB's Board of Directors to approve this content.
4. A signed letter or report communicating the outcome of the FMB's FAB monitoring should be transmitted to the First Nation and the Minister of Indigenous Services Canada within five business days following the meeting held by the FMB's Board of Directors.

E. FINANCIAL PERFORMANCE MONITORING POLICIES

1. On an annual basis throughout the term of a 10-year grant, the FMB will re-evaluate each 10-year grant recipient's compliance with 10-year grant eligibility criteria respecting financial performance. This re-evaluation will be based on the annual financial statements for the most recent five financial years, including any accompanying Independent Auditor Reports.
2. The annual monitoring of the financial performance of 10-year grant recipients will be conducted using the financial information that is publicly available on the Indigenous Services Canada website³ beginning July 29th. In the event that the necessary financial information is not available, this fact will be communicated in the report.
3. The FMB will rely on the willingness and commitment by 10-year grant recipients to demonstrate compliance with financial reporting requirements, including availability of financial statements, contained in Financial Administration Laws / By-laws and within the terms and conditions of 10-year grant agreements.
4. The annual monitoring of financial performance will seek to identify and quantify the impact of any of the following on 10-year grant eligibility criteria:
 - a. Whether the annual financial statements were approved for issuance on or before July 29th (i.e. within the 120-day deadline contained in the FAL / FAB);
 - b. Changes in the overall financial performance of the 10-year grant recipient compared to the previous year;
 - c. Correction of prior period errors and any corresponding restatement of previously issued annual financial statements; and
 - d. Qualifications contained in any accompanying Independent Auditor Reports.
5. An annual financial performance risk rating for each 10-year grant recipient will be calculated in accordance with the FMB's 10-Year Grant Monitoring Framework (refer to Appendix C).
6. The financial performance grant eligibility requirements are based on the FMB's 10-Year Grant Eligibility Policies and Guidelines and consist of the following financial performance ratios:
 - a. Fiscal Growth Ratio;
 - b. Operating Margin Ratio;

³ <https://fnp-ppn.aadnc-aandc.gc.ca/fnp/Main/Search/SearchFF.aspx?lang=eng>

10-Year Grant Monitoring Policies and Guidelines

- c. Asset Maintenance Ratio;
 - d. Net Debt Ratio or Adjusted Net Debt Ratio; and
 - e. Interest Expense Ratio.
7. The financial performance grant eligibility criteria will be calculated using the most recent five financial years of audited information.
8. The financial information used to measure a First Nation's financial performance must be derived from the First Nation's annual audited financial statements that are accompanied by a signed Independent Auditor's Report containing an opinion.
9. A financial performance ratio will not be normalised for the purpose of grant eligibility monitoring.
10. When available, restated prior year financial information will be used in place of the originally reported figures to calculate the financial performance ratios.
11. A financial performance review file shall consist of a standard collection of work papers necessary to support the FMB's conclusions. The contents of this file will be subject to the following levels of quality assurance review:
 - a. self-review and sign off by the assigned reviewer;
 - b. independent re-performance of the financial performance ratios;
 - c. review and sign off by the Senior Manager, Standards and Certification; and
 - d. review and sign off by the Director, Standards and Certification.
12. A consolidated summary of financial performance review results will be provided to the FMB's Board of Directors through the SAC Committee. This report will be for information only and will not contain any type of assurance or opinion.
13. A financial performance monitoring report for each 10-year grant recipient will be provided to Indigenous Services Canada on or before September 30th. If necessary, an updated report will be provided or before November 30th.
14. The FMB will respond to any follow up questions or enquiries from Indigenous Services Canada and provide any additional information available upon request.

F. Financial Performance Monitoring Guidelines

1. The financial performance reviewer will use and rely upon the financial statements that are publicly available on the Indigenous Services Canada website⁴. While reasonable efforts will be taken by the FMB to request any missing financial statements, it will be the 10-year grant recipient's responsibility to make this information available.
2. Additional information may be requested from the 10-year grant recipient to supplement the information contained in the annual financial statements.
3. An original signed letter and report communicating the outcome of the FMB's financial performance monitoring review should be prepared using a standard template. The letter and report should be signed by the FMB's Chief Operating Officer.

⁴ <https://fnp-ppn.aadnc-aandc.gc.ca/fnp/Main/Search/SearchFF.aspx?lang=eng>

APPENDIX A – SAMPLE CONSOLIDATED 10-YEAR GRANT MONITORING REPORT

To [representative of Indigenous Services Canada]

On November 6, 2018, the First Nations Financial Management Board (“the Board”), the Minister of Indigenous Services, and the Minister of Crown-Indigenous Relations entered into a Memorandum of Understanding (“the MOU”) to provide a basis for the Board to review, assess, and provide reports on first nations’ eligibility for 10-year grants. Section 3.6 of the MOU describes the performance of monitoring activities by the Board to provide reasonable assurances about whether 10-year grant recipients remain in compliance with the eligibility criteria.

On request, the Board has completed its review of the Financial Performance of the [●] First Nations that had entered into 10-year grants with Indigenous Services Canada effective April 1, [YYYY]. This review was conducted using the annual financial statements prepared by each First Nation, and any accompanying Independent Auditor Reports, that were publicly available at the time of our review. Our work solely consisted of ‘rolling forward’ the previously reported financial performance results for each First Nation to cover the five-year period ending March 31, [YYYY] and reviewing the content of each accompanying Independent Auditor’s Report. We have not made any enquiries of First Nation management or performed any other procedures.

We are pleased to enclose a Schedule, issued by the Board under section 3.6 of the MOU, containing the consolidated financial performance monitoring results as at March 31, [YYYY] for each of the of the [●] First Nations that entered into 10-year grants with Indigenous Services Canada effective [YYYY]. **[This Schedule is meant to update and replace the Schedule enclosed with our report dated [●] that we provided to you previously.]**

This report is solely for the information and use of Indigenous Services Canada in connection with the assessment of whether the 10-year grant eligibility criteria respecting Financial Performance contained in the *Indigenous Services Canada Grant to support the new fiscal relationship for First Nations under the Indian Act* program authority has been met, and is not intended, and should not be used, for any other purpose. Consequently, the report should not be distributed to other parties without our prior written consent. Any use that a third party, including a 10-year grant recipient, makes of this report, or any reliance or decisions made based on it, are the responsibility of such third party. We accept no responsibility for any loss or damages suffered by any third party, including a 10-year grant recipient, as a result of decisions made or actions taken based on this report.

Dated in the District Municipality of West Vancouver, British Columbia this [XX] day of [MONTH, 20XX].

FIRST NATIONS FINANCIAL MANAGEMENT BOARD

Per: [Name], Chief Operating Officer

Schedule to 10-Year Grant Financial Performance Monitoring Report

As at March 31, [YYYY] based on information available on [●]

Table 1 Financial Performance Monitoring Results by Name of First Nation

Official Name of First Nation	Ratio Result?	Risk Rating Tier	Other comments
[Name]	[Pass / Fail / Unknown – FS Unavailable]	Tier [1/2/3/4]	[Brief comments on results, if applicable]

APPENDIX B – SAMPLE FINANCIAL PERFORMANCE RISK RATING REPORT

Grant Recipient: [●]

Financial Year End: March 31, 2019

Date Prepared: [●]

Financial Performance Element	Result	Risk Rating
Financial Performance Ratios	Pass	5
Failing Ratio1	N/A	
Failing Ratio2	N/A	
Date of Most Recent Audit Report	June 6, 2019	10
Audit Completed On-Time?	On-time	
Audit Opinion	Unqualified	5
Type of Audit Qualification(s)	N/A	
Reason for Audit Qualification(s)	N/A	
Prior Year Restatement?	No	5
Impact of Restatement	N/A	
Risk Category	Tier 1	25

APPENDIX C – GRANT MONITORING FRAMEWORK

Figure 2 Summary of Risk Based Grant Monitoring Framework

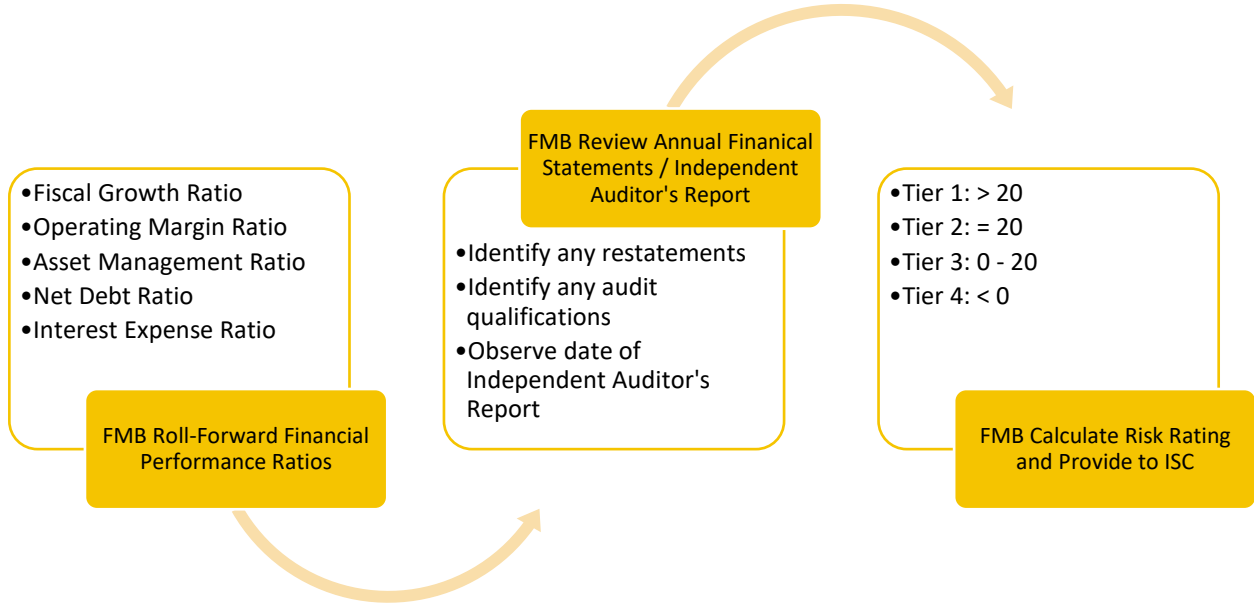


Figure 3 Summary of Tiered Risk Based Responses

Tier 1 Rating	Tier 2 Rating	Tier 3 Rating	Tier 4 Rating
<ul style="list-style-type: none"> • Signed Self-Certification of Grant Eligibility from Grant Recipient Management (collected by ISC) 	<ul style="list-style-type: none"> • Signed Self-Certification of Grant Eligibility from Grant Recipient Management (collected by ISC) • In-person meeting between ISC region and Grant Recipient • Capacity Development plan updated 	<ul style="list-style-type: none"> • Signed Self-Certification of Grant Eligibility from Grant Recipient Management (collected by ISC) • Completed FMS Self-Assessment (collected by ISC) • In-person meeting between ISC region and Grant Recipient • Capacity Development plan updated 	<ul style="list-style-type: none"> • Signed Self-Certification of Grant Eligibility from Grant Recipient Management (collected by ISC) • Completed FMS Self-Assessment (collected by ISC) • In-person meeting between ISC region and Grant Recipient • Agreed-Upon Procedures conducted by FMB (upon request) • Capacity Development plan updated