



First Nations Financial Management Board

Independent Practitioner's Reasonable Assurance Report

Special Examination

Findings and Summary Report to the Minister of Crown-
Indigenous Relations and the Board of Directors of the First
Nations Financial Management Board

KPMG LLP

May 2023



First Nations Financial Management Board
Special Examination

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Independent Practitioner's Reasonable Assurance Report Special Examination Opinion

To the Minister of Crown-Indigenous Relations ("Minister") and to the First Nations Financial Management Board

Our opinion

In our opinion, based on the criteria established and outlined in Appendix A ("applicable criteria"), there is reasonable assurance that during the period covered by the examination, January 1, 2022, to December 31, 2022, there were no significant deficiencies identified in First Nations Financial Management Board's ("FNFMB") systems and practices selected for examination. The FNFMB has maintained these systems and practices in a manner that provides it with reasonable assurance that: assets are safeguarded and controlled; human, physical and financial resources are managed economically and efficiently, and the operations are carried out effectively.

Findings that support the opinion

Governance. Overall, we found that the FNFMB met the governance criteria, including: Board independence and competency, and providing and setting strategic direction. Some areas for improvement were noted.

Strategic planning, performance measurement and reporting. Overall, we found that the FNFMB met the strategic planning, performance measurement and reporting criteria. An area for improvement was noted.

Corporate risk management. Overall, we found that the FNFMB met the risk management criteria, including in the areas of risk identification, assessment, mitigation, monitoring, and reporting. An area for improvement was noted.

Operations management. Overall, we found that the FNFMB met the operations criteria, specifically related to standards, criteria and certifications, and stakeholder engagement. Areas for improvement were noted related to: funding, human resources management, IT enablement, cybersecurity, and business continuity planning.

Recommendations, and responses

The next section of this summary report provides more detailed information on the audit and our core recommendations.

The FNFMB agrees with all the core recommendations contained in this report and has provided detailed responses following recommendations made throughout the report.

Board of Directors' Responsibilities

Part 3 of the First Nations Fiscal Management Act (FMA) sets the FNFMB's mandate. Specific objectives are outlined in section 49. The Board of Directors is accountable to the Minister of Crown-Indigenous Relations. Its role is to ensure that the FNFMB fulfills its legal and regulatory mandate. In its oversight role of the FNFMB, the Board of Directors supports ensuring that the organization remains in compliance with the obligations set out in the Legislation.

The Board of Directors is responsible for oversight of the management of the FNFMB's business, activities, and other affairs. This includes, among other things, ensuring that the FNFMB is keeping books of account and records and maintaining financial and management controls and information systems in a manner that provides reasonable assurance that:

- The assets of the FNFMB are safeguarded and controlled;
- Its transactions are in accordance with the Act;
- The human, physical, and financial resources of the FNFMB are managed economically and efficiently; and
- The operations of the FNFMB are carried out effectively.

In addition to oversight, section 38(1) of the FMA specifies additional responsibilities of the Board of Directors for management of the Organization. Per the FMA "There is established a board, to be known as the First Nations Financial Management Board, to be managed by a board of directors consisting of a minimum of nine and a maximum of 13 directors, including a Chairperson and Vice-Chairperson."

Managements' Responsibilities

Management is responsible for ensuring compliance with and implementation of Board approved policies, strategies, plans and decisions. Management is also responsible for maintaining accounting systems, controls, policies, and records to provide meaningful financial reporting, and the preparation, integrity, and objectivity of publicly reported information. Management is accountable to the Board of Directors for all these responsibilities.

Management is responsible for determining the appropriateness of the use of the applicable criteria.

**Practitioners'
Responsibilities**

Our responsibility is to express an opinion on whether there is a reasonable assurance that during the period covered by the examination there were no significant deficiencies in the FNFMB's systems and practices that were selected for examination, based on the applicable criteria.

Section 121 of the FMA requires that the examiner survey the system and practices of the FNFMB in relation to the operation of the FMB and submit a plan for the examination, including a statement of the criteria to be applied to the assessment of the FNFMB. Although the FNFMB is an institution created under the FMA and not a Crown corporation, FNFMB expects the special examination to be conducted in accordance with the Office of the Auditor General's Manual on Special Examinations of Crown Organizations.

We conducted our reasonable assurance engagement in accordance with Canadian Standard on Assurance Engagements (CSAE) 3001, *Direct Engagements*. This standard requires that we plan and perform this engagement to obtain reasonable assurance, based on the criteria established for the examination, there were no significant deficiencies in the FNFMB's systems and practices selected for examination.

Reasonable assurance is a high level of assurance but is not a guarantee that an engagement conducted in accordance with this standard will always detect significant deficiencies when it exists.

Deficiencies can arise from fraud or error and are considered significant if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of our report. The nature, timing and extent of procedures performed depends on our professional judgment, including an assessment of the risks the FNFMB faces, whether due to fraud or error, and involves obtaining evidence about the FNFMB's systems and practices selected for examination.

Practitioner's Independence and Quality Control

We have complied with the relevant rules of professional conduct/code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

The firm applies Canadian Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.



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Specific Purpose of Subject Matter Information

The FNFMB systems and practices identified for evaluation have been evaluated and measured against the applicable criteria. As a result, the subject matter information may not be suitable for another purpose.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants

Signature and Date

**Ottawa, Canada
May 15, 2023**



About the Special Examination

Under section 121 of the First Nations Fiscal Management Act (FMA), the FNFMB shall, at least once every five years and at any other time required by its Board or by the Minister, cause a special examination to be carried out in respect of its operations to determine if the books, records, systems and practices referred to in section 119 were, in the period under examination, maintained in a manner that met the requirements of that section.

The examiners' activities in a special examination are directly related to the responsibilities of the Board and management as defined in Sections 119 and 121 of the FMA. The purpose of the special examination is to provide the Board with an independent and objective assessment of the organization's systems and practices (including transactions) that address the control objectives. The examiners express an opinion on whether there is a reasonable assurance that, during the period covered by the examination, there were no significant deficiencies in the organization's systems and practices that were selected for examination.

A significant deficiency is a major weakness that could prevent the organization from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

Examination criteria define the standards against which we assess the FNFMB's systems and practices. The criteria are expressed in terms of results that the systems and practices are intended to provide and should reflect what management and the audit team expect to see from the systems and practices. The audit evidence gathered by the engagement team is assessed against the engagement criteria in forming the conclusion about whether the systems and practices provide management and the Board with reasonable assurance that they met the requirements of the FNFMB's control objectives.

Scope and Approach

The scope of our audit was the First Nations Financial Management Board, an institution created under the FMA. In performing our work, we reviewed documents, interviewed members of the Board of Directors, senior management, and employees of the FNFMB.

At the start of the special examination, we presented the FNFMB's Audit Committee with an audit plan that identified the systems and practices and related criteria that were considered essential to providing the FNFMB with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively.

Based on our assessment of key corporate risks and related systems and practices, we selected the following four areas for detailed examination of systems and practices:

- Governance;
- Strategic Planning, Performance Measurement and Reporting;
- Corporate Risk Management; and
- Operational Management Systems and Practices.



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The scope of our examination and applicable criteria takes into account our assessment of the business risks and other relevant risks the FNFMB faces. Our audit criteria were selected for this examination in consultation with the FNFMB and were based on identified risks, our experience with special examinations and on our knowledge of the subject matter.

Management and the Board reviewed and accepted the suitability of the criteria used in the special examination. Further details about the scope, approach, systems, and practices examined, and sources of criteria can be found in Appendix A “Special Examination Criteria”.

We can also bring to the attention of the Minister of Crown-Indigenous Relations any information in the report that in our opinion would have a significant impact on the FNFMB’s ability to discharge its mandate and responsibilities and would require the authority or powers of the Minister of Crown-Indigenous Relations to fully resolve.

Internal Audit

In carrying out the special examination, we did not rely on any internal audit work performed.



Core Recommendations for FNFMB

While we found that the FMB had in place the required processes and practices to oversee the organization and to manage its operations, we were concerned that circumstances outside the Board's direct control limited its ability to achieve its strategic priorities and substantial growth in the nature and volume of services. The circumstances included delays in appointments to the FMB's Board of Directors, delays in drafting of regulations, delays in receipt of funding, and limitations in funding required to support back-office enhancements and other operational priorities.

Recommendation	Response
Recommendation #1: To further enhance the efficiency and effectiveness of the Board's unique oversight role and support its ongoing independent oversight, the Board should consider clarifying and potentially updating its role. Any applicable changes in roles should be updated within the Board's terms of reference and Management's Delegation of Authority.	Agreed. The number of clients served by FMB has grown rapidly in recent years, with 342 First Nations now scheduled to the FMA. The FMB has grown correspondingly in size, complexity, and scope of operations. During this period of successful growth, the Executive Chair and the Board have made major contributions by bringing their experience working in and for First Nations communities to bear on all aspects of the FMB's operations. It is important that these contributions continue into the future, and a review of roles and responsibilities will ensure that the FMB is led and managed in a sustainable way that meets the needs of First Nations clients. Once the current vacancies on the Board are filled, the Board will conduct such a review and will carefully consider the appropriate delegation of authority to management. Management needs to be able to operate with a set of clear responsibilities supported by authority and resources.

Recommendation #2: The Board should perform annual self-assessments of Board capability and performance and continue to work with the government to ensure timely government representation on the Board.	Agreed. Working within the competency framework that the Government of Canada uses in deciding on nominations to serve on the Board, the FMB will regularly conduct a self-assessment of Board capability and performance. The Executive Chair continues to work with the Government of Canada on the process for Governor-in-Council appointments to the Board to fill vacancies. On this point, the Board wishes to acknowledge the work of AFOA Canada in consistently selecting competent individuals on a timely basis as FMB Directors.
Recommendation #3: The Board should direct management to develop and implement a risk management policy that clarifies risk management roles, responsibilities and methodology; develop and communicate the FNFMB's risk appetite and tolerance and monitor its performance against its risk appetite using key performance metrics.	Agreed. Recognizing that management already has in place a process to identify risks, as well as plans to manage them, involving regular Board reviews, the Board will direct management to undertake the development and implementation of a formal risk management and monitoring policy aligned with industry best practices. New outcome oriented key performance metrics will be developed. The Board will work with management to develop risk appetite and tolerance statements. Performance reporting will be improved accordingly.
Recommendation #4: Management should develop and implement a funding management framework that supports the management of funding requirements, including timeline requirements, business case requirements, and related policy requirements.	Agreed. The 2023-24 Corporate Plan includes a funding framework such as is being recommended, and funding requests are being made based on scoping studies and thorough costing analysis.

Recommendation #5: Management should conduct a workforce planning exercise to identify staffing needs to support its operations and growth plans. Integration of the different HR elements is required to align the workforce planning to current and future needs.	Agreed. Staffing actions for new projects and to support the growth in the number of clients have already been identified and approved by the Board, and management is working closely with the Senior Human Resources Manager and staff on recruitment and retention. A workforce plan will be prepared as resources permit.
Recommendation #6: The Board should direct Management to develop and implement a comprehensive succession plan for key management positions. This includes staffing Assistant Director positions and increasing internal capacity through training and cross-service line collaboration.	Agreed. FMB will make requests for additional resources to support this work so that it can be undertaken over the next two years, and the Board will direct the completion of the plan.
Recommendation #7: To help ensure the security and integrity of the FNFB's systems and data, Management should update its processes and practices as applicable, including its third-party provider service contract.	Agreed. The FMB is on track to complete a comprehensive review of IT systems and is preparing a five-year strategic IT plan. A request will be made for additional resources so that the IT capacity can be increased to support the needs of the growing organization.
Recommendation #8: Management should re-confirm recovery targets for its critical business processes through a BIA exercise and update the IT business continuity plan and business continuity plan to align to business requirements and to cover missing topics indicated in the observation.	Agreed. The work will be completed as resources permit.

Appendix A - Special Examination Criteria

Governance

Systems and Practices	Audit Criteria
Board independence	The Board functioned independently.
Board role	The Board's role is appropriate, and the Board provided strategic direction
Board appointments and competencies	The Board collectively has capacity and competencies to fulfill its responsibilities.

Strategic planning, performance measurement and reporting

Systems and Practices	Audit Criteria
Strategic planning processes	The FNFMB established a strategic plan and strategic objectives that were aligned with its mandate.
Performance measurement	The FNFMB established performance indicators in support of achieving strategic objectives.
Performance monitoring and reporting	The FNFMB monitored and reported on progress in achieving its strategic objectives.

Corporate risk management

Systems and Practices	Audit Criteria
Risk identification and assessment	The FNFMB identified and assessed risks to achieving its strategic objectives.
Risk mitigation	The FNFMB defined and implemented risk mitigation measures.
Risk monitoring and reporting	The FNFMB monitored and reported on the implementation of risk mitigation measures.

Operations management

Systems and Practices	Audit Criteria
Operational planning	The FNFMB defined operational plans that aligned with strategic plans and the mandate.
Operational plan implementation	The FNFMBs implements the operational plans to deliver results in accordance with the expected output of the business lines.



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Funding	The FNFMB gathers the full scope of business requirements for funding and identifies requirements for business priorities; secures funding as needed/mandated; and has systems in place for managing and monitoring the funding.
Standards, Criteria and Certifications	The FNFMB has processes and practices in place to develop and set standards for financial performance, financial management systems, financial administration laws and by-laws, and local revenue financial reporting. The FNFMB has processes and practices in place to certify, in accordance with criteria and procedures, First Nations communities.
Stakeholder Engagement	The FNFMB has implemented systems and processes to identify and meet stakeholders needs and expectations.
Human Resource Management	The FNFMB has in place people, change management systems, and practices necessary to evolve as an Indigenous-led organization.
Information Technology Enablement	The FNFMB has the information technology and management systems and processes necessary to identify, prioritize, plan, implement, and monitor its services to meet stakeholder needs, and operational requirements.
Cyber Security and Data Privacy	The FNFMB has policies, procedures, and practices related to protect against cyber security risks and protect information privacy.
Business Continuity (BCP)	The FNFMB has processes in place to periodically assess its continuity and recovery priorities, test its effectiveness and report on status to management and the Board.