

Governance Development Network

- First Nation Financial
Management Capacity
Assessment

Introduction

- First Nations financial management effectiveness is directly related to First Nation governance. In this context, First Nation governance includes the various structures, policies & procedures, and practices that the First Nation has in place to ensure that programs, projects & services are provided to First Nation citizens in accordance with community direction, funding agreements, and applicable law. The goals of good governance include accountability and transparency.
- A key responsibility of Chief and Council is stewardship over financial resources and to act in the best interests of First Nation citizens. This responsibility is shared with all levels within the organization – Chief & Council, boards, committees, management, and support staff.

Introduction

- This assessment tool includes all aspects of First Nation governance with a deeper focus on financial management. This tool will assess each aspect, recognize strengths, and identify areas where capacity development and resources are needed.
- Each section identifies the documents that are required to complete the assessment. If these documents do not exist, they may be identified as a gap and developed as part of the capacity development plan. The facilitator (eg. GDN) should have all First Nation documents prior to conducting the assessment. This way, the facilitator can start identifying specific needs and prepare any financial ratios in advance. The assessment process itself can be customized by identifying the key First Nation participants and required timelines.

1. Leadership

To complete the Leadership section, the following documents are required (as applicable):

- Current leadership selection process documentation
- Alternate leadership selection process information (eg. First Nation Election Act, “band custom” process information)
- Chief and Council Orientation policies and procedures
- Current Chief and Council Portfolio assignments
- Chief and Council Portfolio assignment policies and procedures
- Chief and Council Terms of Reference

Leadership

- 1) How is Chief & Council selected?
 - Indian Act and Indian Band Election Regulations
 - First Nation Election Act
 - Constitution as part of a self-government agreement
 - “band custom” community leadership selection process
- 2) Are there any concerns with the Chief & Council selection process? Yes | No

Leadership

- 3) Would the First Nation consider other Chief & Council selection options?
 - Indian Act and Indian Band Election Regulations
 - First Nation Election Act
 - Constitution as part of a self-government agreement
 - “band custom” community leadership selection process
- 4) What is the process for providing orientation to Chief & Council after an election?

Leadership

- 5) Is the Chief & Council orientation process effective? Yes | No
- 6) How is Chief & Council organized? Is there a portfolio system in place? Yes | No
- 7) How are portfolios or responsibilities assigned to individual members of Chief & Council?
- 8) What responsibilities are governed by Chief & Council as a whole?
- 9) Is the process comprehensive? Yes | No

Leadership

- 10) How are new responsibilities assigned as they come up?
- 11) Does Chief & Council have an updated terms of reference (or similar guiding document)? Yes | No
- 12) Are the Chief & Council terms of reference implemented and effective? Yes | No
- 13) What types of training would Chief & Council like to pursue?

2. Other Entities

“Other Entities” could include First Nation Trusts, Corporations, Authorities, and Limited Partnerships. For this assessment, Other Entities are limited to those entities that are included in the First Nations consolidated financial statements. To complete the Other Entities section, the following documents are required (as applicable):

- Legal documents for Other Entities
- First Nation Consolidated Financial Statements
- Financial Statements for Other Entities
- Policies & Procedures for Other Entities

Other Entities

- 14) Does the First Nation have corporations, limited partnerships or similar entities that report to Chief & Council, are under control of Chief & Council, or are otherwise not arms-length entities? Yes | No
- 15) What is the relationship (eg. decision making, reporting) between these entities and Chief & Council?
- 16) How is board membership for these entities established?
- 17) Is Chief & Council represented on these boards? Yes | No
- 18) Are board members required to have specific qualifications? Yes | No

Other Entities

- 19) Do boards meet on a regular basis? Yes | No
- 20) Do boards regularly review their specific governance documents (eg. by-laws, legal agreements)? Yes | No
- 21) Are the financial statements of Other Entities consolidated with the First Nation's financial statements? Yes | No
- 22) Do boards regularly review their financial statements? Yes | No
- 23) Is the financial status of Other Entities positively or negatively impacting the overall financial status of the First Nation? Yes | No

Other Entities

- 24) Do Other Entities have effective policies & procedures in place? Yes | No
- 25) What types of training would benefit the boards of Other Entities?

3. Community Engagement

To complete the Community Engagement section, the following documents/resources are required (as applicable):

- Community Engagement or Communication Strategy
- First Nation website
- Social media policies and procedures
- First Nation Member Committees Terms of Reference

Community Engagement

- 26) How does leadership report to and seek direction from First Nation citizens?
- 27) Does the First Nation have a community engagement or communications strategy? Yes | No
- 28) Is the strategy implemented and effective? Yes | No
- 29) How does leadership report to and seek direction from off-reserve First Nation citizens?
- 30) Does the First Nation have an updated website? Yes | No
- 31) Does the First Nation utilize social media? Yes | No

Community Engagement

- 32) Does the First Nation have social medial policies & procedures?
Yes | No
- 33) Are social medial policies & procedures implemented and effective? Yes | No
- 34) How often does the First Nation have general meetings?
- 35) What information is usually reported at general meetings?
- 36) Does the First Nation have committees (eg. housing, education) comprised of First Nation members? Yes | No
- 37) If there are committees comprised of First Nation members, do the committees have updated terms of reference? Yes | No

Community Engagement

- 38) Are the committee terms of reference implemented and effective? Yes | No
- 39) Are committee members required to have specific qualifications? Yes | No
- 40) Do these committees meet on a regular basis? Yes | No
- 41) What types of training would benefit these committees?

4. Management

To complete the Management section, the following documents are required (as applicable):

- First Nation Strategic Plan
- First Nation Comprehensive Community Plan
- First Nation Capital Planning Study
- First Nation Asset Management Plan
- Organization Chart
- Management Committee Terms of Reference
- Funding Agreements
- Current Proposals
- Job Descriptions
- Personnel Policies & Procedures
- Human Resources Capacity Development Plan
- Personnel Committee Terms of Reference

4.1 Planning

- 42) Does the First Nation have a current strategic plan? Yes | No
- 43) Does the First Nation have a current comprehensive community plan? Yes | No
- 44) Does the First Nation have a current capital planning study? Yes | No
- 45) Does the First Nation have a current asset management plan? Yes | No
- 46) Does the First Nation have any other planning tools? Yes | No
- 47) Does planning include all Other Entities and committees that Chief & Council is responsible for? Yes | No

Planning

- 48) If the First Nation has a strategic plan, when was it last reviewed?
- 49) Does the First Nation have mission and vision statements? Yes | No
- 50) Does the First Nation have a values statement? Yes | No
- 51) Has the First Nation performed a SWOT analysis (eg. assess internal strengths/weaknesses and external opportunities/threats)? Yes | No
- 52) Has the First Nation established long term goals, annual objectives, and action plans for each program area? Yes | No

4.2 Organization Chart

- 53) Does the First Nation have a current organizational chart? Yes | No
- 54) When was the organizational chart last reviewed?
- 55) How often is the organizational chart reviewed?
- 56) Does the organizational chart document the roles and responsibilities between individuals (eg. Chief & Council, committees, managers, and support staff)? Yes | No

4.3 Management Structure

- 57) What is the process for managers/senior staff to seek direction, obtain authority and report to leadership?
- 58) Does the First Nation have a management committee? Yes | No
- 59) If there is a management committee, does the committee have a current terms of reference? Yes | No
- 60) If there is a management committee, who are the committee members?
- 61) If there is a management committee, how is membership on the committee selected?

Management Structure

- 62) If there is a management committee, are committee members required to have specific qualifications? Yes | No
- 63) Do managers/senior staff meet on a regular basis? Yes | No
- 64) What types of training would benefit managers/senior staff?

4.4 Programs, Projects and Services

- 65) What are the programs, projects and services currently in place?
- 66) What new programs, projects or services are anticipated in the next 12 months?
- 67) What new programs, projects or services are anticipated in the next 5 years?
- 68) Who is responsible for developing long term goals, annual objectives, and action plans for each program, project and service?
- 69) What documents are used when developing long term goals, annual objectives, and action plans for individual programs, projects and services?

Programs, Projects and Services

- 70) What external resources are used when developing long term goals, annual objectives, and action plans for individual programs, projects and services?
- 71) Are funding agreements for programs, projects and services reviewed and if so, by whom? Yes | No
- 72) Are reporting requirements to funding entities generally adhered to? Yes | No
- 73) Are there specific areas where reporting requirements to funding entities are a challenge?
- 74) What types of training would benefit managers and senior staff?

4.5 Personnel

4.5.1 Personnel Policies

- 75) Does the First Nation have updated personnel policies & procedures? Yes | No
- 76) When were the personnel policies & procedures last reviewed?
- 77) How often are the personnel policies & procedures reviewed?
- 78) What is the process for changing personnel policies & procedures as new policies are required?
- 79) What is the process for reviewing personnel policies & procedures with new employees?

Personnel Policies

- 80) What is the process for reviewing personnel policies & procedures changes with existing employees?
- 81) Are personnel policies & procedures subject to Labour Canada, legal or any other review? Yes | No
- 82) Who is responsible for addressing human resources requirements (eg. hiring, performance review, and training)?
- 83) Does the First Nation have a current human resource capacity development plan? Yes | No
- 84) If so, is this plan being implemented, monitored and updated regularly?

4.5.2 Staffing

- 85) Does the First Nation have all key management and staffing positions filled? Yes | No
- 86) Are there key positions that the First Nation is having difficulties filling? Yes | No
- 87) Are there key positions with high employee turnover? Yes | No
- 88) Do all positions have current job descriptions? Yes | No
- 89) Are there additional positions that the First Nation requires but cannot fill because of funding limitations? Yes | No
- 90) What types of training would benefit staff?

4.5.3 Personnel Committee

- 91) Does the First Nation have a personnel committee? Yes | No
- 92) If there is a personnel committee, does the committee have updated terms of reference? Yes | No
- 93) How is membership on the personnel committee selected?
- 94) Are personnel committee members required to have specific qualifications? Yes | No
- 95) Does the personnel committee meet on a regular basis? Yes | No
- 96) What types of training would benefit the personnel committee?

5. Finance

To complete the Finance section, the following documents are required (as applicable):

- Financial Policies and Procedures
- Finance Committee Terms of Reference
- First Nation Consolidated Financial Statements – past 3 to 5 years
- ISC First Nation Financial Statement Review – past 3 to 5 years
- Management Letter – past 3 to 5 years
- Annual Budget
- Long Term Financial Plan
- Financial Administration Law

5.1 Finance Policies

- 97) Does the First Nation have current financial policies and procedures? Yes | No
- 98) Do the financial policies and procedures contain sections that clearly delegate financial decisions and actions to the appropriate personnel and are these sections adhered to? Yes | No
- 99) Do the financial policies and procedures contain sections that clearly state spending authorities (eg. purchase orders, cheque requisitions, cheques) and spending limits and are these sections adhered to? Yes | No
- 100) Do the financial policies and procedures contain sections that clearly identify authorities and requirements to enter into contracts and are these sections adhered to? Yes | No

Finance Policies

- 101) Do the financial policies and procedures contain sections that clearly state the requirement for accurate and timely financial statements, their format, and who is to receive them and are these sections adhered to? Yes | No
- 102) Do the financial policies and procedures contain sections that clearly state effective conflict of interest requirements and are these sections adhered to? Yes | No
- 103) Do the financial policies and procedures contain sections that clearly state annual budgeting requirements and are these sections adhered to? Yes | No

Finance Policies

- 104) Do the financial policies and procedures contain sections that clearly state long term financial planning requirements and are these sections adhered to? Yes | No
- 105) Do the financial policies and procedures contain sections regarding auditor appointment, auditor performance review, and regular tendering of the audit and are these sections adhered to? Yes | No
- 106) Does the First Nation have an investment policy and if so when was it last reviewed? Yes | No
- 107) How often are the financial policies and procedures reviewed?

Finance Policies

- 108) What is the process for changing financial policies and procedures as new policies are required?
- 109) What is the process for reviewing financial policies and procedures with new employees?
- 110) What is the process for reviewing financial policies and procedures changes with existing employees?
- 111) Are the financial policies and procedures subject to auditor, legal or any other review? Yes | No

5.2 Finance Staff

- 112) Does the First Nation have a sufficient number of qualified finance staff to meet the needs of the First Nation? Yes | No
- 113) How long have finance staff been in their respective positions?
- 114) What types of training would benefit finance staff?

5.3 Finance Committee

- 115) Does the First Nation have a finance committee? Yes | No
- 116) Does the finance committee have updated terms of reference? Yes | No
- 117) How is membership on the finance committee selected?
- 118) Are finance committee members required to have specific qualifications? Yes | No
- 119) Does the finance committee meet on a regular basis? Yes | No
- 120) What types of training would benefit the finance committee?

5.4 Financial Statement Analysis

5.4.1 Audit

There are three types of audit opinions:

- Unqualified or clean opinion - financial statements present fairly in all material respects the financial position and results.
- Qualified opinion - the financial statements contain material misstatements or omissions.
- Adverse opinion - the financial statements do not fairly present the financial position, results of operations, and changes in financial position, as per generally accepted accounting principles.

Audit

- 121) What type of audit opinion applies to the First Nation's last audited financial statements?
- 122) If the audit opinion was qualified or adverse, what were the reason(s) for this opinion?
- 123) If the audit opinion was qualified or adverse what steps have been taken to correct the opinion?
- 124) Did the First Nation's auditor provide a Management Letter?
Yes | No
- 125) How does the First Nation address any deficiencies and recommendations contained in the Management Letter?

5.4.2 Indigenous Services Canada Review

On an annual basis, ISC's Audit Committee prepares a Financial Statement Review and uses, in part, three financial indicators/ratios to assess financial health.

- 126) Is ISC's Financial Statement Review reviewed by Chief & Council, finance staff, other senior staff and/or the finance committee? Yes | No
- 127) Adjusted Liquidity Ratio- Current assets divided by current liabilities. Liquidity is a metric that determines a First Nations ability to pay current or short-term liabilities. What is the First Nations Adjusted Liquidity Ratio?

Indigenous Services Canada Review

- 128) Do you agree with ISC's interpretation of the Adjusted Liquidity Ratio as it applies to the First Nation's financial health? Yes | No
- 129) Has the Adjusted Liquidity Ratio trended favorably or unfavorably over the past 3-5 years?
- 130) Adjusted Sustainability Ratio- Financial assets divided by total liabilities. Sustainability is a metric that determines a First Nations ability to pay all debts as if they were all due today. What is the First Nations Adjusted Sustainability Ratio?
- 131) Do you agree with ISC's interpretation of the Adjusted Sustainability Ratio as it applies to the First Nation's financial health? Yes | No

Indigenous Services Canada Review

- 132) Has the Adjusted Sustainability Ratio trended favorably or unfavorably over the past 3-5 years?
- 133) Adjusted Working Capital to Revenue Ratio- Current assets minus current liabilities divided by total revenue. Working Capital to Revenue is a metric that determines if a First Nation has sufficient cash flow to meet annual operating expenses. What is the First Nations Adjusted Working Capital to Revenue Ratio?
- 134) Do you agree with ISC's interpretation of the Adjusted Working Capital to Revenue Ratio as it applies to the First Nation's financial health? Yes | No
- 135) Has the Adjusted Working Capital to Revenue Ratio trended favorably or unfavorably over the past 3-5 years?

5.4.3 Financial Institutions Review

Many Canadian financial institutions use the same ratios as ISC as well as additional metrics to evaluate First Nations' ability to obtain financing (eg. loans, overdrafts). The First Nation's financial management capacity (which was covered in previous sections of this assessment) is also referenced when evaluating a First Nation's ability to obtain financing. Additional questions to consider are:

- 136) Does the First Nation have significant own-source revenue and other funding? Yes | No
- 137) Does the First Nation have a long-term financial plan? Yes | No

Financial Institutions Review

- 138) What is the First Nations debt as a percentage of total revenue?
- 139) Has debt as a percentage of total revenue trended favorably or unfavorably over the past 5 years?
- 140) What is the First Nations debt service expenses as a percentage of total revenue?
- 141) Has debt service expenses as a percentage of total revenue trended favorably or unfavorably over the past 5 years?

5.4.4 First Nations Financial Management Board Review

The First Nations Financial Management Board has several rigorous assessment tools and ratios used to assess a First Nation's capacity to access financial markets. Some of the main, additional tools are as follows:

- 142) Does the First Nation have a Financial Administration Law?
Yes | No
- 143) Has the Financial Administration Law consistent with applicable standards? Yes | No
- 144) Has the Financial Administration Law been effectively implemented? " Yes | • No

First Nations Financial Management Board Review

- 145) If the First Nation does not have a Financial Administration Law, would the First Nation consider looking at this option? Yes | No
- 146) Average Annual Growth Rate- Change in revenue from the previous year to this year as a percentage of the previous year's total revenue. This is a metric to assess the First Nation's financial growth. Amounts are adjusted to take out any extraordinary items. What is the First Nation's average annual growth rate?
- 147) Has average annual growth rate trended favourably or unfavorably over the past 3-5 years?

First Nations Financial Management Board Review

- 148) Operating Margin Ratio- Annual surplus (or deficit) as a percentage to total revenue. This is a metric used to assess the First Nation's financial balance. Amounts are adjusted to take out any extraordinary items. What is the First Nation's operating margin ratio?
- 149) Has operating margin ratio trended favorably or unfavorably over the past 3-5 years?
- 150) Net Debt Ratio- Total liabilities less total financial assets as a percentage of total revenue. Net Debt Ratio measures a First Nation's ability to manage their debt. What is the First Nation's Net Debt Ratio?
- 151) Has the Net Debt Ratio trended favourably or unfavorably over the past 3-5 years?