

A RESEARCH PAPER

Establishing a First Nations Auditor General



CANADIAN AUDIT
& ACCOUNTABILITY
FOUNDATION

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This research paper was prepared for the Assembly of First Nations and Indigenous and Northern Affairs Canada. The statements in this paper reflect the findings and conclusions of the Canadian Audit and Accountability Foundation and are intended to inform discussions of the technical working groups established by the Assembly of First Nations and Indigenous and Northern Affairs Canada as part of their work to develop a new fiscal relationship between First Nations and the Government of Canada.

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Highlights

Auditors general have become a normal and important part of accountability regimes around the world and in a wide variety of contexts. Almost every country has a national Auditor General or its equivalent (known as the “supreme audit institution”) and there are also auditors general for provinces and states, regions, and local governments. While each of these audit institutions is unique, they share a core purpose: To make a difference to the lives of citizens.

In July 2016, the Assembly of First Nations and Indigenous and Northern Affairs Canada signed a memorandum of understanding to research and develop proposals and recommendations for the design of a new fiscal relationship between First Nations and the Government of Canada. As part of this process, consideration is being given to a new accountability regime that would require new First Nations institutions, including a First Nations Auditor General (FNAG). This research paper explores the need for and potential benefits of an FNAG, as well as options for the design and establishment of such an institution.

This paper demonstrates that it is possible to design a First Nations Auditor General institution that meets the unique circumstance and requirements of First Nations communities and governments. The ideas presented are drawn from practices and experiences in a number of Canadian and international external audit institutions, recognizing that no existing institutional model could be simply adopted “as is” to create an FNAG.

A First Nations Auditor General would provide many benefits, both today and in the future under any new fiscal relationship between First Nations and the Government of Canada. While consideration of an FNAG supports the discussions of a new fiscal relationship, its benefits are not solely linked to such a relationship. An FNAG would strengthen existing accountability mechanisms to help further ensure that First Nations leaders and managers are responsibly managing the human and financial resources needed to deliver high-quality goods and services, and would therefore serve to increase confidence in public administration among First Nations citizens. Through a capacity-building resource centre, it could enhance these citizens’ ability to engage in decision making and governance in their communities and to hold their leadership to account. Most importantly, First Nations citizens would benefit from the recognized power of audit to improve the delivery of essential public programs and services.

To give an FNAG credibility and legitimacy, globally recognized principles from the International Organization of Supreme Audit Institutions (INTOSAI) provide an important framework to guide an FNAG’s design and functioning. These principles are similar to those embraced by Canadian legislative audit offices, and include:

- safeguarding independence (through such things as enshrining independence in a statute and granting the office the freedom to decide on the content and timing of reports);
- carrying out audits of public sector organizations’ stewardship over, and use of, public resources;
- enabling those charged with public sector governance to discharge their responsibilities in responding to audit findings and recommendations and taking appropriate corrective action;

- reporting on audit results;
- communicating effectively with stakeholders; and
- ensuring transparency and accountability.

An FNAG could be mandated to carry out two primary functions:


- It could provide capacity-building resources to First Nations leaders and managers, helping them to demonstrate accountability for and improve the management of financial and human resources and community-based programs. An FNAG resource centre could be set up to provide guidance, training, and support services to those in need. In addition, an FNAG could provide capacity-building resources and support to help First Nations citizens to hold their governments accountable.
- It could conduct and publicly report on performance, compliance, and financial audits. Because performance audits have the greatest potential to drive improvement in socio-economic outcomes for First Nations citizens, building capacity to do so would be a first priority. These audits focus on whether policies and programs are being implemented, and services are being delivered, with economy, efficiency, and effectiveness.

To support its work, an FNAG would need to develop a means to assess the readiness of any given government or community for audit, called a Community Audit Readiness framework. This need arises because audits, especially performance audits, make sense only if there are structures, programs, and management practices and systems in place to be audited. Such a framework could be used to assess the presence and maturity of the structures, systems, controls, practices, and mechanisms in place to:

- manage programs and deliver services,
- allow citizens to participate in community decision making, and
- exercise community-based oversight.

Decision makers establishing an FNAG must consider some special First Nations circumstances. For example, an important question is how an FNAG would be legally established. This paper proposes two options for creating an FNAG: through an Act of Parliament (roughly equivalent to the *Auditor General Act*) or through incorporation under the *Canada Not-for-profit Corporations Act*. While an FNAG Act would create an unparalleled degree of permanence, authority, and legitimacy, incorporation could be used at first to facilitate an early start-up, before legislation is drafted. Regardless of how an FNAG is created, a number of foundational provisions need to be defined and elaborated, as described in this paper.

An FNAG needs to be independent from the organizations being audited. In the Westminster system, independence is achieved by having the Auditor General report directly to Parliament and not to a minister or department. While it is theoretically possible to have an FNAG also report directly to the Parliament of Canada, this may not be acceptable to the parties. The principle of organizational independence could be addressed by establishing and having an FNAG report to an independent “Audit Council,” drawing on the experience of the British Columbia Auditor General for Local Government. The Audit Council would be independent from both the Government of Canada and First Nations organizations.



Another special circumstance is the absence of a single recognized oversight body for all First Nations governments. In the federal Parliament and the provincial legislatures, there is a Public Accounts Committee charged with considering the Auditor General's reports and ensuring that departments and agencies take required actions to correct deficiencies identified by audits. One option would be to devolve this oversight responsibility directly to First Nations citizens. This option could succeed if First Nations citizens received sufficient capacity-building assistance to play this role effectively.

There is no recipe book on how to build an audit institution. In the long run, the organizational design, size, and human and financial resources required to build and sustain a well-performing First Nations Auditor General will depend on many factors, not least being its mandate, its governance structure, and the number of organizations that opt in to the audit process. It would likely take years—if not decades—for an FNAG to reach full maturity. This paper identifies a number of activities that should be carried out in its formative years. We believe it should concentrate on developing a capacity-building resource centre to help lay the groundwork for audits. In these formative years, consideration should be given to pairing the new institution with or working alongside the Office of the Auditor General of Canada (or one of the provincial audit offices). This would help a new First Nations Auditor General and staff to become familiar with how an audit institution functions and to benefit from the established audit office's experience, training, professional practices, and methodologies.

This research study, per its terms of reference, focuses on the establishment of a single, national First Nations Auditor General institution. Many other institutional models are possible. For instance, there could be multiple First Nations auditors general, in addition to or in place of a national FNAG. Auditors general could be Nation-based or be aligned with existing provincial or regional First Nations organizations and federations. Such models have not been developed or examined in this paper. They could be the basis of future discussions among the parties and importantly with First Nations communities, governments, and representative organizations.

Introduction

Purpose of this Research Paper

In July 2016, the [Assembly of First Nations](#) (AFN) and [Indigenous and Northern Affairs Canada](#) (INAC) signed a memorandum of understanding to research and develop proposals and recommendations for the design of a new fiscal relationship between the parties—one that aims to improve the economic and social well-being of First Nations communities and citizens. To this end, the parties have established technical working groups to examine each of three core dimensions of a new fiscal relationship: sufficiency of funding, predictability of funding, and mutual accountability.

The third technical working group is developing a mutual accountability framework. The framework's purpose is to demonstrate results to citizens and First Nations communities, governments, and Parliament in closing socio-economic inequities. The working group is guided by several key principles, including the following:

- The primary accountability of any government is to its citizens.
- The primary objective of policies, programs, and services to First Nations is to improve results for citizens.
- Accountability is shared and mutual (reciprocal) between the Government of Canada and First Nations governments.

To support the discussions on mutual accountability, the [Canadian Audit and Accountability Foundation](#) was commissioned to prepare a research paper that explores options and pathways for creating a First Nations Auditor General (FNAG) institution. We were not asked to make recommendations on these options.

Importance of an Auditor General

Virtually every country has the equivalent of an Auditor General,¹ the national external public sector auditor. Public resources belong to the citizenry, and public sector auditing supports and reinforces governments' fundamental responsibility to be accountable to their citizens for the use of those resources. For countries around the world, having an auditor general function is, simply put, part of nationhood. For First Nations, such an institution is part of and could contribute to the evolution toward self-determination.

Although the possibility of a First Nations Auditor General has arisen in the context of a new fiscal relationship, the idea is not new. It has been raised in the past. The following are some examples.

- In 2006, the Assembly of First Nations called for the creation of First Nations-led and First Nations-specific institutions, such as a First Nations Auditor General, as part of its vision for improved results for First Nations citizens and improved accountability for policy development and program delivery.²
- In 2010, the Chiefs-in-Assembly affirmed their commitment to transparent and accountable decision-making structures in their communities. They directed Canada to work with First Nations toward the development of First Nations governance capacity, such as an Auditor General function.³

- In 2011, Indian and Northern Affairs Canada (now Indigenous and Northern Affairs Canada) prepared a discussion paper that explored the value, potential role, and viability of an “Aboriginal Auditor General.”⁴
- In 2016, the Chiefs-in-Assembly renewed their direction to Canada and the AFN to work jointly toward the development of a First Nations Auditor General.⁵

Funding models and overall accountability arrangements for a new fiscal relationship are still under development. As we understand it, the fiscal relationship will be government to government, and may involve fiscal transfers similar to the Canada health and social transfers, equalization, or territorial formula financing. These transfers would be unconditional and would shift the accountability of First Nations to their citizens, rather than to the Government of Canada. The parties recognize that First Nations will need managerial and institutional capacity to support new funding and accountability relationships. For the Government of Canada, strong and credible First Nations institutions for accountability, such as an FNAG, may be a precondition to embracing unconditional fiscal transfers.

This research paper focuses on the creation of a new external audit institution in a future—and as yet undefined—accountability regime. The ideas are predicated on change and a new way of thinking about the role of audit in closing the disparities between the socio-economic status of First Nations citizens and other Canadians. Just as every country’s national public sector external auditing institution is unique, so should be a First Nations Auditor General: Its design, mandate, and function should address the unique circumstances and needs of First Nations and the Government of Canada. There is considerable flexibility in designing an FNAG to meet these needs, and there are many options regarding its mandate, function, activities, structure, and reporting relationships.

This paper recognizes that a First Nations Auditor General would be one part of a much larger mutual accountability regime. While not the subject of this paper, internal auditing also plays an important role in public sector auditing. Internal auditors are professionals employed by an organization who examine the functioning of internal management systems and practices. Internal audit aims to help management accomplish organizational objectives by using a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.⁶

Structure of this Research Paper

Part 1 provides important context, including a description of selected fundamental concepts for public sector external auditing. It discusses models and practices of external audit institutions in Canada and internationally that could be incorporated into an FNAG.

Part 2 presents an analysis of the options for the parties to consider, in a question-and-answer format. This part explores:

- the potential need for and benefits of a First Nations Auditor General;
- the possible roles and functions of an FNAG;
- principles to guide the creation of an FNAG and associated legislative and policy processes;
- how an FNAG could operate in conjunction with existing or proposed First Nations institutions;
- the need for, and possible roles and functions of, an oversight body, similar to a Public Accounts Committee in the Westminster system;
- a phased approach to establish an FNAG;
- the possible transfer of recipient audit responsibilities currently undertaken by the federal government; and
- the possible relationship and delineation of authorities (where applicable) between the Auditor General of Canada and an FNAG.

This paper does not address the future role of the [Office of the Auditor General of Canada](#) (OAG Canada) in relation to federal departments and organizations that provide funding, programming, and services to First Nations. It would be important for the Government of Canada to signal its expectation that OAG Canada would continue to conduct financial and performance audits of these federal organizations as a significant part of a future accountability regime.

It is hard to overestimate the complexities of creating a new external audit institution, even within a single country or government. Many audit institutions have taken decades—if not centuries—to evolve to their current state. And they continue to evolve, grow, and adapt to new circumstances. An FNAG would be created from scratch, with potentially hundreds of First Nations to audit, and would have to build relationships with existing, and potentially new, institutions and organizations.

Note that in this paper, we use the title “First Nations Auditor General” to be consistent with references in INAC and AFN documentation. Other titles, such as “Auditor General of First Nations” or “Auditor General for First Nations,” are also possible. For the purposes of this paper, the title has no bearing on the options explored.

Note also that, in this paper, the term “First Nations” refers to First Nations governments, bands, and communities, as considered under the [Indian Act](#). We are advised that there are 634 First Nations communities in Canada. This use is in contrast to the Nation to which citizens belong, such as Cree, Mohawk, Dene, and so forth.

Part 1 – Concepts and Context

What Is Public Sector Auditing?

Today, public sector external auditing is a worldwide practice, integral to effective public administration, governance, and accountability. Public sector external auditing is a specialized discipline, governed by professional bodies and conducted in accordance with rigorous international and Canadian standards and methods.⁷

Internationally, auditors general and equivalents at the national level are known as supreme audit institutions (SAIs). Each SAI is unique.⁸ Its mandate and function reflects the country's context, including its political, social, and economic systems; history; and culture. While SAIs have different titles, organization structures, mandates and powers, degrees of independence, and reporting relationships, they share a core purpose: To make a difference to the lives of citizens.

“Public sector auditing, as championed by the Supreme Audit Institutions (SAIs), is an important factor in making a difference to the lives of citizens. The auditing of government and public sector entities by SAIs has a positive impact on trust in society because it focuses the minds of the custodians of public resources on how well they use those resources. Such awareness supports desirable values and underpins accountability mechanisms, which in turn leads to improved decisions. Once SAIs’ audit results have been made public, citizens are able to hold the custodians of public resources accountable. In this way SAIs promote the efficiency, accountability, effectiveness and transparency of public administration.” (ISSAI 12; [UN GA Resolution A/66/209](#))

In some countries, including Canada, auditors general and equivalents also exist at the provincial or state level. In Canada, auditors general are often referred to as “legislative auditors.” This is because public sector external audit is a process that is superimposed on the accountability relationship between a government and its legislative assembly. The legislative auditor assists its respective legislative assembly in overseeing the performance of government and holding it accountable for the spending of public money.

Around the world, public sector external audits generally fall into one of three types:⁹

1. Financial audits assess whether the annual financial statements of government departments, Crown corporations, and other public organizations are presented fairly and in accordance with recognized accounting principles.
2. Compliance audits assess whether an organization is complying with its spending and legislative authorities, contractual obligations, laws, and policies.
3. Performance audits—formerly known as “value-for-money” audits—assess whether government programs, activities, or organizations are performing in accordance with the principles of economy, efficiency, and effectiveness, commonly known as the “3 Es.” Performance audits focus on the implementation of policy and programs and the delivery of public services. They commonly look at the effectiveness of management systems and internal controls, achievement of results, risk

management, governance, and oversight. In some jurisdictions, performance audits include elements of compliance with laws and policies. (See **Appendix A** – Performance Audit Primer.)

Auditors typically make recommendations to the management of the audited organization, aimed at correcting deficiencies and/or improving program management and outcomes. To support these recommendations, auditors frequently identify the root causes of deficiencies as well as the consequences or risks of not taking action.

Importantly, many audit offices also undertake non-audit activities and publish other types of reports. These include guidance on best practices, methodology, issue backgrounders, studies, and toolkits. In this way, audit institutions contribute to capacity building in government entities. Specific examples of these other types of reports are provided later in this paper.

Sometimes, external auditing is associated with bad news, highlighting instances of non-compliance, mismanagement, or even fraud. But the discipline of independent and impartial auditing is neither negative nor positive: Like any tool, how it is used makes all the difference. Performance auditing provides management with a means to improve programs and to help achieve intended outcomes.

The following section of this research paper describes selected auditing institutions and practices internationally and in Canada. These serve as reference points to discuss options for an FNAG.

Public Sector Auditing in the International Setting

Countries generally use one of three external auditing systems.

1. Canada, the United Kingdom, and most Commonwealth countries use the Westminster system of government, which has its own system of accountability. In this system, the Office of the Auditor General is an independent body that reports directly to Parliament. This Office, composed of professional auditors, submits periodic reports on the financial statements and operations of government.
2. The Napoleonic system is used in France and other European countries, most Latin American countries, and francophone African countries. Its Cour des comptes (Court of Accounts or Court of Audit) is independent of the legislative and executive branches and has both audit and judicial authority. It is an integral part of the judiciary, makes legal judgments on compliance with laws and regulations, and exercises a budget control function.
3. The Board system, used largely in Asia, is similar to the auditing system in the Westminster model in that the institution is independent of the executive but is headed by a Board of Audit, not an individual. Its primary mandate is to analyze the state's expenditures and revenues and report its findings to Parliament.¹⁰

Supreme audit institutions belong to the [International Organization of Supreme Audit Institutions](#) (INTOSAI), an umbrella organization that supports capacity development, fosters exchange of knowledge and

experience, and provides standards for public sector auditing and audit institutions. Established in 1953, it currently has 194 regular members and five associate members.¹¹

INTOSAI has a framework of principles, professional standards, and guidelines for public sector auditors, known as the [International Standards of Supreme Audit Institutions](#) or ISSAIs. The ISSAI Framework is organized in four levels:

1. founding principles,
2. prerequisites for the proper functioning and professional conduct of SAIs,
3. principles for auditing public entities, and
4. operational guidelines for auditing public entities.

INTOSAI also has a [Supreme Audit Institutions Performance Measurement Framework](#). The Performance Measurement Framework is a tool SAIs can use to assess their performance against the ISSAIs and other international good practices for external public auditing. It can be applied in all types of SAIs, regardless of governance structure, mandate, national context, or maturity level. In practical terms, the Performance Measurement Framework answers the question, “What does a well-performing supreme audit institution look like?” (For more details, see **Appendix B** – INTOSAI’s Supreme Audit Institutions Performance Measurement Framework.)

We believe that INTOSAI’s principles, standards, and guidance, together with its Performance Measurement Framework, are highly relevant for the design and functioning of an FNAG because they provide legitimacy, credibility, and potentially global recognition. And, as evidenced by the various auditing systems around the world, they are flexible enough to accommodate the unique needs of and context for an FNAG institution. This is not to suggest that an FNAG would need or want to obtain the status of a supreme audit institution.

Auditing in the Government of Canada

The Auditor General of Canada is the legislative auditor of the federal government and the territories. Legislative auditors exist in each province. Provincial legislative auditors share the same basic mandate, functions, and attributes of the Auditor General of Canada, with a focus on public sector programs, services, and organizations in their jurisdiction.

In Canada’s Westminster system, the federal and provincial legislative auditors, oversight bodies, and government departments and organizations play important and interdependent roles. As depicted in **Figure 1**, based on the federal model, they operate together to form a “system of accountability.”

In this system of accountability, the accountability relationship is between Parliament and government. Parliament (or the legislature in most provinces and territories) provides authority and public resources to government departments and agencies, which in turn steward those resources, deliver goods and services, and report back to Parliament on their use and performance. The Auditor General, through audit reports, provides objective information to parliamentarians to help them exercise their oversight role, and makes

recommendations for improvement. On behalf of Parliament, it is usually the Public Accounts Committee that holds departments accountable for correcting deficiencies and implementing the Auditor General's recommendations. More information about the role of Public Accounts Committees can be found in the Canadian Audit and Accountability Foundation's publication [Accountability in Action: Good Practices for Effective Public Accounts Committees](#).

Figure 1 – Westminster System of Accountability



While this Westminster system of accountability also plays out in Canadian provinces and territories, this research paper uses the federal system as a reference point. To this end, the Auditor General of Canada:

- Is the legislative auditor of the Government of Canada.
- Is an Officer of Parliament, independent of government.
- Is appointed by the Governor in Council, following consultation with political parties and approval by the House of Commons and Senate, for a non-renewable term of 10 years.
- Has a legislative mandate defined in the [Auditor General Act](#) and the [Financial Administration Act](#).
- Performs:
 - audits of the financial statements of the Government of Canada and federal organizations,
 - “special examinations” of Crown corporations’ control systems and practices, and
 - performance audits.

The Office of the Auditor General has about 560 staff and a budget of about \$95 million.¹²

Unique to the OAG Canada is the position of the Commissioner of the Environment and Sustainable Development. On behalf of the Auditor General of Canada, the Commissioner provides parliamentarians with

objective, independent analysis and recommendations on the federal government's efforts to protect the environment and foster sustainable development. (In Canada and elsewhere, auditing environmental matters is often referred to as the fourth "E" in performance auditing, after economy, efficiency, and effectiveness.)

It is important to note that the Auditor General of Canada—like all legislative auditors—focuses on public administration, examining the activities of public servants and managers, not ministers and other elected officials. The Auditor General does not question the merits of government policy; rather, he or she focuses on policy implementation, management practices, performance measurement, and outcomes achieved.¹³

In general, the Auditor General of Canada does not directly audit First Nations communities or First Nations funding recipients (although there are exceptions). The Office does audit—extensively—federal departments that provide resources and programming to First Nations and other Indigenous organizations.¹⁴

The [Canadian Council of Legislative Auditors](#) (COLA) is devoted to sharing information and supporting the continued development of auditing methodology, practices, and professional development. COLA's members are the provincial auditors general and the federal Auditor General. The federal and provincial legislative auditors follow Canadian accounting, assurance, auditing, and quality control standards, and are subject to oversight by the Chartered Professional Accountants of Canada (CPA Canada) and other professional bodies. While many legislative auditors are members of the accounting profession, performance auditors can come from many disciplines and professional backgrounds.

British Columbia's Auditor General for Local Government

This research paper also uses auditing at the level of local governments in Canada, specifically [British Columbia's Auditor General for Local Government](#), as another reference point since in some ways, First Nations communities are local governments.

Of the 58 municipalities in Canada with populations greater than 100,000, about 70 percent have some type of audit function.¹⁵ These functions vary significantly from one municipality to the next and generally fall into one of three models: Internal audit, Auditor General, and hybrid (which have some of the characteristics of internal audit and Auditor General). Auditors general in the municipal sector are empowered by provincial legislation, report to the elected council (most often through an audit committee), and provide assurance services to help municipal councils safeguard public assets, comply with policies and legislation, and improve operations. Municipal auditors general in Quebec are also responsible for auditing their municipality's financial statements.

Few, if any, small municipalities in Canada have their own audit function. And of course, it would not be practical to have an FNAG for each First Nations community. This is why the B.C. Auditor General for Local Government (AGLG) is included in this paper. This is a unique audit institution in Canada and is separate from the legislative auditor of the province, the Auditor General of British Columbia.

Created in 2013 through the [Auditor General for Local Government Act](#), the B.C. AGLG has responsibility for conducting and reporting performance audits of some 190 local governments in B.C. ranging from 250 to over 500,000 people. In B.C., based on its 1988 Community Charter, local governments are recognized by the province as an “order of government.”¹⁶ This means that the accountability relationship is between local government and citizenry, not local government and the province.

Under its Act, the purpose of the B.C. AGLG is “to conduct performance audits of the operations of local governments in order to provide local governments with objective information and relevant advice that will assist them in their accountability to their communities for the stewardship of public assets and the achievement of value for money in their operations.”¹⁷ This emphasizes the role that performance audit can play in strengthening accountability. Audit findings are reported publicly to the local elected council, not to the provincial legislature. There is no provincial oversight body (equivalent to a Public Accounts Committee) responsible for ensuring that management implements recommendations or corrects identified deficiencies. Rather, citizens hold their governments accountable.

The Auditor General for Local Government is appointed for a five-year term and may be reappointed for a subsequent five years, but no longer.¹⁸ The AGLG legislation provides for the independence of the office, giving it sole discretion in selecting audits, the authority to appoint staff, and full access to information needed to conduct audits. That said, the B.C. AGLG does not have the same degree of independence as the Auditor General of British Columbia.

While the AGLG reports administratively to a minister, through its legislation, the AGLG reports functionally to an Audit Council. Audit Council members are appointed by the Lieutenant Governor in Council, based on knowledge, skills, education, and experience that would enable the Audit Council as a whole to carry out its duties. All Audit Council members are external to the entities being audited and to the provincial government. Among other duties, the Audit Council is responsible for:

- recommending to the Minister of Municipal Affairs and Housing an individual to be appointed as Auditor General (and also recommending suspension or removal of the Auditor General),
- commenting on and recommending to the Auditor General changes to its annual service plan,¹⁹
- commenting on performance audit reports, and
- reviewing and monitoring the performance of the Auditor General.²⁰

The Audit Council does not review or recommend the AGLG’s resources. Resources are provided through a separate Vote (appropriation) within the provincial budget.²¹

In addition to its audit responsibilities, under its legislation, the B.C. AGLG can develop and publish “information about recommended practices, arising from a performance audit, that may be applicable or useful to other local governments.”²² To fulfill this part of its mandate, the B.C. AGLG publishes its [AGLG Perspectives Series booklets](#). These booklets summarize recommended practices in a particular subject area, based on information gathered during performance audits, recognized best practices, and consultation with

experts. To date, the B.C. AGLG has published guidance on local government procurement, policing services performance assessment, asset management, and oversight of capital project planning and procurement.

The Navajo Nation Auditor General

The Navajo Nation Auditor General is the only audit institution we are aware of that is designed specifically for an Indigenous population and thus offers some interesting perspectives. The Navajo Nation territory covers 71,000 km, with a population of roughly 340,000. The Navajo Nation has an elected government that includes an executive office, a legislative house, and a judicial system.

The Navajo Nation Council is the legislative branch of the Navajo Nation. The legislative branch of the Navajo government includes six other organizations: the Navajo Election Administration, the Ethics and Rules Office, the Office of Legislative Services, the Navajo Nation Human Rights Commission, the Office of Navajo Government Development, and the [Office of the Auditor General](#).²³

The position and responsibilities of the Auditor General are established under the Navajo Nation Code. The Auditor General is appointed by the Speaker of the Navajo Nation Council, subject to confirmation by the Council. The Auditor General reports directly to the Budget and Finance Committee of the Navajo Nation Council. This Committee is responsible for ensuring that the executive branch of the Navajo government implements the audit recommendations.²⁴

The Navajo Office of the Auditor General (NAOG) provides independent and objective assessments of Navajo Nation programs, enterprises, and Navajo Nation Chapters.²⁵ Like other legislative audit offices, the NAOG is mandated to conduct financial and performance audits. In addition, the NAOG is mandated to:


- provide management advisory services to the Navajo Nation;
- assist the Office of the Prosecutor and the Ethics and Rules Office in investigating possible fraud and/or misappropriation of assets of the Navajo Nation; and
- assist in the building of an effective, responsive, strong, and accountable government.²⁶

Management advisory services and technical assistance can include:

- evaluating corrective action plans for adequacy and effectiveness,
- evaluating internal controls to improve performance,
- conducting management studies,
- participating in meetings or work sessions, and
- reviewing financial statements.²⁷

Current State of Auditing in First Nations Communities

Indigenous and Northern Affairs Canada (INAC) and other federal departments use several types of authorities to provide funding to First Nations governments, governed by the federal Treasury Board's [Policy on Transfer Payments](#). These types of funding include grants, alternative funding arrangements, flexible



transfer payments, and contributions. They have different degrees of flexibility, with grants being the most flexible and contributions the least. Contribution agreements have varying degrees of flexibility, ranging from rigid, annual agreements to more flexible, five-year ones. According to INAC, it uses a “general assessment tool” to determine which funding type and accountability regime is best suited to a community’s situation.

Contribution agreements are considered the least flexible type of authority to dispense funding. These agreements establish a First Nation’s accountability to the funding department, including delivery of programs and services, record keeping, and reporting. Among other things, the reporting requirements include audited annual consolidated financial statements. This is the main driver of the current financial auditing process. Audits of the financial statements are carried out mostly by private sector accounting firms in accordance with public sector accounting and auditing standards. This auditing process was described to the Canadian Audit and Accountability Foundation as being decentralized within INAC and across federal departments, and questions have been raised about the uniformity of practices.

Contribution agreements also require councils to maintain a “system of accountability to Members.”²⁸ This requires, for example, that the council be open and transparent in its decision making, have dispute resolution mechanisms, and have an annual budget in place, approved by the council.

The [*First Nations Financial Transparency Act*](#) requires that audited consolidated financial statements be made public, among other things, but the Act did not, in our opinion, materially change the auditing process in place.

INAC, and other federal departments, also carries out periodic “recipient audits” of selected First Nations communities. These are a form of compliance audits and as such, they examine compliance with terms and conditions of the contribution agreements, financial controls, and documentation.

To our knowledge, performance audits are not carried out in First Nations communities.

Part 2 – Analysis and Options for Establishing a First Nations Auditor General

How unique would a First Nations Auditor General (FNAG) need to be?

Every supreme audit institution in the world is unique. It follows that the design, mandate, and function of a First Nations Auditor General (FNAG) institution would need to address the unique circumstance and needs of First Nations citizens and communities as well as the needs of the Government of Canada. In our view, no existing model could simply be adapted “as is” to become an FNAG.

This research paper assumes that the future fiscal relationship and corresponding accountability regime will be very different from the one that exists today. There is considerable flexibility in designing an FNAG to meet the needs of this new accountability regime, and there are many options regarding its mandate, function, activities, structure, and reporting relationships.

The context for an FNAG is especially challenging given the diversity and differences among First Nations communities in Canada. As noted by the [1996 Royal Commission on Aboriginal Peoples](#):

“One of the most striking characteristics of Aboriginal people is their diversity. They speak many different languages. They have distinctive cultures and traditions. Their social, political and economic circumstances vary. A number of Aboriginal peoples have extensive land bases, others only modest tracts of land, and still others no recognized land base at all. Some have outstanding land claims, others have entered into land claims agreements. Some Aboriginal people make up the majority population in a territory or region, while others are significantly outnumbered by the general population where they live. Some enjoy relatively broad governmental powers and administer a wide range of services and programs, while others are in the process of assuming greater governmental powers. Some follow age-old pursuits and ways of life; others have embraced new and adapted ways.”²⁹

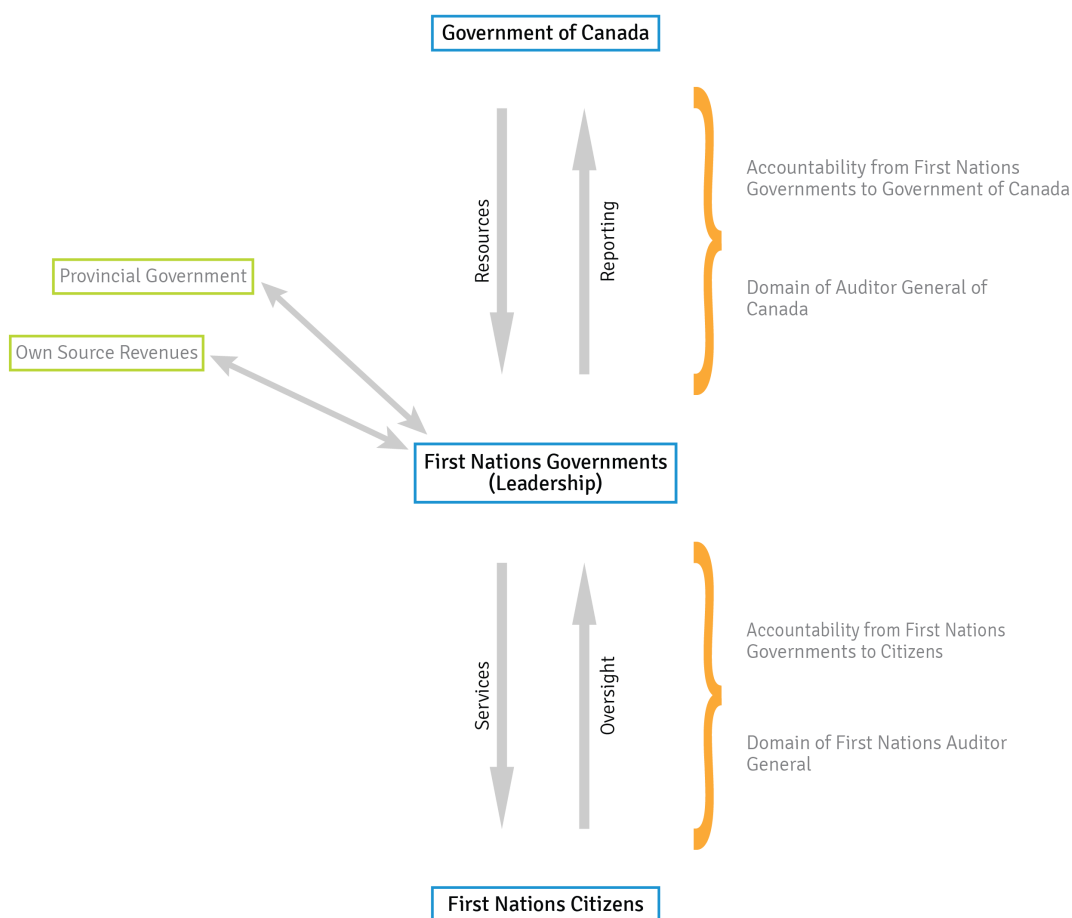
This diversity is also reflected in the governance and accountability structures and processes in First Nations governments. In any given First Nations community, these may reflect a combination of traditional practices, *Indian Act* requirements, and good financial controls and management. Many First Nations governments already show strong accountability to their members, based on traditional, family-, and community-based governance and decision making. As we understand it, each First Nations community is different.

INAC uses a general assessment tool to assess a funding recipient’s capacity and risk in relation to factors such as its governance, planning, financial management, and project management. According to INAC, First Nations communities under the *Indian Act* can be thought of on a continuum, ranging from “high risk/low capacity” to “low risk/high capacity.” Of the 634 First Nations, we are told about 140 would be considered high risk, 250 medium risk, and 250 low risk. We understand that in recognition of these differences, consideration will be given to allowing individual First Nations to opt in to the audit process, or to opt out of the audit process (and, presumably, to continue to be subject to the *Indian Act*). This optional participation is not the norm in national auditing processes.

This paper does not address the conditions, criteria, or incentives that may be provided for First Nations to opt in to the audit process because we view this as a political question. We see no inherent barriers or downsides to an opt-in model. In fact, an opt-in model could ease the new audit institution's early growth, by reducing the number of First Nations communities and governments subject to the audit process at first. The number of organizations subject to audit is known as the audit "universe." An audit universe of 634 governments is huge.

In analyzing options for an FNAG, it is assumed that the mandate of the Office of the Auditor General of Canada (OAG Canada) in relation to federal departments and organizations that provide funding, programming, and services to First Nations would remain largely unchanged. What would change would be the accountability relationships between First Nations governments and First Nations citizens. **Figure 2** illustrates the overall accountability regime envisioned, including the accountability relationships between the Government of Canada, First Nations communities, and First Nations citizens. It also illustrates the respective mandates of the Auditor General of Canada and an FNAG.

Figure 2 – Accountability Relationships Between the Government of Canada, First Nations Governments, and First Nations Citizens



What are the benefits of an FNAG?

Clearly, consideration today of an FNAG supports the discussions of a new fiscal relationship between First Nations and the Government of Canada. Strong and credible First Nations institutions for accountability, such as an FNAG, may be a precondition to embracing unconditional fiscal transfers.

But the benefits of an FNAG are not solely linked to a future fiscal relationship. They exist now. Independent institutions such as offices of the auditor general are about instilling confidence in public administration and in fostering accountable government. Public opinion polls tell us that Canadians place great trust and confidence in auditors general: They are commonly considered among the most trustworthy of public figures. In this sense, we believe that citizens' desire for independent and credible institutions to examine the spending decisions made and results achieved by their governments are shared by First Nations and non-First Nations Canadians alike. The difference is that non-Indigenous Canadians have long enjoyed such institutions at the federal, provincial, and municipal levels.

An FNAG would provide more confidence for First Nations members that their leadership is responsibly managing the human and financial resources needed to deliver high-quality goods and services. It is our understanding that there is a long-standing and recurring desire from First Nations citizens for a permanent and independent institution to address accountability in their communities.

Aside from a confidence factor, we believe in the power of audit—especially performance audit—to improve the social, economic, and environmental outcomes for First Nations citizens. The prime beneficiaries of an FNAG would be First Nations citizens. This is because auditors assess the management practices and systems used to achieve intended outcomes, identify strengths and weaknesses, and make recommendations to program managers and decision makers to improve the delivery of goods and services. In this sense, audit can support positive change.

In addition, because audit reports are typically made public, citizens have the opportunity to be more informed about the quality of the delivery of programs and services, and in turn, to be more engaged. In this sense, as described in the section “What would an FNAG do?,” an FNAG could help to support and strengthen community-based accountability regimes by enhancing First Nations citizens' ability to engage in decision making and governance in their communities and to hold their leadership to account.

What principles should guide the establishment of an FNAG?

As noted previously, there are no Canadian standards or principles that govern the design and function of an external auditor general institution. The International Organization of Supreme Audit Institutions (INTOSAI) has established core principles for supreme audit institutions to foster their value, benefits, and role in making a difference to the lives of citizens. We believe that these principles, set out in [*ISSAI 12: The Value and Benefits of Supreme Audit Institutions – Making a Difference to the Lives of Citizens*](#), are an important framework to guide the design and functioning of an FNAG. The standard notes:

“To be able to fulfil their functions and ensure their potential value to citizens, SAls need to be seen as trustworthy. SAls only deserve trust if they themselves are objectively judged as being credible, competent and independent and can be held accountable for their operations. In order to make this possible, they need to be model institutions, setting an example from which others in the public sector and the auditing profession at large can learn... The principles set out in this document are constructed around the fundamental expectation of SAls making a difference to the lives of citizens.”³⁰

These principles (see **Figure 3**) are similar to those reflected in the design and functioning of Canadian legislative audit offices.

Figure 3 – INTOSAI Principles from ISSAI 12

The 12 principles of the value and benefits of SAls under each of the three objectives are:



In our opinion, some of the key principles in ISSAI 12 are:

- **Safeguarding the independence of SAIs.** Independence has many dimensions, such as having
 - a statutory or legal framework;
 - security of tenure and legal immunity in discharging responsibilities;
 - unrestricted access to information;
 - freedom to decide on the content and timing of reports; and
 - financial, managerial, and administrative autonomy and appropriate human, material, and financial resources.
- **Carrying out audits to ensure that government and public sector entities are held accountable for their stewardship over, and use of, public resources by conducting**
 - financial audits,
 - performance audits,
 - compliance audits, and
 - other types of investigations.
- **Enabling those charged with public sector governance to discharge their responsibilities in responding to audit findings and recommendations and taking appropriate corrective action**
- **Reporting on audit results, including**
 - making them publicly available in a timely manner,
 - using accessible language, and
 - communicating externally.
- **Communicating effectively with stakeholders by**
 - explaining the SAI role and responsibilities and
 - helping them understand audit work and results.
- **Ensuring transparency and accountability by**
 - making public the SAI's mandate, responsibilities, and strategies;
 - adopting good governance practices; and
 - conducting periodic independent review.

What would an FNAG do?

This paper describes two primary functions for an FNAG. One, clearly, is to carry out and publicly report results of performance, compliance, and financial audits. A second function would be to assist First Nations governments and communities in capacity building through a “resource centre.” Together, the aim is to help First Nations leadership (chiefs and councils) and managers demonstrate accountability for the management of financial and human resources and community-based programs as well as to help First Nations citizens hold them accountable.

Performance Audit Services

A key function of an FNAG would be to carry out and publicly report performance audits, since such audits are not currently undertaken. Performance audits have the greatest potential to improve socio-economic outcomes for First Nations citizens. As described earlier, performance audits focus on implementation of policy and programs and the delivery of public services, assessing whether they are being delivered economically, efficiently, and effectively.

No two performance audits are identical. Like any audit institution, an FNAG would have flexibility in choosing the performance audits' subject matter (topic), scope, and objectives. Legislative auditors typically consider the significance and risk of program areas when choosing topics and determining audit scope. Topics for performance audits in First Nations communities could relate to specific programs (such as housing, education, policing, health, or child and family services) or to themes (such as procurement, project management, performance measurement, or gender equality). Performance audits commonly assess the following areas and ask the following types of questions:

Results

- Are intended results being achieved?
- Are entities monitoring and reporting on their own performance and using performance information?

Systems and processes

- Are management systems and internal controls well designed and operating as designed?

Risk management

- Is the organization appropriately managing significant risks related to achieving program outcomes and safeguarding public funds?

Governance and oversight

- Do entities have effective governance practices and regimes?
- Are oversight bodies effectively discharging their responsibilities?

One way to illustrate the role of performance audit in achieving results is to consider the [Auditor General of Alberta](#)'s approach to "accountability for results" in government departments, being:

"The obligation to show continually improving results in the context of fair and agreed upon expectations. For Albertans to receive value for money, all those who use public resources must:

1. *Set and communicate measureable results and responsibilities*
2. *Plan what needs to be done to achieve results*

3. *Do the work and monitor progress*
4. *Report on results*
5. *Evaluate results and provide feedback.*³¹

Borrowing from this, when carrying out performance audits, an FNAG could examine whether First Nations leadership and governments have put the governance and management practices and systems in place to fulfill the expectations (1–5) articulated by Alberta above.

Legislative auditors also have flexibility in selecting suitable audit criteria. Audit criteria set out the expectations against which performance is assessed. Given the diversity of First Nations communities in terms of traditions, population, geography, revenue streams, and governance and managerial capacity, audit expectations could be adjusted or scaled to each community.

Compliance Audit Services

Although elements of compliance are commonly included in performance audits by Canadian legislative audit offices, internationally, they are often treated as a separate function within the office.

Compliance audits assess whether an organization is meeting the expectations set out in specific authorities in relation to the audited subject matter. Authorities in this sense are the source of audit criteria and could include laws and regulations, policies, codes of conduct, contracts, or recognized management standards and principles. The following are examples of some authorities of audit criteria.

- If, for example, the subject matter of an audit was financial administration, public sector organizations may be assessed on compliance with the applicable governing legislation, such as the federal *Financial Administration Act* or equivalent legislation in that jurisdiction. In this instance, the auditor may seek to determine whether funds were spent for their intended purpose and in accordance with applicable rules. In some jurisdictions, an audit of an organization's financial management practices, rather than its financial statements, is considered a compliance audit. In this case, the authority and audit criteria used would be recognized principles of sound public financial management.
- If, for example, the subject matter of an audit was procurement of goods and services, the applicable authority and audit criteria may be the government's procurement policy.

In the context of First Nations governments and communities, this paper has not identified the authorities that may apply. In fact, identifying the authorities that apply to the audit subject matter is normally done in an audit's planning phase.

For an FNAG, whether compliance audits should be separate from performance audits is to be assessed in due course.

Financial Statement Audit Services

Consistent with the practices in Canada and internationally, an FNAG could also have a role and function related to financial audit. As described previously, the preparation and auditing of consolidated financial statements is already a widespread practice in First Nations, driven largely by the accountability requirements of funding contribution agreements. Currently, such audits are carried out by private sector accounting firms.

In the future, we assume that First Nations governments would continue to prepare consolidated financial statements as a matter of good public administration and that private sector accounting firms would continue to play a significant role in auditing such statements. An FNAG could be mandated to develop, maintain, and oversee a process for auditing the financial statements prepared by First Nations. This could involve:

- communicating standards and expectations,
- monitoring the consistency and quality of the work carried out by private sector accounting firms, and
- supporting and monitoring effective and appropriate reporting to First Nations citizens.

Given the existing widespread practice of auditing First Nations' consolidated financial statements, developing an FNAG process for auditing First Nations financial statements would not necessarily be a near-term priority.

In accordance with the terms of reference for this paper, we were asked to consider the possible transfer to an FNAG of the recipient audits and general assessment activities currently undertaken by federal departments. As described earlier in this document, INAC conducts recipient audits to assess compliance with the terms and conditions of contribution agreements. INAC conducts a general assessment to assess risk and to determine which funding type and accountability relationship is best suited to a community's situation. These are internal tools used by management and are not, in our opinion, a suitable fit with an external audit function.

Capacity Building Resource Centre

A question is often asked, "Are First Nations communities ready to be audited?" This question arises because audits, especially performance audits, make sense only if there are structures, programs, and management practices and systems in place to be audited.

In its 2006 position paper on [*Accountability for Results*](#), the Assembly of First Nations noted its belief that financial and other management systems and standards must be in place to carry out effective audits and that the human resources capacity must exist, both within First Nations governments and an Auditor General office, before audit reports would be of significant use. Our understanding is that the 634 First Nations communities in Canada have different levels of capacity. The need to assist communities in capacity building is widely recognized.

We believe an FNAG could play an important role in helping First Nations communities to build needed capacity. This could take the form of a resource centre, led by and designed for First Nations. Such a centre could, for example, develop and/or communicate good practice guidance and resource materials designed specifically for First Nations. This would be important in the case of First Nations. As illustration, guidance could be developed for:


- elected officials (chief and council), to help them fulfill their oversight and accountability responsibilities;
- program managers, to help them design and implement programs and deliver services; and
- citizens, to help them understand the role of audit and performance and financial statement audit reports and to establish community-based oversight practices, helping them to hold their leadership to account.

This would be consistent with practices of other audit institutions already described in this paper, notably the B.C. AGLG and the Navajo Nation Auditor General. A further example of community-focused capacity building is the work of [Audit Scotland](#). In Scotland, achieving “best value” is a statutory duty for local authorities, such as councils. Best value is about ensuring that there is good governance and effective management of resources, with a focus on improvement, to deliver the best possible outcomes for the public.³² Audit Scotland audits local authorities against the requirements for best value. To support the audit process, it has published [toolkits](#) on topics ranging from community engagement to public performance reporting.

The resource centre guidance described above would also support and inform the audit process within an FNAG. In particular, such guidance could form the basis of future performance audit criteria. All audits involve comparing an organization’s performance against predefined expectations, or audit criteria. Aligning audit criteria with resource centre guidance would help to ensure their appropriateness and suitability to First Nations governments and communities.

A resource centre could also facilitate sharing of information among First Nations governments and communities, provide training and workshops for communities, and possibly even offer consulting services.

While an FNAG resource centre would likely focus on capacities related to audit and community oversight, an FNAG should collaborate with other Indigenous or First Nations organizations in order not to reinvent the wheel; to capitalize on existing expertise, guidance, and capacity-building initiatives; and to avoid duplication. Such organizations could include [AFOA Canada](#) (formerly Aboriginal Financial Officers Association of Canada, which certifies individual financial management practitioners), the [First Nations Financial Management Board](#) (which certifies financial management systems), and the [Centre for First Nations Governance](#). We have not spoken to these organizations about such collaboration.



To support its work, an FNAG would need to develop a means to assess the readiness of any given community for audit, called a Community Audit Readiness framework. Such a framework could be used to assess the presence and maturity of the structures, systems, controls, and practices in place to manage programs and deliver services. It could also be used to assess the mechanisms in place to allow citizens to participate in community decision making and to exercise community-based oversight. Such a framework could be developed in collaboration with other First Nations organizations, community leadership, and members.

Which communities would an FNAG audit?

AFN and INAC envision an audit process whereby individual First Nations governments or organizations can opt in. In other words, they can choose to be subject to audit and to benefit from the proposed capacity-building activities.

Once a community or organization has chosen to opt in, who exactly is being audited? With respect to performance audit, in principle, those who are entrusted to take decisions about, receive and manage resources on behalf of, and deliver services to, First Nations citizens would be the “auditees.” This could include the band council, leaders, and managers in First Nations communities.

As noted earlier in this paper, audit institutions such as the Auditor General of Canada focus audit efforts on public administration and management within departments. Only rarely do they look at the actions of elected officials. In the federal and provincial governments, the separation between the legislature (elected members and ministers) and the public service is easy to define.

In many First Nations communities, however, this distinction may not be as clear. It is our understanding that in some communities the roles are commingled. In addition to carrying out their duties as elected officials, the chief and members of council also play the role of public servants, and directly manage programs and deliver services. In practice, this means that who is being audited would need to be determined on an audit-by-audit, community-by-community basis, reflecting the specific accountability relationships in place.

Who would be responsible for implementing audit recommendations?

Legislative auditors typically make recommendations to the management of the audited organization. Good recommendations address the root causes of identified deficiencies, are targeted at specific organizations, and are detailed and measurable enough that their implementation can be monitored. Most Canadian audit offices include the audited organization’s response to the recommendations in the audit report.

In principle, those who are subject to audit—the auditees—are responsible for taking corrective actions and making program improvements, including responding to an FNAG’s audit recommendations. Said another way, auditees are those with the authority to make decisions, allocate resources, and implement programs. In practical terms, this could be the leadership and management of First Nations governments. Recommendations are generally not targeted to elected officials.

In order for auditees to successfully implement auditors' recommendations, they must:

- be publicly transparent in their response to the recommendation (by stating whether they agree or disagree with it);
- develop detailed, time-bound, and measurable action plans; and
- periodically report on progress.

Many audit institutions conduct follow-up audits to report on progress that auditees have made to recommendations in previous audits.

Who would exercise oversight and hold auditees accountable?

Audited organizations are not accountable to the auditor. In the Westminster system, it is Parliament, usually through the Public Accounts Committee, that holds auditees accountable for taking corrective action and implementing the auditor's recommendations. The Public Accounts Committee is the most important oversight committee of Parliament. Countries that use other external auditing systems also typically establish a similar oversight body or function of the legislature. In Canada, auditors general and Public Accounts Committees have interdependent roles, founded on the accountability regime between the legislature and the government.

There is no Parliament or legislature of First Nations, so there is no conceptual equivalent of a Public Accounts Committee. The challenge is to determine whether any existing organization is representative enough of all First Nations to exercise oversight of all governments. Such an organization and its members would also need to be independent enough from program decision making, delivery, and administration. We have not been made aware of an existing organization that could legitimately carry out such a role on behalf of all First Nations.

It is also fair to ask the question, "Is such an oversight body even needed?" Under a new fiscal relationship, the emphasis is on the accountability between First Nations governments and their citizens. This leads to the conclusion that First Nations citizens themselves must hold their leadership to account—a community-based system of accountability, so to speak. This is consistent with resolutions of the Chiefs-in-Assembly, who have affirmed their commitment to open and transparent accountability mechanisms for citizens and their involvement in community decision making.³³

Given the diversity of cultures, traditions, and practices in First Nations communities, there is no blueprint on how to better equip community members to exercise such oversight. In some cases, there may not be a need for any changes. In others, existing practices may need to be strengthened. And in other cases still, members may need help with basic capacity building. There is a great deal of experience and practice to build on and share. This could be a focal area for an FNAG resource centre; that is, to develop, summarize, and communicate good practices and to build capacity at the community level. It would be important to ensure participation of elders, women, and youth in any community-based accountability regime.

How could an FNAG be created?

Virtually all supreme audit institutions derive their mandate through some form of legislation or regulation.³⁴ Some are even enshrined in the country's constitution.

Whether an FNAG is created through legislation or other means, a number of foundational provisions need to be defined and elaborated, including:

- the process for appointing and removing the Auditor General;
- the Auditor General's tenure and salary;
- mandate, powers, and duties;
- reporting results of audits;
- access to information;
- staffing;
- budget and appropriations; and
- the role of an Audit Council (if one is established).

There are limited options to create an FNAG if it is to be, and seen to be, permanent and authoritative. Two options are discussed below. While others are theoretically possible, such as creating a new Crown corporation under the [Canada Corporations Act](#), we do not consider them suitable for the purposes of an FNAG.

One option is to create the FNAG through its own Act of Parliament, roughly equivalent to the *Auditor General Act*. The First Nations Financial Management Board demonstrates that it is possible to create an arm's-length First Nations-led institution through an Act of Parliament (the [First Nations Fiscal Management Act](#)). Some of the provisions in an FNAG Act could be based on the *Auditor General Act* and the *First Nations Fiscal Management Act*. Regardless of its final form, a legislative basis for an FNAG creates an unparalleled degree of permanence, authority, legitimacy, and independence.

As we understand it, the *First Nations Fiscal Management Act* has established an arm's-length relationship between the Financial Management Board and the federal government. Although the Board is not an agent of the Crown, it is managed by a board of directors where the majority are appointed on the recommendation of the Minister³⁵ and it is ultimately accountable to the Minister through its reporting obligations. In our opinion, this model for an FNAG may compromise its real and perceived independence because there would appear to be several connections between the Board and the federal government.

A second option is to establish the FNAG as a not-for-profit corporation under the [Canada Not-for-profit Corporations Act](#). In theory, this would allow First Nations to incorporate an FNAG by signing articles of incorporation. An Audit Council could function as a board of directors. The foundational provisions listed at the beginning of this section could be embedded in the corporation's bylaws. The First Nations communities that choose to opt in to the audit process would be the corporation's members. This option could be considered a transitional one to facilitate an early start-up, before legislation is drafted.

To whom would an FNAG report? From whom would it be independent?

As noted in the section “What principles should guide the establishment of an FNAG?”, safeguarding the many dimensions of independence is one of the key principles to observe in the design and functioning of an FNAG. Among other things, this means that an FNAG needs to be independent from the organizations being audited. In the Westminster system, independence is achieved by having the Auditor General report directly to Parliament and not to a minister or department, with this reporting relationship typically defined in its legislation. While it is theoretically possible to have an FNAG also report directly to the Parliament of Canada, this may not be acceptable to the parties. It would also be possible, theoretically, to have the First Nations Auditor General report to an Indigenous representative organization. This would be a political decision, requiring the consent of First Nations.

We believe that the principle of organizational independence could be addressed by establishing and having an FNAG report to an “Audit Council,” drawing on the experience of the British Columbia Auditor General for Local Government. Whether established through legislation or other means, the mandate, role, and composition of such an Audit Council could suit the context and operation of an FNAG. The Audit Council itself would be independent from both the Government of Canada and First Nations organizations.

Composition of the Audit Council would be key to its effectiveness and perceived credibility. To this end, an Audit Council could include representatives from existing First Nations organizations, elders, women, youth, and distinguished individuals. An Audit Council could also include individuals from outside the First Nations community, such as former auditors general, representatives from the accounting profession, and others. An Audit Council would need to seek consensus in all of its decisions.

To maintain the independence of an FNAG, an Audit Council would need to function as an oversight body, not a management committee or Board of Directors. This would be a delicate balance. For illustrative purposes, such an Audit Council could be responsible for:

- recommending the appointment as well as removal of an FNAG (to whom this recommendation would be made depends on how an FNAG would be created; see the previous section “How could an FNAG be created? What are the options?”);
- approving long-term audit plans and supporting budget requests;
- advising on the functions and activities of a resource centre;
- monitoring the institution’s performance; and
- assisting in resolving disputes that may arise in the conduct of audits.

There would be other aspects of an FNAG’s functioning that arguably should not be subject to scrutiny or approval by an Audit Council, in order to maintain its independence. For example, an FNAG would require autonomy in choosing audit topics and auditees, staffing the organization, developing organizational policies and administrative practices, and reporting its audit results.

What would a well-performing FNAG look like? How would it get there?

There is no recipe book on how to build an audit institution. In the long run, the organizational design, size, and human and financial resources required to build and sustain a well-performing First Nations Auditor General will depend on many factors, not least being the functions in its mandate, its governance structure, and the number of organizations that opt in to the audit process.


That said, INTOSAI's [Supreme Audit Institutions Performance Measurement Framework](#) (PMF) would be a useful resource in creating an FNAG (see **Appendix B**). The Performance Measurement Framework is a tool used by supreme audit institutions (SAIs) around the world to assess their performance against the International Standards of Supreme Audit Institutions (ISSAIs) and other INTOSAI good practices, and to identify their strengths and weaknesses. It can be thought of as a maturity model built around six main domains:

- independence and legal framework;
- internal governance and ethics;
- audit quality and reporting;
- financial management, assets, and support structures;
- human resources and training; and
- communication and stakeholder management.

The PMF applies to all types of external audit institutions, regardless of governance structure, mandate, national context, or maturity level. The framework can help improve SAI capacity development and strategic planning by promoting the use of performance measurement and management, as well as identifying opportunities to strengthen and monitor SAI performance, and to strengthen accountability.

As a maturity model, the PMF presents a desired end state. It would likely take years—if not decades—for an FNAG to reach full maturity. Once an Auditor General and Audit Council (if applicable) is appointed, our view is that an FNAG should start small and build slowly and deliberately over time, focusing on its internal capacity to provide the proposed auditing and capacity-building services. In its formative years, it should undertake the following activities as priorities.

- Recruit and train professional and administrative staff for the capacity building and audit functions as well as for support functions such as human resources, communications, finance, legal, and operations.
- Learn about the situation (governance structures, culture and traditions, programs, and services) in First Nations communities.
- Communicate its role and planned activities to First Nations community leadership and citizens, other First Nations institutions and organizations, Government of Canada departments, and the media.
- Build strategic relationships with First Nations institutions and organizations whose work is complementary to an FNAG (for example, AFOA Canada, First Nations Financial Management Board).

- 
- Create the audit process and the procedures for opting in to the process, in collaboration with First Nations and the Government of Canada.
 - Develop a long-term strategic plan together with operational practices and methodologies.

We believe managing the expectations of citizens, First Nations community leadership, and the Government of Canada will be critical in these formative years.

In terms of which functions an FNAG should develop and carry out first, we believe it should concentrate on building the capacity-building resource centre ahead of conducting audits. Among other things, this would include developing and communicating guidance and good practices, helping to build community-based oversight practices and processes, and developing the proposed Community Audit Readiness framework. These activities would help lay the groundwork for audits. During this formative period, based on the assumption that there is not currently a large pool of qualified First Nations auditors, an FNAG would need to focus on professional development and training of future auditors. This means that it may be three to five years before the first performance audits are carried out and reported on by the new institution.

With respect to funding, it is difficult to reliably estimate the financial and human resources required to create, grow, and sustain a new audit institution without knowing, for example:

- the number of First Nations governments that may be part of the audit regime,
- the functions that an FNAG would be expected to carry out,
- the amounts of capital expenditures,
- the breadth of a capacity-building resource centre, and
- travel costs for visiting geographically dispersed and remote First Nations communities.

Regardless of the transitional or final form of an FNAG, consideration should be given to pairing the new institution in collaboration with or alongside the Office of the Auditor General of Canada (or one of the provincial audit offices). The FNAG could be physically co-located with and/or share support services with one of these offices in its start-up period. This would help a new First Nations Auditor General and staff to become familiar with how an audit institution functions and to benefit from the established audit office's experience, training, professional practices, and methodologies. Such collaboration could be formalized through a memorandum of understanding or other such agreement.

More generally, we believe that an FNAG would benefit from the resources and support from the Canadian Council of Legislative Auditors and the International Organization of Supreme Audit Institutions, although this would need to be discussed directly with those organizations.

Could there be more than one First Nations Auditor General?

This research paper, per its terms of reference, focuses on the establishment of a single, national First Nations Auditor General institution.

Many other institutional models are possible. For instance, there could be multiple First Nations auditors general:

- Auditor General institutions could be “Nation-based” (that is, based on the Nation to which citizens belong).
- Auditor General institutions could be aligned with provincial or regional First Nations organizations and federations.

Alternatively, a national FNAG institution could be structured to have a national presence with affiliated Nation-based, provincial or regional offices. The Office of the Auditor General of Canada has regional offices.

These options have not been developed or examined in this paper. They could—perhaps should—be the basis of future discussions among the parties and importantly with First Nations communities, governments, and representative organizations. That said, we do believe that the principles and ideas described in this research paper could be applied to the design and functioning of other institutional models, particularly in the areas of:

- independence,
- public reporting,
- capacity building (through a resource centre) together with the audit function,
- provisions for opting in to the audit regime,
- community-centred engagement and oversight, and
- reporting to an Audit Council.

Appendix A – Performance Audit Primer

What is a performance audit?

A legislative performance audit is an independent, objective, and reliable examination of whether government programs, activities, or organizations are performing in accordance with the principles of economy, efficiency, and effectiveness.

- Economy is about getting the right inputs, such as goods, services, and human resources, at the lowest cost.
- Efficiency is about getting the most from available resources, in terms of quantity, quality, and timing of outputs or outcomes.
- Effectiveness is about meeting the objectives set and achieving the intended results.

Performance audits are also called “systems audits” or “value-for-money audits.”

Legislative performance audits in Canada are conducted in accordance with auditing and assurance standards of the Chartered Professional Accountants of Canada.

In a recent three-year period, legislative audit offices in Canada conducted and reported about 430 performance audits.

What are the core elements of a performance audit report?

There is no standardized format for an audit report. Rather, auditors general choose a presentation and communication style that suits their jurisdiction and Office practices. That said, performance audit reports commonly include:

- audit objective(s) and sub-objectives (the key questions the audit will answer);
- a conclusion against the objective(s);
- a well-defined scope (programs, time period, geography);
- criteria, against which performance is assessed, derived from authoritative sources;
- findings, both positive and negative, backed up with evidence; and
- recommendations to organization management to correct identified deficiencies.

What do performance audits assess?

Performance audits focus on the implementation of policy and programs and the delivery of public services. They typically look at the following areas and ask the following questions:

Results

- Are intended results being achieved?
- Are organizations monitoring and reporting on their own performance?

Systems and processes

- Are management systems and internal controls well designed and operating as designed?

Compliance

- Is the program or organization operating in accordance with applicable laws, policies, and specified authorities?

Risk management

- Is the organization appropriately managing significant risks related to achieving program outcomes and safeguarding public funds?

Governance and oversight

- Do organizations have effective governance practices and regimes?
- Are oversight bodies effectively discharging their responsibilities?

Performance audits do not assess the merits of policy, the adequacy of program resources, or the future state of policies and programs.

How do auditors general choose audit topics?

There is great diversity in the subject matter and programs examined by legislative auditors across Canada. Legislative auditors use different approaches to choosing audit topics and setting long-term audit plans. In general, key considerations include:

- relevance to the Office's mandate and strategic goals;
- the "3 Es" (economy, efficiency, and effectiveness);
- significance and risk;
- auditability;
- resources and team competence; and
- specific requests from legislators.

Who makes sure problems identified by the auditor are fixed?

Legislative auditors make recommendations to organization management aimed at correcting the observed problem and preventing its reoccurrence. Well-designed recommendations are results-oriented, specific enough to allow for assessing progress, and practical, such that the organization can implement them in a reasonable time frame.

Many legislative audit offices monitor and report on how far entities have implemented audit recommendations. Such monitoring is often based on a self-assessment by the entities. Many offices also undertake and report follow-up audits to verify how far entities have implemented and corrected identified deficiencies.

Note, however, that entities are not accountable to the legislative auditor! They are accountable to the legislature through the Public Accounts Committee. Thus, Public Accounts Committees play a vital role by holding entities to account and helping improve delivery of public services.

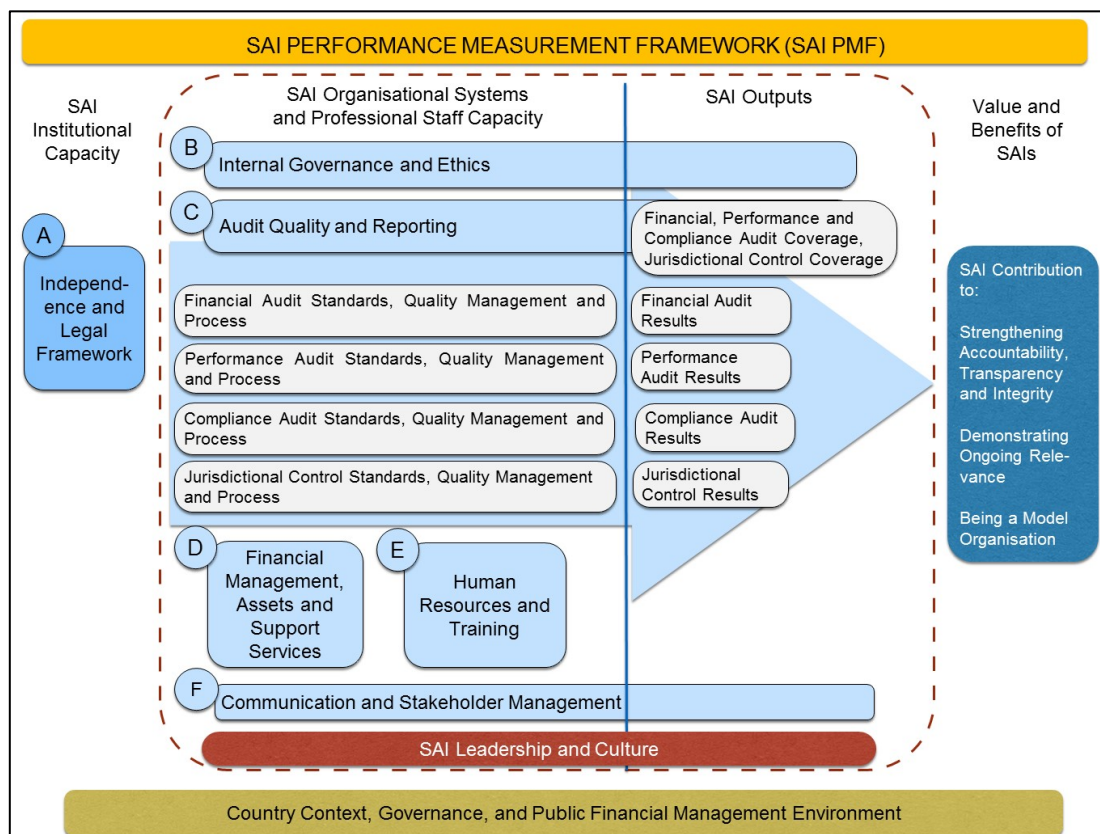
Appendix B – INTOSAI’s Supreme Audit Institutions Performance Measurement Framework

What does a well-performing supreme audit institution look like? The answer lies in INTOSAI’s [Supreme Audit Institutions Performance Measurement Framework](#) (SAI PMF).

The Performance Measurement Framework is a tool used by SAIs around the world to assess their performance against the International Standards of Supreme Audit Institutions (ISSAIs) and other INTOSAI good practices and to identify their strengths and weaknesses. It can be applied in all types of SAIs, regardless of governance structure, mandate, national context, or maturity level.

The SAI PMF focuses on a country’s SAI, and is not tailored toward assessments of the entire public auditing system, which may include other bodies in addition to the SAI. The framework can help improve SAI capacity development and strategic planning by promoting the use of performance measurement and management, as well as identifying opportunities to strengthen and monitor SAI performance, and to strengthen accountability. The SAI PMF gives an overview of the important areas of SAI performance. It covers both the SAI’s internal processes and its outputs. Its standardized scope and objective measure SAI performance in the form of indicators and makes it well suited to compare performance over time. Its structure is shown in **Figure B1**.

Figure B1 – Structure of the SAI Performance Measurement Framework



The SAI PMF consists of two components:

1. Guidance for the performance report, which is the end product of the assessment and which consists of a narrative analysis of the findings.
2. A set of 25 indicators (of two to four dimensions each) for measuring SAI performance against international good practice in six domains:
 - A. independence and legal framework;
 - B. internal governance and ethics;
 - C. audit quality and reporting;
 - D. financial management, assets, and support structures;
 - E. human resources and training; and
 - F. communication and stakeholder management.

The decision to undertake an assessment using the SAI PMF rests with the head of each SAI and is voluntary. The assessment should be evidence based. An SAI PMF assessment does not propose future reform recommendations. Rather, such an assessment may be followed by a process to develop an SAI strategic plan, and/or to identify, prioritize, and sequence proposed capacity development initiatives.

The indicators measure things that are mostly within the SAI's control; that is, its organizational systems and professional capacity. The exception is Domain A, which measures the SAI's independence and legal framework. These factors are mainly decided by other bodies in the national governance system and the SAI has limited influence over them.

The SAI performance report provides the reader with an overall narrative picture of the SAI's performance, including the environment in which the SAI operates, the interdependencies between the different aspects of the SAI's performance, and a detailed assessment of findings and indicator scores. The performance report is the key output of an SAI PMF assessment and provides analysis beyond the indicator scores.

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Acknowledgements

We would like to thank the following individuals for sharing their knowledge and expertise in researching this paper:

AFOA

- Terry Goodtrack

Assembly of First Nations

- Ken Medd
- Dan Wilson

British Columbia Auditor General for Local Government

- Gordon Ruth (Auditor General)

British Columbia Ministry of Community Services

- Rena Bindra
- Lydia Zucconi

Indigenous and Northern Affairs Canada

- Mandy Crow
- Gonzague Guéranger
- Kate Harrison
- Benoit Labelle
- Carey Mathews
- Amy Schroeder
- Jean-Philippe Simard
- Paul Thoppil
- Catherine Ward

Office of the Auditor General of Alberta

- Merwan Saher (Auditor General)
- Maureen Debaji
- Mary Gibson
- John Zabos

Office of the Auditor General of British Columbia

- Sheila Dodds
- Malcolm Gaston

Office of the Auditor General of Canada

- Michael Ferguson (Auditor General)
- Jerome Berthelette
- Hanrui Cui
- Joe Martire
- Anne-Marie Smith

Office of the Provincial Auditor of Saskatchewan

- Judy Ferguson (Provincial Auditor)

Other Individuals

- Brian Bost, KPMG
- Sheila Fraser, former Auditor General of Canada
- Kathleen Lickers, Six Nations of the Grand River
- David Newhouse, Trent University

Canadian Audit and Accountability Foundation Team

- John Reed (Lead Author)
- Lynne Casiple
- Pierre Fréchette
- Yves Gauthier
- Yves Genest
- Laurel Hyatt
- James Oulton
- Nicole Wieczorek

Endnotes

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