

Chalupiak & Associates
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July 26, 2013

Pasqua First Nation
PO Box 79
Pasqua, SK
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Re: Management letter – year ended March 31, 2013

We have been engaged to audit the financial statements of Pasqua First Nation for the year ending March 31, 2013. Canadian generally accepted standards for audit engagements require that we communicate the following information with you in relation to our audit.

Evaluation of Internal Controls

Audits include a review and evaluation of the system of internal controls to assist in determining the level of reliance that may or should be placed on the system in assessing the nature and extent of audit procedures to be undertaken.

The internal control system is adequate and serves its purposes. It provides appropriate control over expenses, and documentation is filed in an orderly manner. However, budgets provide a good measure of internal controls and budgets have not been used effectively.

Significant Accounting Principles

Management is responsible for the appropriate selection and application of accounting policies. Our role is to review the appropriateness and application as part of our audit. The accounting policies used by the Pasqua First Nation are described in note 2, Significant Accounting Policies, in the financial statements.

As is usual with First Nation related entities, often times there is a conflict between generally accepted accounting principles and the principles that must be applied to satisfy the requirements of the funding agencies, as described in the “Auditor’s Handbook” published by AANDC.

The Pasqua First Nation has adopted accounting principles drawn from both areas to suit their specific circumstances.

Significant Unusual Transactions

We are not aware of any significant or unusual transactions entered into by the Pasqua First Nation you should be informed about.

Accounting Estimates

Management is responsible for the accounting estimates included in financial statements. Estimates and the related judgments and assumptions are based on management’s knowledge of the Pasqua First Nation and past experience about current and future events.

Our responsibility as auditors is to obtain sufficient appropriate evidence to provide reasonable assurance that management's accounting estimates are reasonable within the context of the financial statements as a whole. An audit includes performing appropriate procedures to verify the following:

- Calculation of accounting estimates;
- Analyzing of key factors such as underlying management assumptions;
- Materiality of estimates individually and in the aggregate in relation to the financial statements as a whole;
- Estimate's sensitivity to variation and deviation from historical patterns;
- Estimate's consistency with the entity's business plans; and
- Other audit evidence.

Certain accounting estimates are particularly sensitive because they involve a significant degree of judgment and may have a range of possible outcomes.

We did not encounter any unusually sensitive accounting estimates of a significant nature.

Disagreements with Management

We are required to communicate any disagreements with management, whether or not resolved, about matters that are individually or in aggregate significant to the Pasqua First Nation's financial statements or auditor's report. Disagreements may arise over the following:

- Selection or application of accounting principles;
- Assumptions and related judgments for accounting estimates;
- Financial statement disclosures;
- Scope of the audit; or
- Wording of the auditor's report.

We are pleased to inform you that we had no disagreements with management during the course of our audit.

Consultation with Other Accountants (Second Opinions)

Management may consult with other accountants about auditing and accounting matters to obtain a "second opinion." When an entity requests that another accountant provide a written report or oral advice on the application of accounting principles to a specific transaction or the type of opinion that may be rendered on the entity's financial statements, we are required to ensure that the accountant has ensured that the reporting accountant has knowledge of all facts and circumstances and has conducted the engagement in accordance with Canadian generally accepted auditing standards on the Reports on the Application of Accounting Principles. We are not aware of any consultations that have taken place with other accountants.

Issues Discussed

The auditor generally discusses among other matters, the application of accounting principles and auditing standards, and fees, etc. with management during the initial or recurring appointment of the auditor during the normal course of business. There were no major issues discussed during our audit with regards to our retention that were not in the normal course of business.

General Comments

1. In the current year the finance staff had difficulty keeping track of the transactions processed with the visa card and as such do not have all necessary documentation for all transactions. Subsequent to year end there is a new procedure in place to keep track of the cards usage.
2. Accounts payable should be entered in a more timely fashion. Invoices should be date stamped upon their arrival, matched to the purchase orders and entered into Accpac within one or two days. All purchase orders should have amounts and coding on them so that the accounts payable clerk is not guessing as to where expenses should be coded.
3. The First Nation needs to ensure that budgets accurately reflect expected revenues and spending plans. Financial statements comparing actuals to budgets must be reviewed monthly by the various program managers. If the First Nation is entering all accounts payable invoices in a timely fashion then a program manager should be able to ask for a financial statement at any time and have an accurate reflection of where they are at. This would also allow variances to budget – or incorrect coding to be identified and corrected in a timely manner.
4. Assets are being tracked individually in the general ledger by assigning a new code to every asset. This is becoming cumbersome and difficult to maintain. Assets should be tracked in either an excel spreadsheet or a simple asset tracking program. The general ledger should be cleaned up to reflect the types of assets that are reported in the audit.
5. Advances are being coded to individual departments that have been setup. This is not a solution it only serves to clutter up the general ledger and results in a significant amount of time being spent “reconciling” the advances. The practice of issuing advances to staff and members should be discontinued.
6. The rules governing transfers between programs and the First Nation’s ability to be able to retain or defer surpluses has become much more stringent. Due to these new requirements the finance department along with program managers need to be on top of their financial reporting on a regular basis. The Band cannot wait until the end of the year (during audit time) to clean things up (moving expenses between programs, re-allocated revenue, etc.).
7. As the First Nation continues to progress and move forward, it will become involved in more business ventures. As this happens the Chief and Council are then managing two distinctly different types of activities: the delivery of programs and profit oriented business. We believe that it is important to keep a distinct separation between the two different activities. As it is right now the operation of the Pit Stop, because it is not incorporated, gets reported on the audit just like all the other programs and it becomes part of the operating fund. If the Pit Stop was incorporated as a separate entity, the activities would

be reported differently on the consolidated financial statements. It would not get lumped in with the operating fund, but would be reported as a separate fund. This then makes it quite easy to distinguish between program delivery and investment activities.

We thank you for the opportunity to provide audit services to the Pasqua First Nation. If we can be of assistance in any other way, please do not hesitate to contact us.

This communication is prepared solely for the information of the Pasqua First Nation and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

To ensure there is a clear understanding and record of these matters, we ask that you sign your acknowledgement in the spaces provided below and return one copy to us.

Should you wish to discuss or review any matter addressed in this letter or any other matters related to financial reporting, please do not hesitate to contact us at any time.

Yours truly,

Chalupiak & Associates

Acknowledgement

We have read and reviewed the above disclosures and understand and agree with the comments therein:

Signed on behalf of Pasqua First Nation.

Date: _____