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July 28, 2011

Pasqua First Nation
PO Box 79
Pasqua, SK
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Re: Management letter – year ended March 31, 2011

We have been engaged to audit the financial statements of Pasqua First Nation for the year ending March 31, 2011. 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 INAC.

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. As of March 31, 2010 – due to the reporting requirements change - assets that are acquired are no longer recorded as expenses but the depreciation for all assets, including CMHC houses is now recorded as an expense in the financial statements. Loan proceeds are no longer recorded as revenue and the principal portions of loan payments are no longer recorded as an expense.
2. It is imperative that the First Nation has adequately trained staff in the finance department and to utilize outside resources where necessary to complement the existing staff. If this is not addressed, the problems experienced in the past couple of years will be compounded in future years due to the increased complexity of the new reporting requirements.
3. The budgeting process could be improved by developing some standard forms that would be used by all of the departments. This information should then be entered into the Accpac system so that monthly actual to budget comparison reports could be produced. This information should help the department heads manage their programs better. The budgeting process and subsequent entering of the budget data was not done for the majority of the programs. Therefore any financial reports that the program managers reviewed throughout the year did not have the budget information or variance figures which could result in over or under spending in specific areas. There were several instances where the budgeted revenue was entered as a debit instead of a credit which resulted in financial statements printing with budgets that showed negative numbers for revenue. When reviewing the overall budget that was entered into Accpac – it was evident that financial statements with budget comparatives had not been reviewed throughout the year. This results in the potential for poor management decisions to be made. At the very least, quarterly financial statements should be reviewed in detail and budget variances should be looked at carefully to ensure that any areas that are over or under budget are corrected.
4. As you will notice from the audit, it is quite lengthy. Each program in your general ledger is reported as a separate program in the audit. It is a good practice to capture and report information at a detailed level for management purposes at the departmental level. However, too much detail can lead to confusion once it goes beyond the people directly involved in the program. It might be beneficial to summarize the information at a higher level when it goes to Chief and Council for review and for the year end audit. Your general ledger is set up in such a manner that with a minimal amount of effort, it could be changed to produce summarized reports.
5. 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. I 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.

It was a pleasure to work with the staff and I thank you for the opportunity to provide audit services to the Pasqua First Nation. If I can be of assistance in any other way, please do not hesitate to contact me.

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,

Ed Chalupiak, CMA

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: _____