

July 11, 2017

Mr. Rob Bullock  
Ahousaht First Nation  
General Delivery  
Ahousaht, BC V0R 1A0

Dear Mr. Bullock:

**Management letter for the year ended March 31, 2017**

We have recently completed our audit of Ahousaht First Nation in accordance with Canadian generally accepted auditing standards (“GAAS”). The objective of our audit was to express an opinion on the consolidated financial statements, which have been prepared in accordance with Canadian public sector accounting standards. Included in our audit was the consideration of internal control relevant to the preparation and fair presentation of the financial statements. This consideration of internal control was for the purpose of designing audit procedures that were appropriate in the circumstances. It was not for the purpose of expressing an opinion on the effectiveness of internal control or for identifying all significant control deficiencies that might exist.

An audit is not specifically designed to identify all matters that may be of interest to management in discharging its responsibilities, however, during the course of our audit, we did, identify some areas for improvement that we are bringing to your attention with this letter. It is our responsibility to communicate any significant deficiencies identified to those charged with governance. A significant deficiency in internal control is defined as a deficiency or combination of deficiencies in internal control that, in the auditor’s professional judgment, is of sufficient importance to merit the attention of those charged with governance.

**Bank Reconciliations, Outstanding Cheques and Deposits**

**Observation:**

Bank reconciliations for all Ahousaht First Nation's bank accounts were not prepared on a monthly basis as a month end procedure and were instead reconciled subsequent to year end. The bank reconciliations for Ahousaht administration were not prepared. Deposits during the year and all Electronic Fund Transfers were not recorded during the year and were recorded subsequent to year end. We also noted that several large cheques had been outstanding for several months and numerous outstanding deposits were outstanding that related to invoices that were subsequently reversed.

**Impact:**

Failure to reconcile bank statements to the general ledger on a regular and timely basis may lead to errors in financial reporting, and can result in errors or fraudulent activities going undetected. Tracking both outstanding cheques and deposits per the bank reconciliation is an important control procedure which ensures that all outgoing cheques or deposits are accounted for, that all vendors have been paid and revenues have been recorded accurately, and helps to reduce opportunities for errors or fraudulent activities to go undetected. In addition, the existence of large outstanding cheques or deposits hinders the accounting department from being able to reflect an accurate cash balance for the financial statements and adds an additional step to the bank reconciliation.

**Recommendation:**

We recommend that bank statements be reconciled to the general ledger on a monthly basis, and that all significant or suspicious reconciling items be promptly investigated and adjusted with adequate documentation. That outstanding cheques be monitored and investigated as a part of the monthly bank reconciliations, stale-dated cheques should be cancelled, and stop-payments should be sent to the bank, when necessary. We recommend that all outstanding deposits related to reversed invoices are cleared out of stale dated deposits and outstanding deposits are monitored on a regular basis.

## **Accounts Payable Module**

### **Observation:**

During our audit we noted that the accounts payable module in Xyntax is not being utilized correctly. This has resulted in the accounts payable aged listing report not tying into the general ledger account which in turn makes it difficult to determine what is included in the accounts payable balance, in addition we noted that the accounts payable aged listing includes multiple cancelled cheques that have not been cleared out correctly.

### **Impact:**

Not reconciling the accounts payable subledger to the general ledger on a regular basis can result in inaccurate financial reporting and a lack of understanding of how much money is owed to vendors at any given time, which can interfere with cash flows and forecasting.

### **Recommendation:**

We recommend that the Nation reconcile the accounts payable sub-ledger to the General Ledger and obtain Xyntax software support. Once cleaned-up, on an ongoing basis the AP sub-ledger should be utilized we recommend the Controller reviews the accounts payable listing on a monthly basis to ensure it agrees to the general ledger account and that outstanding invoices are paid.

## **Credit Card Payments**

### **Observation:**

During our audit we noted that credit card statements are often paid without receipts attached to support all of the purchases on the statement. In addition, we noted that the credit card transactions were not recorded during the year in the General Ledger and instead were recorded subsequent to the year end.

### **Impact:**

Not recording the transactions results in inaccurate financial information as expenses have not been recorded. Paying the credit card balance without receipts could potentially result in purchases being paid for which are not band related expenses.

### **Recommendation:**

We recommend the finance staff reconcile the credit card statements monthly, recording all transactions and require that receipts be attached to the credit card statement to support all the items purchased, including having the card holder identify the purpose of each purchase on the receipts. A cheque requisition should accompany the credit card statement and require the approval of the person that the card holder reports to and, as noted before, the cheque requisition should also be approved by the Controller. The Band Administrator's credit card payment should be approved by a designated Councillor.

## **Payroll - Wage Rate Approval and Employee Contracts**

### **Observation:**

During our audit we noted a significant number of employees without approved wage rates included in their employee files and there are no up to date signed contracts in any of the employees personnel files. Further, we noted that there are employees who do not have a personnel file.

**Impact:**

A signed contract is necessary to confirm that both the employee and the employer has settled on a legally binding arrangement for the employee to complete certain duties under a specific title and that in return the employer will provide the employee with remuneration in form of an agreed upon wage for completing these tasks. By not completing this contract, it creates potential for employees to be paid a rate higher than that approved by management and therefore could potentially increase wage costs for the Nation.

**Recommendation:**

All employee personnel files should be updated to include the current employment contract with approved wage rate and should be signed by the employee and an authorized representative of the band. The current approved wage rate letter should be signed by the manager and the employee. All future wage rate changes should be photocopied and included in the personnel file.

**Payroll - Overtime****Observation:**

During our audit, we noted that overtime is not being tracked automatically. Upon review of time sheets and paystubs it was noted that Xyntax does not automatically adjust the ATO banked time. The payroll clerk must manually adjust each individual's overtime bank and no further review is done to track the accuracy of this banked time.

**Impact:**

By not reviewing employees banked time it leaves room for errors where employees may end up accruing more time off than they are owed leading to additional time off. On the other hand, it could lead to not enough time being accrued for employees time off which could lead to employees' mistrust and ill feelings towards management.

**Recommendation:**

We recommend the Nation work with Xyntax to create an automated adjustment to the accrual banks in order to alleviate the potential for manual errors. If this is not possible, an adjustment report should be generated with each payroll by the payroll clerk and reviewed by the Controller to confirm the adjustment made matches the time sheet submitted.

**Housing Department - Segregation of Duties - Cash****Observation:**

There is currently a lack of segregation of duties around cash, demonstrated by the fact that the same person is responsible for collecting, reconciling and depositing rental payments.

**Impact:**

This can result in lost or misappropriated funds, or inaccurate financial reporting.

**Recommendation:**

We recommend that where possible, the responsibilities for managing cash and for record-keeping be kept separate to ensure adequate supervision and security over cash.

**Housing Department -Rent Receivable Statements**

**Observation:**

During our audit work we noted that monthly statements are not being sent to tenants regarding outstanding rent as management determined that outstanding rental arrears would be waived or eliminated for the fiscal year.

**Impact:**

As management has determined to waive/eliminate rental arrears, statements not being sent out does not impact the Nation for the fiscal year. However, we recommend that the Nation continue to track outstanding rental arrears.

**Recommendation:**

We recommend that tenant statements regarding outstanding balances be sent out on a monthly basis going forward to ensure that no disputes occur over balances due, to ensure potential errors in accounts receivable are identified and addressed in a timely manner and that the Nation collects funds to enhance cash flows.

**Purchasing approval limits****Observation:**

During our audit, we noted that there were purchases during the year over the finance policy's authorization limit of \$25,000 that did not have indication of Chief and Council approval. Per the Ahousaht First Nation Finance policy purchases over \$25,000 are required to have a tender call/request for proposal and are to be approved by Chief and Council resolution. We noted that these purchases were not included in Chief and Council meeting minutes.

**Impact:**

This results in the Nation not following its finance policy in place and could potentially result in purchase decisions being made that Council has not provided oversight on.

**Recommendation:**

We recommend that the purchasing approval limits policy should be used and approval of expenses over \$25,000 should be approved with a Chief and Council resolution. The approval should be recorded in the Chief and Council meeting minutes. The policy should be reviewed and updated re regarding awarding of contracts and the tendering process based on governing objectives.

**GST****Observation:**

During our audit, it was noted that the GST was charged on the Nation's invoices but not remitted to Canada Revenue Agency

**Impact:**

GST collected is required to be remitted to Canada Revenue Agency therefore the Nation is liable to remit these amounts and may be subject to penalties for late filing.

**Recommendation:**

We recommend that the GST should not be charged on Nation's invoices unless the annual revenue exceeds the \$30,000 threshold in line with the Canada Revenue Agency regulations.

**Ahousaht Fishing Corporation**

**Observation:**

The Ahousaht Fishing Corporation financial statements were not available at the time of the Ahousaht First Nation audit report date for the fiscal years ended March 31, 2017 and March 31, 2016.

**Impact:**

As a result we were unable to determine the effect on the Nation of any adjustments that would be necessary as no financial information was available from the Ahousaht Fishing Corporation. This resulted in an audit qualification in the 2016 and 2017 audit report.

**Recommendation:**

We recommend that the Ahousaht Fishing Corporation financial statements be audited and prepared in accordance with IFRS. If the Corporation does not comply, the Nation can exercise its shareholder's rights to select the board of directors.

We have discussed the matters in this letter with Rob Bullock, Executive Director and received his comments thereon.

We would like to express our appreciation for the co-operation and assistance we have received during the course of our audit.

We would be pleased to discuss with you further any matters mentioned in this letter at your convenience. This communication is prepared solely for the information of management and is not intended for any other purpose. We accept no responsibility to any third party who uses this communication.

Sincerely,

*MNP LLP*

**Chartered Professional Accountants**

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