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December 9, 2024

Peguis First Nation
P.O. Box 10
Peguis, MB
R0C 3J0

Our File No. 5443

Dear Sirs and Mesdames:

Re: Audit of March 31, 2024 Financial Statements

The objective of our audit was to obtain reasonable assurance that the financial statements were free of material misstatement; our audit was not designed for the purpose of identifying matters to communicate. Accordingly, our audit would not usually identify all such matters that may be of interest to management and it is inappropriate to conclude that no such matters exist.

During the course of our audit of Peguis First Nation ("the Organization") for the year ended March 31, 2024 we did not identify any significant deficiencies in internal control.

It is important to note that management is responsible for ensuring that Peguis First Nation has adequate internal controls and uses sound business practices as part of its overall responsibility for the ongoing activities. Peguis First Nation's policies and procedures are present to:

- safeguard its assets, and
- provide reasonable assurance that errors, irregularities or illegal acts are promptly identified.

Further, these policies and procedures should be properly monitored to ensure that all staff comply with the guidelines provided.

Action taken on significant deficiencies communicated in prior years is as follows:

Audit preparation

Observation and implication

Prior to the commencement of our audit field work, we provided the First Nation with the audit checklist that would list all records required for our examination. There were some instances where we had to request the records and/or obtain them from other sources in order to complete our examination

Action taken by management

We recommend that our audit checklist is reviewed carefully in the process of preparation for the audit. Although the checklist is not exhaustive and we might require additional information during our visit, the items on the list should be available for our review before the field work begins. This process will ensure timely completion of our examination and would allow the First Nation to file the consolidated audit on time. For us to be able to meet the filing deadline mentioned, we would require sufficient time to complete our audit, evaluate the evidence and conclude in order to express an opinion. This process can only be completed if the records are available for our examination early.

Accounts Receivable

Observation and implication

During the audit, we observed issues related to the completeness and existence of accounts receivable. Specifically, it was observed that the First Nation did not completely maintain the accounts receivable sub-ledger during the year. This can be attributed to how the customers and related parties are set up in the accounts receivable module and how entries are made. As a result, any entries posted to the customers and related parties resulted in the receivables not reconciling from the subledger to the control account. This will result in inaccurate balances and will not allow management to be able to generate reliable reports to follow up on outstanding receivables.

Action taken by management

To improve tracking and reporting of receivables we recommend the accounts receivable finance clerk first reconcile the subledger based on our calculated balance as of March 31, 2023. Next, we recommend that the clerk re-evaluate the customer coding and delete any inactive customers and related party accounts. Once this task has been completed, we recommend the clerk maintain and reconcile its accounts receivable subledger monthly. The aged accounts receivable balance should agree to the balance in the general ledger at month-end. Payments received for amounts invoiced should be receipted in the accounts receivable subledger and applied to invoices. The clerk should consistently follow up with outstanding amounts from customers and make necessary adjustments for any under or over paid amounts. It is also recommended the module be locked to prevent unauthorized adjustments to any outstanding receivables.

GST Receivable

Observation and implication

During the audit, we identified that there is outstanding GST receivable to be claimed from prior and current years. The First Nation did not file any GST claims to CRA during the year and are currently non-compliance with the filing requirements. Failure to submit the reports by its deadline, will result in unnecessary penalties and interest, as well as potential refunds not being received because of statute limitations for the claimable period.

Action taken by management

We recommend that GST accounts are created for each entity. The recording of GST paid for eligible expenditures be recorded consistently in a separate GST rebate account. In addition, it is recommended that the request made by the professional who are engaged to prepare the GST returns are provided the information to properly complete the returns in a timely manner.

Inventory

Observation and implication

During the audit, we identified that the management of inventory for other related entities have weaknesses in the overall monitoring of fuel, grocery, retail products, and other miscellaneous items. By not managing and keeping track of inventory, given the inherent nature of the items being sold, they are susceptible to theft, spoilage, and obsolescence. This will result in adverse financial implications and costs which will affect the profitability of the entity.

Action taken by management

For fuel and gas inventory, we recommend that a dip count reading be performed at the beginning of daily business operations and the end of each business day to ensure that the gas levels have been accounted for. The other items, such as grocery, retail, and other products and supplies, should be counted monthly, to ensure that all items sold and purchased are properly accounted for. In addition, any amounts that are spoiled should be monitored and kept track of. Tobacco and cigarette products should be counted at the end of each shift since these are highly susceptible to theft.

Tangible Capital Assets

Observation and implication

During the audit, we have observed that there are issues related to the completeness, existence, and valuation of the tangible capital assets as well as the accuracy of the amounts recorded in the accumulated amortization. There is an improper tracking of costs in the general ledger as well as a lack of documentation to support the additions during the year, specifically on the large construction in progress projects, acquisition of the furniture and equipment, tools, and supplies. Failure to maintain a complete listing of tangible capital assets acquired could result in cost overruns of the large capital projects.

Action taken by management

We recommend that a tangible capital asset continuity schedule should be maintained monthly. The capital asset schedule should identify all assets purchased and itemized. All capital asset acquisitions should be recorded in the corresponding asset account, and supporting documentation related to these transactions should be maintained on file. Any disposals during the year should be identified on the continuity schedule and the supporting documentation related to these disposals should be maintained. The amortization related to these capital assets should be recorded monthly and the adjusting journal entries related to these accounts should be prepared, reviewed, and approved by management.

Accounts Payable

Observation and implication

During the audit, we identified that the First Nation does not maintain an accurate accounts payable subledger. This can be attributed to how the vendors and related parties are set up in the payable module and how entries are made to these corresponding vendors set. Transactions posted to the vendors and due to related parties, who are not set up properly resulted in variances in the control account and the subledger. Having inaccurate subledgers can result in incomplete payables listing, thus, incurring unnecessary service charges, penalties, and interest. In addition, there are delays in the delivery of invoices to the payable clerk for the various departments. As a result, the trade payables are not always entered in a timely matter in the subledger, resulting in a completeness issue with payables.

Action taken by management

We recommend that a proper reorganization of the vendors and related party accounts in the payables subledgers must be completed first and any inactive vendors should be excluded from the vendor list. All liabilities should be reconciled to the vendors' statement of account, received monthly, and any payments should be recorded as an offset to the proper subledger account. Invoices received shortly before the year ended with the March 31st date should be recorded as soon as received and allocated to the proper fiscal year. The payables clerk should also ensure that any invoices received subsequent to year end, are reviewed in detail to ensure that it is recorded in the subledger in the correct period. This practice will assure proper cut-off and the accuracy of expenditures reported throughout the year when compared to budgeted amounts to identify the correct variance.

Continued improvements in the accounts payable ledger are still required. An accurate ledger will facilitate careful management of day-to-day cash flow to ensure that all commitments are met. A monthly reconciliation of the accounts payable subledger to the general ledger would be useful in locating discrepancies and assessing the cash flow and payment requirements of the First Nation. It is highly recommended that no general ledger journal entries are recorded in the control accounts. It is also recommended the module be locked to prevent unauthorized adjustments to the payables. Adjustments are to be made in the payables module instead of issuing credit notes as the risk of errors will increase.

Accrued Liabilities

Observation and implication

During the course of our audit, we have noticed that liabilities accrued in the prior year were not reversed and that some of the prior year payables were still reported on the balance sheet with payments recorded as expenditures.

Action taken by management

We recommend that all accrued liabilities, which include payroll liability, source deduction, and trade liabilities at the year-end should be reversed throughout the year as payments to employees or vendors are being issued. The accounts payable module should be correctly utilized by recording invoices and payments in individual subledger accounts. These practices will ensure the accuracy of payables and expenditures reported throughout the year when compared to budgeted amounts to identify the correct variance.

Long-term Debt

Observation and implication

During the audit, we identified that the long-term debt accounts were not recorded properly as the full payments were expensed during the year rather than reducing the liability and expensing the interest portion. There were also some debt obligations that were not recorded as a liability, but rather the payments were expensed completely. This resulted in the understatement of long-term debt, and overstatement of expenditures. As a result, audit adjustments were made to correct the balances.

Action taken by management

We recommend that all payments on the long-term debt, when recorded in the general ledger, be classified partially as principal repayment as an offset to the proper liability account and interest that is expensed on the proper operating statement and allocated to the correct program. Proceeds of any new loans should be recorded as soon as the proceeds are deposited in the bank account or issued for various payments as intended by the loan application. All balances of long-term debt should be agreed to the monthly statements received from the financial institutions. We were able to confirm all balances with the financial institutions and/or funding agencies.

Due from (to) Related Parties

Observation and implication

During the audit, we observed that there are issues related the completeness, existence, and valuation of the due from (to) related parties as well as the completeness, existence, accuracy and occurrence of the revenues and expenditures related to these transactions. A detailed review of the corresponding entity's records has indicated that many of these balances were not reconciled, some of the amounts were included in the accounts receivable and accounts payable subledgers. There was also a lack of supporting documentation to support these transactions. This can result in adverse financial impact on the performance of the entities, as funds transferred to different entities may never be collected and that could impact the cash flow position of the organization. In addition, expenditures that have been paid by entities may have been incorrectly recorded in the general ledger as expenses rather than related party receivables. This will result in funds being tied up in other entities, which otherwise would have been utilized in the program, for the purposes of meeting the objectives of the organization.

Action taken by management

We recommend that all intercompany transactions must be reviewed and approved by management monthly. All the transactions for both parties must be prepared by the corresponding entities, and all supporting documentation should be prepared and maintained. At the end of each month, the entities with related party balances should confirm the balances to ensure that they agree.

Another recommendation would be to stop using due from (to) accounts, but rather record the transactions through the subledgers. Payments made on behalf of related parties or fund advances should issue sales invoices through the accounts receivable module. The recording of expenses paid by the related party should record the invoices received in the accounts payable subledger. This will eliminate the requirement to record journal entries related or bank entries which will decrease the risk of posting errors.

Revenue

Observation and implication

During the audit, we observed that there is a completeness issue with the revenues and receivables, for there were revenues that were deemed receivable, from funding agencies and other sources, that were not recorded. For example, in Peguis School Board, there was funding that was not invoiced to a school division for two fiscal periods. Further, we also observed that revenues were not being recorded under the proper program for which they were granted. If the revenues are not properly recorded in the period that they are recognized, Chief and Council would not be able to determine whether the resources available are being properly allocated to the respective programs and meeting the objectives set out in the funding agreements.

Action taken by management

We recommend that the funding agreements and other revenue should be recognized and recorded when the criteria are met. At the end of each month, finance and management should review the programs to ensure that the revenues have all been recorded, and that the amounts reconcile to the amounts in the agreement. Reconciliation of the cash flows and amounts recorded should be reconciled by finance and reviewed by management to ensure that the amounts are complete and have been accurately recorded. Because the invoicing to third parties is done by the finance administration, program managers should follow up regularly with the receivable clerk to ensure that the invoices are sent, and that outstanding amounts are followed up monthly.

We would also like to communicate the following matters that we believe may be of interest to you:

Cash and Equivalents

Observation and implication

During the audit, it was observed that bank reconciliations were not performed on a timely basis, resulting in discrepancies in the bank statements. Additionally, there were stale items and older transactions that were adjusted through the audit processes. This lack of timely reconciliation can lead to inaccurate financial reporting, increased risk of undetected errors or fraud, and potential financial issues.

Recommendation

To address this issue, it is recommended that the entity implements a strict schedule for regular bank reconciliations, ensures that all discrepancies are promptly investigated and resolved. This will help maintain accurate financial records and enhance the overall reliability of the financial statements.

Observation and implication

During the audit, it was observed that the bank accounts did not equate to the amounts of the deferred revenue. This discrepancy indicates a need for segregated cash accounts to ensure proper allocation of funds. Additionally, it was noted that cash liquidity management needs to be prioritized to ensure there is enough cash available to deliver the projects. This issue can lead to potential cash flow problems, affecting the entity's ability to meet its financial obligations and deliver on its projects.

Recommendation

To address this issue, it is recommended that the entity establishes segregated cash accounts for deferred revenue and implements a robust cash liquidity management system. This will help ensure that sufficient funds are available to support ongoing and future projects, thereby enhancing financial stability and project delivery.

Accounts Receivable

Observation and implication

During the audit, we have noted rent receivables that were no longer collectible based on two-year write-off policy and receivables that were uncollectible due to deceased employee. Necessary adjustments were made to reflect correct receivables and AFDA balances.

Recommendation

We recommend review and clean-up of AR subledgers to ensure accurate allowances are provided and collection of outstanding items are updated.

Observation and implication

During the audit, we noted that receivables from ISC were not reconciled against ISC confirmation year end March 31, 2024. Necessary adjustments were made to reflect correct balance of receivable as well as revenue for the year.

Recommendation

We recommend regular monitoring of ISC transfers by keeping a subledger reconciliation to ensure updated and accurate balance of ISC receivables.

Prepaid Expenses

Observation and implication

During the audit, it was observed that the prepaid account was being utilized as a clearing account and was not monitored appropriately. This oversight led to inaccuracies in the valuation of prepaid assets. To address this issue, necessary adjustments were implemented to ensure the correct valuation of these assets.

Recommendation

To prevent similar issues in the future, we recommend instituting a regular review process for the prepaid account. This will help ensure that all entries recorded in this account are strictly related to prepayments, thereby maintaining accurate financial records and enhancing overall financial management.

Investments

Observation and implication

It was noted that the share in net loss from investment in Aseneskak Casino was not reflected in the books. This resulted in the balance of investment being incorrect and do not match with the confirmation from the financials of Aseneskak Casino.

Recommendation

We suggest to regularly monitor movements in the balance of investment accounts such as share in net income or loss. This will ensure proper presentation of the balance of investment accounts.

Related Party Balances

Observation and implication

During the audit, it was observed that there are no related party reconciliations being conducted, and there are unknown program movements causing significant issues in the delivery of programs. This lack of reconciliation is also leading to discrepancies in financial records and delays in ISC filings. The absence of related party reconciliations and the unidentified program movements are causing inaccuracies in financial reporting, which can lead to non-compliance with regulatory requirements. This situation is also resulting in delays in ISC filings, which must be up to date by 2025. Failure to address these issues could result in potential clawbacks and lack of service delivery.

Recommendation

It is essential to implement a robust system for identifying and reconciling related party transactions. This includes establishing clear procedures for tracking program movements and ensuring accurate and timely financial reporting. Quarterly audits of the reconciliation are needed and should be conducted to ensure compliance with ISC requirements and to prevent future delays in filings.

Accounts Payable and Accrued Liability

Observation and implication

During the audit, we noted that some of the invoices are not readily available for trade suppliers and there are debit balances that requires review.

Recommendation

We recommend regular review of subsidiary ledgers to ensure proper valuation of payables and monitor debit balances if requiring cancellation or process claim on overpayments.

Observation and implication

During the audit, we noted that payroll payables were not supported with respective reconciliation report on a regular basis. The balances were adjusted based on the actual payments made to the respective institution such as Receiver General and Manulife.

Recommendation

It is recommended to maintain account reconciliations to monitor accruals and accuracy of payroll remittances as per supporting document on a monthly or quarterly basis.

Leases

Observation and implication

During the audit, we noted that lease balances do not agree as per lease recalculation as of March 31, 2024. Necessary adjustments were made to ensure accurate valuation of the lease payables for the year.

Recommendation

We recommend regular review of lease balances per account to ensure accurate amounts are being recorded monthly. This will ensure proper valuation of the lease payables and agrees with lease calculation as support.

Operating Expenses

Observation and implication

During the audit, we noted transactions that were coded as expense that needs to be reallocated to capital assets - construction in progress. Necessary adjustments were made to reflect correct balances.

Recommendation

We recommend monthly or quarterly review of large amount disbursements that are related to capital assets to ensure correct accounting of transactions and reflect correct balances of accounts.

Amortization

Observation and implication

During the audit, we noted that amortization entry was not recorded for the year for most of the capital assets. Necessary entry was made to agree balances as per amortization schedule.

Recommendation

We recommend maintaining amortization schedule updated in a timely manner to ensure balances are accurate and to ensure all necessary amortization entries are being recorded.

This letter is intended solely for the use of the Peguis First Nation's Chief, Council, and management, and should not be used for any other purpose, including distribution to third parties. The comments and concerns expressed herein did not have a material effect on the Peguis First Nation's financial statements and, as such, our opinion in respect of these matters is not qualified. However, in order for the Peguis First Nation to ensure the safeguarding of assets and the accuracy of its records, we believe our comments and concerns should be taken into consideration by management. Our comments are not intended to reflect on the honesty or competence of Peguis First Nation's employees.

In closing, we appreciate the co-operation from you and your staff during our audit visit. If you have any questions, please do not hesitate to contact us. Furthermore, if we can be of assistance in implementing the above recommendations, we would be pleased to hear from you. It is a pleasure for us to be of service and look forward to many more years of association with you.

Yours very truly,

BAKER TILLY HMA LLP

A handwritten signature in purple ink, reading "Michael Angers", with a long horizontal flourish extending to the right.

Michael P. Angers, CPA, CA
Partner