



Grant Thornton

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Dear Chief and Council of Bear River First Nation:

Re: Internal control findings from the 2015 audit

In connection with our audit of Bear River First Nation (the “First Nation”) consolidated financial statements as of March 31, 2015 and for the year then ended, the Canadian Auditing Standards require that we advise management and the Chief and Council (hereinafter referred to as “those charged with governance”) of the following internal control matters identified during our audit.

Our responsibilities

Our responsibility, as prescribed by the Canadian Auditing Standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit includes consideration of internal control over financial reporting (hereinafter referred to as “internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of identifying deficiencies in internal control or expressing an opinion on the effectiveness of the First Nation’s internal control. Accordingly, we express no such opinion on internal control effectiveness.

Identified deficiencies in internal control

We identified the following internal control matters as of the date of this letter that are of sufficient importance to merit your attention

Material weaknesses

A deficiency in internal control (“control deficiency”) exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the First Nation’s annual or interim financial statements will not be prevented or detected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control that, individually or in combination, may be material weaknesses. However, we consider the following identified control deficiencies to be material weaknesses.

We did not identify any new material weaknesses in the current year. In our letter dated July 25, 2014, we communicated the following material weaknesses that have not been remediated as of the date of this letter.

Segregation of duties and mitigating fraud risk within the First Nation

As is common with small organizations, there exists segregation of duties issues within your organization. Most notably, the accountant performs a number of finance duties including recording and reporting of financial information.

It is our understanding that the First Nation continues to address the risks introduced by the lack of segregation of duties, by involving the Band Manager in the finance process and working closely with Chief and Council and the Confederacy of Mainland Mi'kmaq (CMM) to provide oversight and monitoring controls.

We recommend these parties continue to be made part of the finance process.

Management comments

Significant deficiencies

Our audit was also not designed to identify deficiencies in internal control that, individually or in combination, may be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the First Nation's financial reporting (also referred to as those charged with governance).

We consider the following identified control deficiencies to be significant deficiencies.

In our letter dated July 25, 2014, we communicated the following significant deficiencies that have not been remediated as of the date of this letter.

Preparation of Canadian public sector accounting standards (PSAS) financial statements

The First Nation continues to be dependent upon external parties for the preparation of financial statements in accordance with PSAS and also in accordance with requirements set out by Aboriginal Affairs and Northern Development Canada (AANDC) and other funding bodies.

We understand that finance staff has attended an information session in the current year to increase their understanding of the aforementioned reporting requirements. We recommend that the First Nation continue to attend available training sessions in order to increase their knowledge and awareness of these standards.

Audit committee and internal audit functions

As in prior years, there continues to be no audit committee or internal audit functions in place at the First Nation. Chief and Council and the Band Manager continue to perform this function.

As such, the responsibilities of audit committees should be reviewed to ensure the Chief and Council are performing the function adequately. Some of the functions of the audit committee are to oversee financial reporting and oversee internal audit functions within the First Nation, including testing of controls.

We continue to recommend that the First Nation consider developing some informal internal audit functions to put in place a process for monitoring internal controls. Without monitoring, the First Nation is unable to access whether internal controls are operating as designed.

Other advisory comments**Social services income testing**

We continue to note social services income testing is not carried out for all social services recipients, and we continue to recommend a process for testing the income of all new social services recipients and regular verification of others be developed. In addition, we continue to recommend management contact AANDC to ensure proper procedures are being followed.

Canada Mortgage and Housing Corporation (CMHC) income testing

We continue to recommend management perform verification of the income of the recipients of the CMHC Housing and perform rent calculations as required in the operating agreement. We understand the First Nation is aware that the aforementioned are requirements of CMHC and non-performance could have consequences on future funding agreements. As we noted in the prior year, discussions with CMHC have indicated consideration is being made to withhold subsidies in the event of non-compliance in the future.

Online banking

As previously reported, the First Nation utilizes online banking to electronically transfer payroll, pay utility bills and transact with the main supplier for the Gas Bar. Chief and Council should be aware that access to the bank accounts exists and ensure proper controls are put in place to prevent the risk of fraud or error.

We are pleased that monitoring controls have been implemented during the year, as Chief and Council now have access to view accounts online in order to scan for irregular activity. In addition, we recommend that Chief and Council consider the addition of electronic controls, such as requiring a second individual to approve online payments and transfers within the electronic banking system for balances over a designated threshold.

Issues Resolved in the Current Period**Gas Bar viability**

We are pleased to note another successful year at the Gas Bar. It has continued to make significant improvements in financial performance over the past several years. We recommend that Chief and Council continue to monitor the Gas Bar results on a monthly basis to ensure the level of profitability is maintained.

Develop and implement business, risk assessment and disaster recovery plans

We understand the First Nation is continuing to work on business planning processes and has taken significant steps in the current period. The First Nation has developed and approved new policies, including those covering finance and human resources. As well strategic reviews of segments of the organization have begun.

It remains important for the First Nation to identify the internal and external business risks to the First Nation. We recommend that you continue with the current initiatives and perform community-wide strategic planning that should be reviewed on a regular basis and formalized to include business risk assessment and business plans.

Conclusion

This communication is intended solely for the information and use of management, those charged with governance and others within the First Nation and is not intended to be and should not be used by anyone other than these specified parties.

Yours sincerely,



Gloria Banks, CA
Principal