# AUSTRALIAN ALPACA ASSOCIATION LIMITED

Audit Closing Report to the Board

Year ended 30 June 2021

September 2021



RSM

CONTENTS

# 1. AUDIT CLOSING REPORT

Dear Board members,

We are pleased to present our closing report to the Board of Australian Alpaca Association Limited (AAA) in relation to our audit of the financial report for the year ended 30 June 2021.

As at the date of this report we are in a position to issue an unmodified audit report on the financial statements of the AAA subject to the satisfactory completion of the following matters:

- Final review of financial statements
- Subsequent events procedures
- Board members' clearance
- Receipt of the signed management representation letter
- Receipt of the signed Directors' Declaration and Directors' Report

Included in the attached report are matters arising from our audit of the financial report of Australian Alpaca Association Limited for the year ended 30 June 2021 which we consider appropriate for the attention of the Board. These matters have been discussed with senior management of the Company and their comments have been included, where appropriate.

We would like to take this opportunity to extend our appreciation to management and staff for their assistance and cooperation during our audit.
If there are any matters which you would like to discuss concerning our audit, please do not hesitate to contact myself.

GStenhouse

Ged Stenhouse
Partner
Date: 16 September 2021

*Disclaimer: This letter has been prepared for the sole use by the Board of Australian Alpaca Association Limited It must not be disclosed to a third party or quoted to or referred to without our written consent. No responsibility is assumed by RSM Australia Partners to any other person.*

## 2. EXECUTIVE SUMMARY

We intend to issue an unmodified independent auditors report on the financial statement of Australian Alpaca Association Limited (Alpaca) for the year ended 30 June 2021.

The audit procedures were designed to support the audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in Australian Alpaca Association Limited's systems and working practices.

Our responsibilities as auditors, is to form and express an opinion, in accordance with Australia Auditing Standards on whether the financial report of Australian Alpaca Association Limited being the annual financial statements that have been prepared by management with the oversight of Audit Committee are prepared in all material respects, in accordance with the Australian Accounting Standards and the Corporations Act 2001. The audit of the financial report does not relieve management or Audit Committee of their responsibilities.

Finally, we confirm that we have complied with all regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff has not been compromised.

# 3. AREAS OF AUDIT SIGNIFICANCE

In performing our audit we have identified the following areas which we consider in our professional judgement give rise to a significant risk in the audit of the financial report for the year ended 30 June 2021.

### 3.1 Revenue recognition

| Account description | Type | 2020<br>$ | 2019<br>$ |
|---|---|---|---|
| Revenue | Income | 758,810 | 811,288 |

| Risks identified | Audit Approach | Findings |
|---|---|---|
| Revenue may be recognised incorrectly. | RSM completed analytical review over membership revenue and selected other revenue items on a sample basis to ensure revenue is recognised in accordance with the Accounting Standards and appropriate cut off is attained at 30 June 2021 | We are satisfied that revenue is materially stated in accordance with the Accounting Standards. Two minor journal entries were raised in relation to memberships and show revenue, refer section 4. |

### 3.2 Management override of controls

| Risk identified | Audit Approach | Findings |
|---|---|---|
| Manipulation of information may be achieved through journal entries. | We have reviewed unusual and large journals as part of our audit testing. | Journals passed to equity accounts were corrected, refer section 4. |

### 3.3 Turnover in key staff

| Risk identified | Findings |
|---|---|
| During the financial year there was a three-month period (from December 2020 to February 2021) where there was no Accounts Officer.<br>When staff leave, there is an unavoidable loss of corporate knowledge as well as the continuance of a consistent day-to-day treatment of transactions | Some reconciliations had not been performed at balance date but at a date after balance date.<br>Additionally, there are processes that have been used in the past that have not been continued throughout the period, this has caused inconsistent treatment and balances to be sitting in clearing accounts at year end. See issue 6.6 for further details |

# 4. IDENTIFIED MISSTATEMENTS

### Clearly trivial items

We have not included misstatements identified that are considered by us to be clearly trivial, either taken individually or in aggregate.

### Unadjusted misstatements

We did not identify any misstatements during our audit which are unadjusted.

### Disclosure deficiencies in the financial statements

We did not identify any disclosure deficiencies in the financial statements for the year ended 30 June 2021.

### Adjusted misstatements

The following adjustments were posted by management as a result of our audit.

| Description | Account | Assets Dr/(Cr) | Liabilities Dr/(Cr) | Equity Dr/(Cr) | Profit and Loss Dr/(Cr) |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| To reverse journal posted directly to equity accounts. | Revenue | - | - | - | (57,000) |
| | Equity | - | - | 57,000 | - |
| To reduce the revenue recognised in the period relating to joint memberships that relate to membership for next financial year | Revenue | - | - | - | 4,619 |
| | Contract liability | - | (4,619) | - | - |
| To reduce revenue recognised in the period for payments that were received for the National Show that relate to the next financial year. | Revenue | - | - | - | 1,095 |
| | Contract liability | - | (1,095) | - | - |
| To reverse invoices issued relating to the National Show for the following financial year that have not been paid before year end. | Accounts receivable | (19,855) | - | - | - |
| | Contract liability | - | 19,855 | - | - |
| To reverse a prepayment relating to venue hire for the National Show in the following financial year that had not been paid before year end. | Payable | - | 1,500 | - | - |
| | Prepayment | (1,500) | - | - | - |
| To raise an accrual for job keeper received but requires refund to government due to being ineligible | Revenue | - | - | - | 12,000 |
| | Accrued expense | - | (12,000) | - | - |
| **Total** | | **(21,355)** | **3,641** | **57,000** | **(39,286)** |

# 5. INTERNAL CONTROL OBSERVATIONS

The design and implementation of internal controls related to the following areas were assessed during our audit for the year ended 30 June 2021:

- Revenue, Receivables and Receipts;
- Purchases, Payables, and Payments;
- Inventory;
- Property, Plant & Equipment;
- Payroll;
- Information systems; and

We remind you that the directors are responsible for maintaining effective internal control. We have obtained an understanding of the design and implementation of the internal controls relevant to the accounting and financial control systems in order to plan our audit and determine the nature, timing and extent of audit procedures. Our audit of the financial report was not designed to assess, nor do we provide an opinion on, the design and implementation of the internal controls.

In accordance with Australian Auditing Standards, we are required to communicate with the directors any significant deficiencies in the design and implementation of internal controls identified during our audit of the financial report.

Whilst we have not identified any significant deficiencies in internal controls relating to the prevention or detection of fraud and error, we did note a number of control observations which are detailed in the following table:

### Control Observations or recommendations

| Control | Observation | Risk | Recommendation |
|---|---|---|---|
| Month end reconciliation process | During the audit it was noted that there is no formal process where month end reconciliations are reviewed to ensure they are completed appropriately. | Reconciliations are not completed appropriately or in a timely manner causing errors in management and statutory accounts. | Implement a formalised month end process where at the end of each month:<br>• Finance staff member completes all necessary reconciliations.<br>• An independent employee with oversight reviews all important reconciliations and signs as evidence of review. |

| | | | |
|---|---|---|---|
| Changes to bank vendor details | During the audit it was noted that the accounting system allows changes to bank vendor details without requiring authorisation in the system to take place. There is a mitigating control that the system automatically notifies all users that the bank details have changed through email. | Phishing emails are received where someone impersonates a supplier and requests bank details to be changed. | Implement a formalised process for changes to bank vendor details where for any bank detail change:<br>• The bank detail change must be confirmed through phone call or email with the known contact at the supplier.<br>• The change must be approved by another employee and documented. |
| Review process for payroll | During the audit it was noted that the fortnightly pay run is only approved and authorised from the banking portal. | There is a risk that the pay run is manipulated before it is uploaded to the banking portal. | Implement a formalised process where for each pay run:<br>• The pay run is approved through email and filed.<br>• The authorisers to release the payment in the banking portal review and compare the uploaded payment file back to the approved pay run. |
| Segregation of duties | Due to the size of the accounting department, it is difficult to maintain adequate segregation of duties. In addition, the Company has had a rapid turnover of staff in the accounting function and the treasurer who should be performing an oversight role is at times performing the finance function. | This makes it difficult for proper controls and segregation of duties to be in place, which weakens the control environment of the Company. | Adopt clear guidelines for those who have an oversight role and ensure that there is always a separation between finance staff and the oversight/review role. |

# 6. AUDIT ISSUES AND FINDINGS – RESOLVED FINDINGS

## 6.1 Centralisation of regional accounts in one general ledger system

| Summary of prior year finding | Update on finding |
| --- | --- |
| Within the company there are different regions that have their own accounting system and different accounting processes and no back up plans if the local data file was lost. | All regions have move across to a centralised accounting model from 1 July 2020.<br>The accounting system is cloud based and has data backups in place. |
| Status: Complete | |

## 6.2 Completeness of accruals

| Summary of prior year finding | Update on finding |
| --- | --- |
| During substantive testing of expenses in prior year one sample related to a reimbursement claim for expenses relating to the previous financial year. This amount was not accrued in the correct year. | No issues found in the period relating to the accrual of reimbursement claims. |
| Status: Complete | |

## 6.3 Reconciliation of equity accounts

| Summary of prior year finding | Update on finding |
| --- | --- |
| Last year it was noted that the equity balance in the general ledger did not agree to the 2019 signed financial statements due to staff changeover and how different regions were included in the finance system. | The opening equity for 30 June 2021 agrees to the 2020 signed financial statements. |
| Status: Complete | |

## 6.4 Aging of receivables

| Summary of prior year finding | Update on finding |
| --- | --- |
| Last year there was a large portion of receivables that were over 90 days. | Long outstanding debt has been followed up on and there are no longer any receivables at year end in excess of 90 days. |
| Status: Complete | |

# 6. AUDIT ISSUES AND FINDINGS – UNRESOLVED FINDINGS

### 6.5 Excessive annual leave

| Summary of prior year finding | Update on finding |
|---|---|
| There are staff who have annual leave in excess of 200 hours, the Company will be liable to pay out substantive amounts of annual leave when employees resign. In addition, from the point of Occupational Health and Safety, it is unhealthy for staff working throughout the year without taking any leave. Additionally when staff take leave and someone else has to perform their duties, possible inappropriate practices can be recognised and corrected. | This remains an issue. |
| Status: Ongoing | |

### 6.6 Use of clearing accounts

| Summary of prior year finding | Update on finding |
|---|---|
| There were two clearing accounts and one suspense account in the ledger for the previous financial years up to 30 June 2020. It is unclear what the amounts in these accounts relate to, due to the changeover in staff and the lack of timely reconciliation payments and receipts. | There is a GST clearing account with a balance of $6,329 which has been used to reconcile the GST payable at year end in the past but is no longer utilised for this. This account has a $6,329 asset balance in it from prior year which has not been cleared out. We recommend Alpaca investigate this and clear out this balance. |
| Status: Ongoing | |

### 6.7 Reconciliation of cash accounts

| Summary of prior year finding | Update on finding |
|---|---|
| Two regional cash accounts opening balance did not reconcile to the bank statements and reconciliations provided. Difference of ($1,940) for New South Wales region account and $745 for the South Queensland Northern NSW account. | Bank reconciliations for this year were not completed on a timely basis due to the turnover in staff. At year end there were four bank accounts that were not reconciled as of 30 June 2021 but on 1 July 2021. |
| Status: Ongoing | |

## 6.8 Bank signatories

| Summary of prior year finding | Update on finding |
| --- | --- |
| In the bank confirmation received there were old employees who no longer work at the Company who were listed that have access to the bank accounts. | We have evidenced that the Company have made multiple requests to remove access for these staff members, however the bank has not processed these requests.<br><br>This remains a risk. |
| Status: Ongoing | |

# 6. AUDIT ISSUES AND FINDINGS – ADDITIONAL FINDINGS

## 6.9 Journals to equity

| Observation | Implication | Recommendation | Management Response |
|---|---|---|---|
| During testing of manual journal entries, it was noted that journals were posted directly to equity and the profit and loss to split out amounts that are held in reserve for specific purposes. | Journals should never be posted directly to equity but should always flow through the profit and loss. This journal caused the net income in the period to be understated by $57,000.<br><br>Refer section 4 for audit adjustment posted to reverse this. | When splitting out funds into reserves the journal needs to debit and credit equity accounts for the same amount and only be a reclassification of the equity accounts. | AAA will ensure that when splitting out funds into reserves, the journal will debit and credit equity accounts for the same amount and only be a reclassification of the equity accounts. |

## 6.10 Old assets

| Observation | Implication | Recommendation | Management Response |
|---|---|---|---|
| There are assets in the fixed asset register dating back to 1995. | There may be assets being held that are no longer in use. | To complete a stocktake and remove any assets that are no longer in use. | A stocktake for the fixed asset register will be undertaken |

## 6.11 Credit card

| Observation | Implication | Recommendation | Management Response |
|---|---|---|---|
| The liability balance of the credit card in the general ledger does not agree with the confirmation we received from the bank, difference of ($648) | The balance held for the credit card is incorrect in the accounting system. | Incorporate a credit card reconciliation into the month end process with appropriate preparation and review. | A credit card reconciliation process has been implemented |

## 6.12 Capitalisation policy

| Observation | Implication | Recommendation | Management Response |
|---|---|---|---|
| There is no asset capitalisation policy in the financial statements. There are assets that have been added to the fixed asset register with a value of $5. | There are assets that are added to the register that should be expensed. | To elect a capitalisation policy and disclose this in the financial statements. | This will be examined by the Finance, Audit and Risk Committee at their next meeting. The small value items should |

| | | | |
|---|---|---|---|
| | | | have been added to the attractive items register |

### 6.13 Controls over posting journals during the audit process

| Observation | Implication | Recommendation | Management Response |
|---|---|---|---|
| After handing over the final trial balance to audit, numerous journals were still being posted within the financial system. This caused additional work having to be done by audit to ascertain what journals had been posted.<br>All adjustments should be complete before the commencement of the audit. If adjustments are required to be made, reasonable discussion and agreement with audit should be undertaken. | The trial balance that was handed over to audit was not the final trial balance. | It is accepted practice to complete all necessary year-end adjustments before commencement of audit. When adjustments are necessary inform audit before posting these adjustments. | AAA will ensure that this does not happen in the future |

## 7. CHANGES IN ACCOUNTING STANDARDS

| Standard or Pronouncement | Description | Who does it affect? | Effective date |
|---|---|---|---|
| AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities | This standard replaces the existing Tier 2, Reduced Disclosure Requirements Framework. It must be applied by all entities reporting under Tier 2 of the Differential Reporting Framework in AASB 1053. | It affects both for-profit and not-for-profit entities:<br>(1) Those for-profit private sector entities currently preparing SPFS, who will lose the ability to prepare SPFS as a consequence of AASB 2020 -2 (below), or those currently preparing Tier 2 RDR GPFS.<br>Not-for-profit or public sector entities currently preparing Tier 2 general purpose financial statements. | Annual reporting periods beginning on or after 1 July 2021<br>*Early Adoption permitted* |
| AASB 2020 -2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities | This amending standard removes the ability of certain for-profit private sector entities to prepare special purpose financial statements (SPFS). | The following entity types of entities are affected:<br>• For-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and<br>Other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2021. | Annual reporting periods beginning on or after 1 July 2021<br>*Early Adoption permitted* |
| AASB 2021-1 Amendments to Australian Accounting Standards – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities | This amending standard provides certain Not-for-Profits relief from presenting comparative information in the notes to the financial statements where they did not disclose the comparable information in its most recent previous general purpose financial statements, if they early adopt AASB 1060. | Not-for-profit entities who are transitioning from Tier 1 GPFS or Tier 2 RDR GPFS to Tier 2 SDS GPFS for a reporting period prior to the mandatory application of AASB 1060. | Annual reporting periods beginning on or after 1 July 2021 |

| | | | |
|---|---|---|---|
| AASB 2020-1 Amendments to Australian Accounting Standards – Classifications of Liabilities as Current or Non-Current<br><br>AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date | This narrow-scope amendment to AASB 101 Presentation of Financial Statements clarifies that liabilities are classified as either current or non-current depending on the rights that exist at the end of the reporting period; and also clarifies the definition of settlement of a liability.<br><br>For example, a liability must be classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period.<br><br>AASB 2020-6 defers the mandatory effective date of amendments that were originally made in AASB 2020-1 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2023 instead of 1 January 2022. | All entities | Annual reporting periods beginning on or after 1 January 2023. |
| AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates | This amending Standard impacts a number of standards:<br><br>- AASB 7: clarifying that information about measurement bases for financial instruments is expected to be material to an entity’s financial statements;<br>- AASB 101: requiring entities to disclose their *material accounting policy information rather than their significant accounting policies*;<br>- AASB 108: clarifying *how* entities should distinguish changes in accounting policies and changes in accounting estimates;<br>- AASB 134: identifying material accounting policy information as a component of a complete set of financial statements; and<br>- AASB Practice Statement 2, providing guidance on how to apply the concept of materiality to accounting policy disclosures. | All entities | Annual reporting periods beginning on or after 1 January 2023 |

# 8. REQUIRED COMMUNICATIONS TO BOARD

In accordance with Australian Auditing Standards, we are required to communicate with the Board the following matters.

| Matter | Key Requirements |
|---|---|
| **Compliance with laws and regulations** | While reviewing the claim for extension of the job keeper payments, it was apparent that Alpaca had inadvertently claimed the extension while not being eligible to do so. We had a discussion with management and included tax experts from RSM, which resulted in management acknowledging the error. Management have undertaken to inform the tax office of this matter. Other than the issue noted above, nothing has come to our attention to suggest any material instances of non-compliance with laws and regulations. |
| **External confirmations** | There were no instances where management refused or denied us to send a request for an external confirmation. |
| **Going concern** | No events or conditions have been identified during the audit that may cast doubt on Australian Alpaca Association Limited's ability to continue as a going concern for 12 months from the date of our auditor's report. |
| **Independence** | We are not aware of any other relationships between member firms of RSM and Australian Alpaca Association Limited's that, in our professional judgement, may reasonably be thought to bear on our independence or the objectivity of the audit engagement team.<br>We confirm that in our professional judgement, RSM is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff has not been compromised.<br>We confirm that RSM, the audit engagement team and others in the Firm as appropriate have complied with the independence requirements of section 307C of the *Corporations Act 2001*/. |
| **Other Information** | Our procedures have not identified any material misstatement within the other information contained within the financial report. |
| **Related parties** | Our procedures regarding related parties did not identify any significant matters. |
| **Responsibilities relating to fraud** | We have made enquiries of the directors and management regarding whether they have knowledge of any actual, suspected or alleged fraud involving management and employees who have significant roles in internal control.<br>Based on our enquiries and audit procedures, we did not become aware of any fraud during our audit. |
| **Subsequent events** | At the date of this report, other than already disclosed, we are not aware of any subsequent events, which would require an adjustment to balances in the financial statements or disclosure in the notes to the financial statements.<br>We will continue to make assessments of subsequent events up to the date of the financial statements are signed. |