

# POLICY

## 3.6 AUDIT



Supporting Procedure:	TBC	
Other Related Documents:	Associations Incorporations Act 2015 (WA) Australia Accounting Standards Board 101 (AASB) Australian Accounting Standards Australian Auditing and Assurance Standards Board Australian Charities and Not for Profit Commissions Act, 2012 Fringe Benefit Tax Assessment Act 1986 Income Tax Assessment Act 1997 (ITAA) PHCC Asset Register PHCC Constitution (2018) PHCC Delegations of Authority PHCC Loan Book Payroll Tax Assessment Act 2002 Professional Practices Framework of The Institute of Internal Auditors Taxation Administration Act 1953	
Category:	Finance	
Type:	Strategic	Dates:
Last Review By:	Jane O'Malley and Karen Henderson	10/04/2019
Issued By:	Chief Executive Officer	01/07/2019
Approved By:	Board of Management	20/06/2019

### Introduction

The Peel-Harvey Catchment Council (PHCC) undertakes external auditing processes to comply with the its legal requirements, as a not-for-profit entity, and ensure the organisation's financial reporting is free from material mis-statement, whether due to fraud or error.

The Finance and Audit Committee will support the Operations team to assist and provide advice to the Board of Management on the appropriateness and comprehensiveness of internal controls, compliance and risk management necessary for the effective and efficient operation of PHCC.

### Definitions

For the purposes of this Policy:

**'Accrual'** means a financial book transaction rather than a financial cash transaction. The economic event is measured regardless of when cash transactions occur

**'Asset (AASB)'** defined by the AASB is a resource controlled by PHCC as a result of past events; and from which future economic benefit are expected to flow to PHCC

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**'Cash Basis'** defined by the Australian Taxation Office is a major accounting method that recognises revenues and expenses at the time physical cash is actually received or paid out

**'Contingent Asset (AASB)'** defined by the AASB is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non- occurrence of one or more uncertain future events not wholly within the control of the entity

**'Contingent Liability (AASB)'** defined by the AASB means a possible obligation from past events and whose existence will be confirmed only by the occurrence or non- occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because:

- a) it is not probably that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- b) the amount of the obligation cannot be measured with sufficient reliability

**'Employee'** means all paid employed persons in PHCC

**'Financial Year'** means a period of twelve (12) months from 1 July to 30 June that defines the annual accounting period

**'Liability (AASB)'** defined by the AASB is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefit

**'Not-for-profit' ('NFP')** means an organisation that does not operate for the profit, personal gain or other benefit of particular people, while the organisation is operating and if it winds down

**'NRM'** is Natural Resource Management

**'Procedure'** is a documented process

**'Recognised Asset'** means property which have an effective life greater than 12 months, and a procurement, or thereafter market value, greater than \$6,500 for the effect of Accounting depreciation

**'Representative'** means any Board Member, Employee, Volunteer, Contractor or any other person working for or representing PHCC

**'Special Purpose Financial Report' (SPFR)** means a statement that gives a true and fair view of the financial position and financial performance, of PHCC for the purpose of comprehensive independent financial audit and reporting to members.

### Policy Statement

#### 1 Audit Function

- 1.1 Audit functions will be in accordance with the Professional Practices Framework of The Institute of Internal Auditors, and the Australian Auditing and Assurance Standards Board

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- 1.2 The Finance and Audit Committee is required to review the comprehensiveness and appropriateness of internal controls pertaining to PHCC's financial management and reporting practices.

### **2 Australian Charities and Not-for-Profit Commission Act, 2012**

- 2.1 The PHCC is recognised as a Tier 3, Large Charity with an Annual Income of \$1,000,000 or more. Under the Act, Large Charities must submit an Annual Information Statement. Since 2014, the Annual Information Statement has included financial questions and the PHCC is required to submit a financial report that is audited by a member of a professional accounting body, being a registered company auditor
- 2.2 Financial Statements must give a true and fair view of the financial position and performance of the PHCC and be prepared in accordance with Australian Accounting Standards.

### **3 Appointment of Auditor**

- 3.1 The Treasurer, on recommendation of the Finance and Audit Committee, will seek endorsement of the appointment of an auditor for the forthcoming year at the PHCC Annual General Meeting, in accordance with the PHCC Delegations of Authority and PHCC Constitution (2018)
- 3.2 Selection of a suitably qualified Auditor will consider relevant selection criteria (value for money, understanding of our business and similar), including the need to rotate the lead/signing auditor at least every five years, noting that the changing of lead/signing auditors does not necessitate a change of audit companies.

### **4 Project Audits**

- 4.1 PHCC Grants and/or service agreement financial reporting will be undertaken in accordance with the individual requirements of each grant and/or service agreement
- 4.2 All Grants and/or service agreements that the PHCC provide to external parties (e.g. Landcare groups or individual landholders) require a financial acquittal statement, with copies of project related invoices as evidence of expenditure
- 4.3 Larger grants and/or service agreements that the PHCC provide to external parties (e.g. Landcare groups, government agencies or others) may require an external audit signed by a professional accounting body, pending grant conditions and/or other requirements as deemed necessary by the PHCC, the cost of which should be included in the grant/service budget.

### **5 Not-For-Profit Organisation**

- 5.1 The PHCC is a not-for-profit organisation and its activities do not generate profit or losses for distribution to members
- 5.2 The PHCC is exempt from income tax under S50\_145 of the Income Tax Assessment Act 1997 (ITAA)

### **6 Special Purpose Financial Report (SPFR)**

- 6.1 PHCC is an individual entity, and is not a reporting entity under the definition of the AASB

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- 6.2 Annual audited financial statements are special purpose, prepared for the use by PHCC so as to satisfy the requirements of the PHCC Constitution and the Associations Incorporations Act 2015 (WA)
- 6.3 The SPFR is prepared in accordance with the Associations Incorporations Act 2015 (WA) and Australian Accounting Standards; on an accrual basis, based on historical cost modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

### 7 Assets and Liabilities

- 7.1 Assets will be recognised at fair value at a time when a resource from a past event from which future economic benefit is expected, and adequate provision is made for any permanent diminution in the value on non current assets
- 7.2 On an annual basis the PHCC will make an assessment of the PHCC's assets, in accordance with AASB136.9 to determine if any assets are deemed to be 'impaired', as defined in the Delegations of Authority

### 8 Income

- 8.1 The organisation's principal receipts are funds provided for specific projects and not available for general activities. Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised from the major business activities as follows:
  - 8.1.1 Rendering of Service: Revenue is recognised on delivery of service or by reference to the stage of completion specified by the funder
  - 8.1.2 Interest: Revenue is recognised as the interest accrues
  - 8.1.3 Grants: Grants are recognised at fair value when the organisation is scheduled to apply this funding to project completion . The balances of grants are recognised as prepaid income until such time as it is scheduled for project completion. Matching of grant funding to planned project activity occurs at financial year end
  - 8.1.4 Donations: Donations that may be received for a specific purpose or the general operations of the PHCC, whether they are tax deductible or not.

### 9 Equipment and Recognised Assets

- 9.1 Depreciation of a Recognised Asset is on a straight line basis over the asset's useful life, commencing from the time of acquisition. The assets residual value and useful life are reviewed, and adjusted as appropriate , at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement
- 9.2 The PHCC will maintain a current Asset Register, listing all assets of \$6,500 or greater value
- 9.3 Effective from 1 July, 2012, the PHCC Finance and Audit Committee determined that assets costing \$6,500 or greater, are capitalised in the balance sheet. All other assets costing <\$6,500 are expensed when incurred

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- 9.4 The depreciable amount of plant and equipment, I.T., computer assets and furniture and fittings are depreciated over the useful lives of the assets to the organization commencing from the time the asset is held ready for use
- 9.5 Depreciation of an asset can be no greater than \$5,000 per annum
- 9.6 Equipment to be removed from the premises, or allocated to Representatives will be recorded in the Loan Book.

### 10 Cash and Cash Equivalent

- 10.1 Cash and cash equivalents include cash on hand, deposits held at call with banks, including short term highly liquid investments.

### 11 Goods and Services Tax

- 11.1 Revenues, expenses and assets are recognised net of the amount of GST. Receivables and payables in the balance sheet are shown inclusive of GST
- 11.2 The PHCC operates with GST concessions and on a cash basis for the purpose of GST reporting.

### 12 Cash Flows

- 12.1 Cash Flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

### 13 Employee Entitlements

- 13.1 The provision for Employee benefits relates to the amount liable to be paid for the long service leave, annual leave and purchase leave resulting from the Employees' services provided to balance date
- 13.2 All entitlements are calculated at their nominal amounts using remuneration rates and expected to be settled within reasonable timeframes, as determined by the CEO, or where it pertains to the CEO, by the Chairman (on recommendation of the Finance and Audit Committee)
- 13.3 All provisions are calculated based on the capability of being measured reliably in respect of probable future economic settlement, appropriate consideration to current organisation provision values, and workforce plan
- 13.4 No allowance has been made for future pay rate and thus discounting present value of future cash outflows, due to inherent uncertainty in determining the appropriate valuation rates.

### 14 Retained Earnings

- 14.1 Retained earnings represent income received over time that is not specifically allocated to a project, and can be used in the future for projects or initiatives at the organisations discretion.

### 15 Consolidated Funds

- 15.1. Consolidated funds represent income received that is specifically allocated to project outcomes and can only be used for the purposes described in the contractual agreements for the delivery of NRM services and organisational operation. During times of funding

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discontinuity, consolidated funds are provisional for ongoing essential NRM work , through organisational continuity .

### **16 Tax Concessions and Endorsements**

#### 16.1 Income Tax Exemption

16.1.1 PHCC NRM is a not for profit organisation and thus exempt from income tax liability by virtue of the Income Tax Assessment Act 1997 (ITAA)

#### 16.2 Tax Concession Charity

16.2.1 Under the Fringe Benefit Tax Assessment Act 1986, and the Taxation Administration Act 1953, tax concession charity endorsement has been granted to PHCC as a charitable institution

#### 16.3 Payroll Tax Exemption

16.3.1 For the purpose of the Payroll Tax Assessment Act 2002, and the Taxation Administration Act 2003 , PHCC is granted exemption from payroll tax for the purpose of section 40 (2)(n) of the Act effective 2007 financial year.