

22 March 2018

The Directors
The Paint Horse Association of Australia Ltd
PO Box 1008
DUBBO NSW 2830

Dear Sir/Madam

AUDIT FOR THE YEAR ENDED 31 DECEMBER 2017

We wish to report that we have completed our audit of The Paint Horse Association of Australia Ltd (PHAA) for the above year. We would like to thank you for giving us the opportunity to conduct your audit and thank Jodie Saville for her assistance during our audit of the PHAA.

Directors' Responsibilities

We take this opportunity to remind you that the responsibility for the preparation and fair presentation of the general purpose financial report in accordance with Australian Accounting Standards – Reduced Disclosure Requirements is that of the Directors. Our auditor's report will explain that the Board is responsible for the preparation and the fair presentation of the general purpose financial report in accordance with the selected financial reporting framework and this responsibility includes:

- Designing, implementing and maintaining internal controls relevant to the preparation of a financial report that is free from misstatement, whether due to fraud or error;
- Selecting and applying appropriate accounting policies;
- The safeguard of the assets of the Paint Horse Association of Australia Ltd;
- The systems and risk of the Paint Horse Association of Australia Ltd have been constantly reviewed to reduce the possibility of fraud.

Auditors Responsibilities

Our audits are conducted in accordance with Australian Auditing Standards. An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. An audit also includes evaluating the appropriateness of the financial reporting framework, accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial report.

Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control systems, there is an unavoidable risk that some material misstatements may remain undiscovered.

Independence

We have complied with the professional bodies requirements relating to audit independence.

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Key Financial Information

The following is the key information for the period ended 31 December 2017, from your audited financial reports.

Description	2017	2016	% Change
Revenue	\$506,963	\$552,845	(8%)
Employee Expenses	\$157,561	\$153,537	3%
Other Expenses	\$373,190	\$430,162	(13%)
Loss for the year	(\$38,661)	(\$59,901)	(35%)

Comment on Financials

Revenue decreased significantly in comparison to last year by 8% from \$552,845 to \$506,963. This decrease is mainly due to significant reduction in horse registration, constituent and full membership fees recognition.

Employee Expenses increased by 3% from \$153,537 to \$157,561 which is mainly due to the CPI increase and the 22 cents wage increase from the Fair Work Commission for the year.

Other Expenses decreased by 13% from \$430,162 to \$373,190. This can be largely attributed to the decrease in youth activities expenses because there was no youth trip to the USA during the year. Also, futurity expenses reduced by 34% during the year.

The company continues to report losses; however this year loss has been relatively reduced in comparison to prior years. However, from a financial viability perspective the cash assets for The Paint Horse Association of Australia's continue show its ability to operate as a going concern. The going concern principle assumes that the entity is able to continue as a viable entity for the foreseeable future.

Risks

In undertaking our audit, we are required to assess potential areas of risk and undertake audit tests to assess if the risk is significant or if effective controls have been established to minimise any risk to an acceptable level.

Observations/Recommendations

Bank Reconciliations

A number of reconciliations did not indicate a review was performed by the finance director, which might lead to errors not being identified or corrected. The absence of reconciliation controls increases the overall risk of invalid, unauthorised and inaccurate transactions going undetected. If reconciliations are not prepared in circumstances where responsible personnel are on leave, controls will not be implemented.

We recommend that the reconciliations are performed for all bank balances and that the reconciliations should:

- Be physically signed and dated by the preparer as evidence of timely preparation and responsibility for preparing the reconciliation;
- Be physically signed by the reviewer as evidence of their review;
- Contain appropriate and detailed explanations for reconciling item;
- Be delegated so that a responsible person is allocated to perform reconciliations in the absence of the designated staff member.

Other observations include:

- 1 Stale cheque needs to be cleared in MYOB
- 2 Adjustment for 1/01/2016 for General account \$961.8 sitting as outstanding deposits
- 3 Adjustment for 1/01/2016 for General account of \$55 is sitting as an outstanding cheque
- 4 Audit noted that Petty Cash Balance is negative
- 5 General Account debit card rec balance is out by \$30.02 when compared to the bank statement
- 6 Cash Drawer Account balance should reconcile to zero
- 7 Electronic Clearing Account balance should reconcile to zero

We recommend management consider the above matters and correct before the end of 2018 year. Please seek guidance from MYOB Support or professional bookkeeper for assistance if needed.

Electronic clearing account

There has been no change in Electronic Clearing Account for last two years. Please review and rectify the MYOB account 1-1900.

GST

We observed that there are instances where GST was incorrectly recorded. We observed that the client recorded GST on council rates while some purchases made from Coles Supermarket were recorded as GST free. We are unable to confirm correct treatment of GST in the process of recording of transactions.

We recommend that all invoices be assessed diligently for GST before entering them into MYOB.

Trade Creditor Reconciliation/Accounts Payable

The accounts payable was out of balance by \$457.85. We also noted that the trade creditor reconciliation is also out of balance in the year under review. We recommend that the association contact MYOB Support to reconcile this balance or support from a contract book keeper to assist fixing the out of balance issue.

Victorian Paint Horse Association

We observed that the invoice from the Victorian Paint Horse Association is not subject to GST but was recorded in MYOB as GST inclusive.

We recommend that GST on all invoices be properly allocated.

Retrospective adjustments

Membership income recognition

The membership income has not been appropriately recognised in the past reporting periods. The membership fee received has been recorded on cash basis even though the fee paid covers July to June each year. We have restated the membership revenue and income in advance balance in the financials and going forward the revenue and income in advance will be appropriately recognised.

We recommend that going forward the revenue should be recognised in MYOB in line with the period it covers (August to July from 2017 onwards).

We would suggest the Association consider aligning its membership period with the Association's financial year end.

Reclassification land from building cost

Previously, the land was not separated from building in the asset register and both of the asset categories have been inappropriately depreciated together. We have reclassified the land from the building in the financials – Note 10.

Depreciation – Building cost

We also observed that depreciation on building has been calculated on an incorrect cost base. We have recomputed and restated the correct accumulated depreciation.

Conclusion

Once again, we would like to thank you for the opportunity to meet your audit and assurance requirements and we look forward to continuing a close working relationship with you in the future.

Management Comments

It is important that the courses of action recommended are given due consideration and that any management comments regarding the recommendations are returned to Crowe Horwath for finalisation.

Please do not hesitate to contact our Dubbo office by telephone on (02) 6883 5608 if you require further information.

Yours faithfully
CROWE HORWATH CENTRAL WEST



Chang Chow
Audit Partner