

Darlington Point Club Limited

Report of Audit Issues to Management

Year Ended 30 September 2019

**PinnacleHPC Pty Ltd
John Keenan – Auditor**

Status

PinnacleHPC Pty Ltd has completed the audit of Darlington Point Club Limited for the year ended 30 September 2019. Financial accounts have been prepared and reviewed.

Acknowledgment

Upon the completion of the 2019 audit, we would like to thank Andrew and Kerry for their assistance during the audit period.

Audit Process

As required under ASA 260 Communication of Audit Matters to Those Charged with Governance, we provide the directors and management with the following report. We request that any issues raised are responded to with any comments.

Overview

The Club's overall result in 2019 has decreased – from a profit of \$249,354 in 2018 to a small profit of \$46,193 in 2019. Many factors have attributed to the decrease in profit which will be discussed in detail below.

Gross Margin over last 5 years:

	30/09/2019	30/09/2018	30/09/2017	30/09/2016	30/09/2015
Sales	958,723	1,060,061	895,053	746,231	831,238
COGS	643,980	674,279	566,254	473,074	553,010
Gross profit	314,743	385,782	328,799	273,157	298,227
Gross margin	33%	36%	37%	36%	36%

The table above illustrates that 2019 sales have decreased by 9.5% from the previous year. The Club's gross margin percentage has decreased by 3%, which is concerning as it has dropped to its lowest point in the last 5 years. The board should undertake a review of this area with the view of obtaining increased margins.

In reviewing revenue overall, approximately \$17k decrease was noted in the area of take away sales, \$66k decrease was noted in bar sales, \$13k decrease was noted in cabin income and \$26k decrease was noted in raffle ticket sales. These items were significant income drivers in the previous year. Gaming revenue on the other hand was more consistent and increased by approximately \$2.5k, this is a component which is highly dependent on external factors and disposable income of patrons.

Expenses decreased by approximately \$33.5k when compared to 2018. Major decreases were noted in the areas of raffles expenses and entertainment, these decreases were in proportion to income derived. Other major decreases were noted in rates and water and electricity which decreased by a large amount of \$26k due to decrease in usage and issues with solar panels which have since been resolved.

Issues

We have prepared a brief outline of issues identified in the audit process. We acknowledge that some of these may have already been addressed or plans enacted to ensure issues are addressed. As auditors, we ask that management respond where appropriate to ensure that we have adequate documentation regarding your intentions with regards to these issues.

Cash Unders and Overs

Issue:

- 1) We note that there is a very large balance of \$22,025.76 in the cash unders and over account. We noted large amounts being recorded in this account from July to September. We reviewed daily takings sheets from this period, which indicate the banking amount for each day and compared this to the amount banked each week. It was found the amount physically banked did not agree to the daily takings sheets for the corresponding week. The difference between the two amounts was recorded in the cash unders and overs account. No documentation could be provided at the time of the audit to explain the discrepancy. This account was discussed with the board and still no explanation was provided.

From an audit perspective, the fact that no evidence could be provided for the cash discrepancies indicates the potential existence of fraud. As a result I have qualified my audit report.

Recommendations:

- 1) The board should undertake further investigations in relation to this account and the potential instance of fraud and consider legal action if required.
- 2) We recommend the cash unders and overs account be reviewed on a regular basis, all transactions coded against this account should be investigated to ensure they appear reasonable.
- 3) Security cameras be installed in all locations where cash is handled and stored.

Cash

Issues:

- 1) ATM float was not refilled to a constant amount by the Manager during the year.
- 2) Michael Whelan still appears on the bank certificate as a signatory to the bank accounts.

Recommendations:

- 1) ATM float should be refilled to a constant amount each time.
- 2) Bank signatories be updated to remove Michael Whelan.

Stock

Issues:

- 1) We noted during our testing of stock that monthly stocktakes are no longer being performed and there were also some instances where stock purchases were not entered into the POS system.
- 2) Some obsolete and slow moving stock identified on the stock reports, which had no unit values noted.

Recommendations:

- 1) We recommend stocktakes be performed on a monthly basis to ensure inventory recorded in the POS system matches the physical count.
- 2) Stock purchases be entered into the POS system to ensure the system is up to date and stock levels can be monitored with accuracy and any variances identified.
- 3) Stock should be reviewed regularly to identify slow moving and obsolete stock.

Fixed Assets

Issues:

- 1) Last independent valuation for the Club's building was done in 2011.
- 2) Fixed asset register and trial balance do not reconcile on an individual basis.
- 3) GST was claimed on invoices that were not proper tax invoices.

Recommendations:

- 1) Updated valuation be obtained for the Club's building.
- 2) Fixed asset register and trial balance be reviewed and changes be made accordingly. We also recommend the Club consider purchasing an asset register software to maintain a record of their fixed assets. Currently assets are being recorded in an excel spreadsheet and many errors are being made.
- 3) Invoices be reviewed to ensure it is a tax invoice before GST is claimed.

Provisions

Issue:

- 1) Leave forms were not prepared for all instances of leave taken during the year.

Recommendation:

- 1) We recommend leave forms be prepared and maintained for all staff for record keeping purposes.

ASIC

Issue:

- 1) Michael Whelan resigned during the year but still appears on ASIC as the Club's secretary manager

Recommendation

- 1) We recommend ASIC details be updated, please note a late fee will be incurred as the details were not updated in the prescribed timeframe.

Audit Adjustments

As required by the auditing standards we highlight to the Board the adjustments that we have recommended as part of our audit process.

These have been reflected in the numbers presented in the financial report:

- Correct balance of member points account;
- Correct subscriptions in advance balance;
- Record movement in provisions; &
- Correct prepayments.

Kind regards
PINNACLEHPC PTY LTD


John. P. Keenan CPA
Registered Company Auditor