

The Board of Directors
Eton Irrigation Cooperative Ltd
P.O. Box 173
Walkerston QLD 4751

Dear Directors,

**Eton Irrigation Cooperative Ltd
Closing Audit Report 30 June 2024**

1. INTRODUCTION

The audit of Eton Irrigation Cooperative Ltd (the Co-op) has recently been completed in accordance with Australian Auditing Standards. Audit procedures were designed to provide reasonable assurance that the financial report has been prepared in accordance with Australian Accounting standards and free of material misstatement.

The financial report is prepared by management with the oversight of the Board of Directors and as a result our audit does not relieve management, or the board of their responsibilities. In addition, the purpose of this audit is not to express an opinion on the effectiveness of the Co-op's system of internal control.

Our audit techniques include a number of procedures such as analytical reviews, sampling and other checks of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates.

During audit procedures we often note matters to which we would like to draw your attention and we have set these out below.

The matters raised by us are only those which came to our attention during the course of our audit and are not a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full commercial impact before they are implemented. This report has been prepared solely for your use as directors and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

2. AUDITING & ACCOUNTING ISSUES

2.1 Fixed Assets – Audit Qualification

The Balance Sheet reflects Property, Plant, and Equipment (PPE) with a carrying value of \$100,293,042, reflecting a decrease of \$3,186,007 (3%) compared to the prior year.

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As in previous audit periods, we have been unable to obtain sufficient appropriate audit evidence to verify the valuation of PPE disclosed in the financial statements. Management has advised that the valuation, useful lives, depreciation, and replacement planning of PPE remain key considerations and have been carefully reviewed in the context of financial reporting and cash flow management.

The Co-op has indicated that an independent, formal valuation of PPE is cost-prohibitive and has proposed instead to engage a local consultant every 5 to 10 years to review the PPE portfolio. This review would support financial reporting, long-term asset planning, and forecasting.

We do not object to this approach; however, due to the absence of recent independent verification, we are unable to express an opinion on the carrying value of PPE. As a result, our audit opinion will remain qualified in this respect.

We recommend that the Co-op formalise this proposed review process by documenting the intended timeframe, scope, and responsible parties. Additionally, management should implement a monitoring mechanism to ensure the review is conducted as planned and not overlooked in future periods.

2.2 Mutuality Principle – Qualification

The Statement of Profit or Loss and Other Comprehensive Income reports a net loss of \$1,516,504 for the year. Our review of the tax adjustment schedules indicates that carried-forward losses totalling \$406,676 have been utilised, resulting in a net taxable income of \$220,603. This amount was fully offset through the application of franking credits, and consequently, no income tax was payable for the year.

As noted in previous audit periods, the Co-op's rules provide for the admittance of members who both purchase services from and provide services to the Co-op. This arrangement suggests that the Co-op may be subject to the mutuality principle for taxation purposes. Under this principle, income derived from transactions with members may not be assessable for income tax, and corresponding expenses may not be deductible. In contrast, income from non-member sources, such as investments, would typically remain assessable, with related expenses being deductible.

If the mutuality principle is applicable, the current method of calculating taxable income may require revision. This could potentially give rise to a tax liability on non-mutual income. At this time, we have not quantified any potential liability, pending clarification of the Co-op's status under tax law.

Due to the uncertainty regarding the Co-op's tax treatment, our audit opinion has been qualified on this matter. We note positively that the Co-op is actively seeking a formal ruling from the Australian Taxation Office (ATO) to confirm its taxable status, with a response expected in the coming months.

We recommend that the Co-op continue to proactively pursue a formal determination and maintain regular communication with the ATO to expedite a resolution. Timely clarification will ensure appropriate treatment of income and expenses and reduce the risk of retrospective tax liabilities.

3. OTHER MINOR MATTERS

3.1 Investments income and receivable

Upon review, we noted that the JBWere investment receivable as at 30 June 2024 appears to be understated by \$13,831. We understand the JBWere reports are issued periodically through the year, including post year-end, and are sometimes revised. This reporting process can increase the risk of timing-related errors in recognition and valuation of investment balances.

We have discussed this matter with the Co-op's management and accountants, who advised that measures are being implemented to strengthen the processes around the accounting for this investment moving forward.

The identified variance is not considered material to the financial statements, and accordingly, our opinion on this matter has not been qualified.

We recommend that management continue to work closely with your accountants to ensure that investment balances are accurately valued and appropriately recorded in the 2025 financial statements, in line with the most up-to-date JBWere reporting.

3.2 Employee entitlement - Discounted Net Present Value

Provision for employee entitlements have been calculated using a basic formula, in accordance with previous years. Probability analysis and discounting appear not to have been applied to the long service leave provision, as required under Australian Accounting Standards.

We recommend that management confirm the current calculation methodology and assess whether inclusion of probability analysis and discounting would result in a material difference. Where the impact is not material, documentation should be maintained to support that conclusion.

3.3 Employee Entitlements

Consistent with the previous audit period, one employee holds a disproportionately large entitlement balance, with 60% of the total employee leave provisions allocated to him alone.

The risk here is twofold: operational disruption if the leave is taken in bulk and financial strain on the organisation if the balance is paid out. This balance increases with pay rate increments. The concentration of entitlements in a single employee also increases the entity's risk exposure e.g. when on leave an employee's duties are carried out by another person enabling some cross checking of their work, and also facilitates training of another person for that role (as back up).

We recommend engaging with the employee to ensure leave is taken appropriately throughout the year, reducing the risk of large payouts and promoting operational continuity. Additionally, a more robust system for monitoring and managing employee leave balances could be considered for all employees.

We were advised that the Co-op received a payment from Sunwater at transition to cover this liability. The Board is of the opinion that they could not force someone to

take LSL and that the bulk amount of the leave accumulated was while being employed by Sunwater.

3.4 Tax Effect Accounting

The financial statements have not adopted the principles of tax effect accounting, as required by AASB 112 Income Taxes.

While the financial report has been prepared as a special purpose financial report, where compliance with all disclosure requirements under Australian Accounting Standards is not mandatory, it is important that recognition and measurement principles under the relevant standards are applied to ensure that the financial statements present a true and fair view.

We understand the Co-op is currently seeking confirmation from the ATO regarding its tax status. If a favourable outcome is achieved, the impact of not applying tax effect accounting would likely be immaterial, and the current approach may remain appropriate.

However, if a favourable response is not granted, the financial implications of income tax obligations may become more significant. In that case, we recommend that management, in consultation with their accountants, conduct a formal assessment to determine whether the application of tax effect accounting would materially affect the financial statements. Where a material impact is identified, consideration should be given to applying the principles of AASB 112 in future reporting periods.

We have been advised this matter has been considered by the Board, who acknowledged that implementing tax effect accounting would be a significant undertaking. Given the current uncertainty regarding the Co-op's tax status and the potential for the impact to be immaterial, the Board has resolved to retain the current reporting approach, pending further clarity from the ATO.

We recommend that this position be reviewed once a response from the ATO is received, to ensure the accounting treatment remains appropriate in light of the Co-op's confirmed status.

3.5 Fringe Benefits Tax (FBT)

In accordance with our comments from the previous year's audit regarding company vehicles potentially falling within the FBT regime, the Co-op's has advised that its arrangements in regard to company vehicles have been reviewed and the Co-op is comfortable that the arrangements are in compliance with the legislation.

We observed that all vehicles have been recorded as Exempt vehicles on the FBT Return for the 2023/2024 FBT year.

We recommend that the Co-op continues to monitor the actual use and accounting/FBT treatment of company vehicles and liaise with your accountants to ensure that all necessary documentation and substantiation is obtained including, but not limited to, compliant signed declarations and odometer readings.

3.6 Superannuation on Annual Leave Loading

In accordance with our comments from the previous year's audit, it was identified that superannuation guarantee (SG) contributions had not been calculated on annual leave

loading payments. The Co-op has advised that a review has also revealed that conversely, SG had been calculated on certain allowances that it was not required to be calculated on.

While this may have led to a minor under- or over-payment of SG for some employees, the overall value is not considered to be material to the financial statements.

We were advised the Co-op is in the process of reviewing historical records to quantify any under- or over-payments which will be rectified in due course. The Co-op has advised that the net value of these adjustments is not expected to be material.

We recommend that the Co-op finalise the review and make any necessary adjustments to ensure ongoing compliance with SG obligations.

3.7 Directors' Fees

In accordance with our comments from the previous year's audit, it was observed that some director fees had not been processed through the STP system directly to the individual directors, and superannuation and PAYG withholding had not been applied for some payments.

We were advised the Co-op has reviewed the Directors' Fees arrangements and has commenced processing directors' fees through payroll since 1 July 2024.

We recommend that the Co-op continue to monitor and review director payments to ensure all future payments are fully compliant with STP, superannuation and PAYG withholding requirements.

We extend our thanks to the team at Eton Irrigation and your accountants for their cooperation throughout the audit. We are happy to discuss any matters raised in this report and are available by telephone or in person if you would like to meet.

Yours faithfully

L.E. Manning
Principal