

Your ref:

Our ref: 2019-4349

Patrick Flemming – 3149 6041

SENSITIVE

31 March 2020

Mr S Greenwood
Director
Cherish the Environment Foundation Limited
PO Box 191
IPSWICH QLD 4305

Dear Mr Greenwood

Final Management Report for Cherish the Environment Foundation Limited

We have completed our 2019 financial audit for Cherish the Environment Foundation Limited (CTEF). I issued an unmodified audit opinion with an emphasis of matter highlighting the use of the special purpose basis of accounting.

The purpose of this letter is to provide you with details on audit matters and other important information related to the audited financial statements.

Reporting on issues

Issues and other matters formally reported to management and an update on actions taken by management to resolve these issues is included as Appendix A to this letter. Our rating definitions for internal control deficiencies is shown in Appendix B.

Report to parliament

Each year we report the results of all financial audits and significant issues to parliament.

This year we intend to include the results of our audit of CTEF in a report to parliament.

Audit fee

The final audit fee for this year is \$10,000 exclusive of GST. This fee is in line with our original fee estimate as per our external audit plan.

We would like to thank you and your staff for their engagement in the audit.

If you have any questions about this letter or would like to discuss any matters regarding our audit service, please contact me on 3149 6041 or Lisa Fraser, Engagement Manager on 3149 6132.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'P. Flemming'.

Patrick Flemming
Assistant Auditor-General

cc. Mr B Hines, Company Secretary
Mr D Farmer, Chief Executive Officer, Ipswich City Council

Appendix A

Issues formally reported to management

This table provides you with a summary of issues that we have formally reported to management since our interim report was issued on 5 December 2020..

Financial reporting issues

Issue	Our recommendation	Management response 17 March 2020																		
<p>19FR-1 - Ineffective quality assurance processes over annual financial statements <i>(High risk)</i></p> <p>Ineffective financial statement quality assurance and review processes resulted in four materially different versions of the 2019 financial statements prior to the final version being provided to audit over a 5 month period. There were numerous material errors between each version of the financial statements to both the 30 June 2018 and 30 June 2019 balances and the accounting policies.</p> <p>The involvement of both Ipswich City Council and an external accounting firm who were preparing the financial statements, impacted the preparation and update of each version of the financial statements. The turnaround time between each of the first four versions of the financial statements was excessive. The following table outlines the date the versions of the financial statements were received by audit and the date audit feedback was provided:</p> <table> <tr> <th>Financial Statement version</th><th>Date received by audit</th><th>Date audit provided feedback</th></tr> <tr> <td>1</td><td>15 Oct 2019</td><td>24 Oct 2019</td></tr> <tr> <td>2</td><td>18 Dec 2019</td><td>07 Jan 2020</td></tr> <tr> <td>3</td><td>30 Jan 2020</td><td>07 Feb 2020</td></tr> <tr> <td>4</td><td>02 Mar 2020</td><td>13 Mar 2020</td></tr> <tr> <td>5</td><td>16 Mar 2020</td><td>Not applicable</td></tr> </table>	Financial Statement version	Date received by audit	Date audit provided feedback	1	15 Oct 2019	24 Oct 2019	2	18 Dec 2019	07 Jan 2020	3	30 Jan 2020	07 Feb 2020	4	02 Mar 2020	13 Mar 2020	5	16 Mar 2020	Not applicable	<p>We recommend that CTEF:</p> <ul style="list-style-type: none"> Ensure that an officer is responsible for quality assurance over the financial statement preparation and production process to mitigate the recurrence of numerous revisions of the financial statements and the correction of material errors in future. Consider utilising Ipswich City Council resources for the production of the 30 June 2020 and future financial statements. 	<p>CTEF will consider its options in terms of financial support subsequent to constitution changes currently under consideration. This may include seeking proposals from a number of providers.</p> <p>Responsible officer: Mr Bryce Hines, Company Secretary</p> <p>Status: Work in progress</p> <p>Action date: 30 June 2020</p>
Financial Statement version	Date received by audit	Date audit provided feedback																		
1	15 Oct 2019	24 Oct 2019																		
2	18 Dec 2019	07 Jan 2020																		
3	30 Jan 2020	07 Feb 2020																		
4	02 Mar 2020	13 Mar 2020																		
5	16 Mar 2020	Not applicable																		

Financial reporting issues cont.

Issue	Our recommendation	Management response 17 March 2020
<p>The level of material errors noted within the financial statements contributed to a significant increase in audit risk and substantially impacted on audit efficiency, time and cost. The large scale of material errors resulted in us reassessing the audit approach and undertaking extensive testing over financial statement balances to allow us to gain sufficient assurance that the balances were materially stated and issue an unmodified audit opinion.</p> <p>19FR2 - Useful lives of property, plant and equipment not properly assessed <i>(Low risk)</i></p> <p>CTEF has not undertaken a formal assessment to appropriately support the useful lives used to calculate depreciation over its property, plant and equipment. CTEF currently uses a 20-year life for the Mutdapilly property improvements (including the Mutdapilly residence) and tax lives for the capital improvements at both the Calvert and Woolshed Creek sites.</p> <p>Current annual depreciation may not reflect the systematic allocation of the depreciable amount of the asset over its useful life. Depreciation may be under / over charged.</p>	<p>CTEF should engage with appropriate valuers in 2019/2020 to determine the useful lives which are relevant to CTEFs assets and process adjustments if required. CTEF may wish to seek guidance from Ipswich City Council regarding the process.</p>	<p>Agreed.</p> <p>Responsible officer: Mr Bryce Hines, Company Secretary</p> <p>Status: Work in progress</p> <p>Action date: 30 June 2020</p>

Other matters

Matter	Our recommendation	Management response - 17 March 2020
<p>19FR3 – No formal agreement with ICC over Grandchester land</p> <p>The 30 June 2019 value of inventories at CTEF's Grandchester site is \$230,346. The Grandchester site land is owned by Ipswich City Council. CTEF have planted and maintained trees on the Grandchester site since 2014 for the purpose of selling the offset rights to prospective clients who have environmental offset obligations. There is no formal agreement between Ipswich City Council and CTEF outlining the status of the plantation, its purpose, and each party's role and responsibility.</p> <p>CTEF's ability to sell the environmental offset rights to prospective customers as part of its normal operations may be impeded due to the lack of a formal agreement with Ipswich City Council.</p>	<p>A formal agreement should be entered into between CTEF and Ipswich City Council establishing the status of the CTEF Grandchester plantation and each organisation's role and responsibility in relation to the plantation.</p>	<p>Agreed.</p> <p>Responsible officer: Mr Bryce Hines, Company Secretary</p> <p>Status: Work in progress</p> <p>Action date: 30 June 2020</p>
<p>19FR4 – KMP declarations not obtained</p> <p>CTEF has not obtained declarations from its key management personnel (KMP), being the Board members and Company Secretary, in relation to their related parties. The purpose of obtaining KMP declarations is to identify related party relationships and to assess whether related parties have entered into transactions with the entity, and to disclose details of these transactions in the financial statements. Obtaining declarations will assist CTEF in complying with the disclosure requirements of AASB 124 <i>Related Party Disclosures</i>.</p>	<p>We recommend that KMP declarations be obtained for the 2019/2020 financial year.</p>	<p>Agreed.</p> <p>Responsible officer: Mr Bryce Hines, Company Secretary</p> <p>Status: Work in progress</p> <p>Action date: 30 June 2020</p>

Previously reported internal control deficiencies – interim management letter issued 5 December 2019

Significant Deficiencies

Ref	Issue	Updated management response - 17 March 2020
19IR-1	<p>Governance Standards – Lack of Financial and Risk Management Reporting to Board</p> <p><i>(Information and Communication)</i></p> <p>Subdivision 45B of the <i>Australian Charities and Not for profits Commission Regulation 2013</i> outlines five governance standards charities are required to comply with. The ACNC issued the <i>Self-evaluation for charities: Meeting your obligations as a registered charity</i> to assist charities with complying with the governance standards</p> <p>A comparison of CTEFs financial and risk management activities against those outlined by governance standards in this self-evaluation document identified several areas of non-compliance.</p>	<p>Work in progress</p> <p>Self evaluation has been completed and key action areas identified. This will be combined with Actions required from the external audit as there is significant cross-over. Action plan will then be implemented.</p> <p>Revised implementation date – 30 June 2020</p>
19IR-2	<p>Lack of reporting against Business Plan 2013 – 2018</p> <p><i>(Information and Communication)</i></p> <p>CTEF adopted a Strategic Plan in August 2012. The Strategic Plan was replaced by the 'Business Plan 2013–2018' at the 17 October 2013 Board Meeting. The Business Plan has not been revised since this date to reflect changing circumstances and is currently out of date.</p> <p>Governance standard 1 requires a registered entity to comply with its purposes and its charter as a not-for-profit entity. Business / Strategic Plans are essential for a charity to demonstrate how it plans to pursue its charitable purposes.</p> <p>The Business Plan 2013–2018 outlines five programs CTEF will focus on, outlining key actions together with a five-year funding table for each program. Reporting against the achievement of Business Plan outcomes has not occurred. Only one of the five programs listed in the Business Plan has been actively pursued by CTEF.</p>	<p>Work in progress</p> <p>Agree. This will be undertaken consequent to Council formally advising of its future involvement in CTEF.</p> <p>Implementation date – 30 June 2020</p>

Significant Deficiencies cont.

Ref	Issue	Updated management response - 17 March 2020
19IR-3	<p>Lack of detail in reports to Directors on status of projects</p> <p><i>(Information and Communication)</i></p> <p>CTEF maintain several sites for environmental offset purposes and for producing koala fodder. Some sites relate to clients with offset obligations, and some sites are maintained by CTEF for the purpose of attracting future clients. CTEF develops high level budgets for those sites delivering client offset obligations. If the site operations are proceeding as management expects, the Board does not receive any reporting against these budgets.</p>	<p>Work in progress</p> <p>Revised reporting is being prepared for next board meeting which is to be scheduled within the next month</p> <p>Revised implementation date – 16 April 2020</p>
19IR-4	<p>Assessment of strategic direction and going concern</p> <p><i>(Control Environment)</i></p> <p>CTEF is currently strategically reliant on Ipswich City Council for forecast future funding, acting as guarantor for major projects, provision of land for certain CTEF offset projects and provision of support staff to 30 June 2019.</p> <p>As noted in issue 19IR-2, CTEF operates with an unrevised and outdated Business Plan. No annual budget is prepared.</p> <p>We recommend the Board:</p> <ul style="list-style-type: none"> revise and report against its ten-year forecast annually and include projected revenue from potential future clients based on CTEF's knowledge of current circumstances and potential future markets. examines its strategic direction and future funding needs, in consultation with ICC. 	<p>Work in progress</p> <p>Partially Agree. Subject to Council's determination of its future role, CTEF should determine its strategic direction and funding model independent of Council</p> <p>Implementation date – 30 June 2020</p>

Deficiencies

Ref	Issue	Updated management response - 17 March 2020
19IR-5	<p>Purpose and continuance of Enviroplan Levy</p> <p><i>(Control Environment)</i></p> <p>We recommend the Board:</p> <ul style="list-style-type: none"> Confirm council's intention to continue with the payment of the annual contribution of the Enviroplan Levy and re-establish the rationale and purpose of the levy. Implement processes and reporting to assure itself that the Enviroplan Levy is spent as required Report to council six monthly 	<p>Work in progress</p> <p>Don't Agree. It is proposed that formal advice is sought from Council in regard to its future involvement with CTEF. Any future funding and reporting to be resolved based on Councils ongoing involvement.</p>
19IR-6	<p>Offset Works – Confirming Compliance with Clients</p> <p><i>(Information and Communication)</i></p> <p>We recommend CTEF develop processes to obtain progressive formal compliance signoffs on completed contractual obligations from clients to minimise the potential for unexpected future liabilities.</p>	<p>Work in progress</p> <p>Agree. Process is being discussed with clients.</p> <p>Revised implementation date – 30 April 2020</p>

Other Matters

Reference	Issue	Updated management response - 17 March 2020
19IR-7	<p>Guarantees provided by ICC</p> <p><i>(Information and Communication)</i></p> <p>CTEF implement regular reporting to ICC on the discharge of the obligations for those contracts where ICC is guarantor. The detail to be included in the report should be agreed with ICC.</p>	<p>Work in progress</p> <p>Agree. CTEF is currently seeking to remove all ICC guarantor requirements. Interim reporting will be provided.</p> <p>Implementation date – 31 March 2020</p>

Financial reporting issues – High Risk

Reference	Issue	Updated management response - 17 March 2020
19IR-8	<p>Financial statements – special purpose versus general purpose</p> <p>CTEF should formally assess and document whether it is reasonable to expect that there are users dependent on their financial information that will be useful to them for making and evaluating decisions about the allocation of resources.</p> <p>CTEF should discuss this assessment with audit with a view to determining whether general purpose financial statements (using reduced disclosure requirements) are to be prepared for the 2019-20 financial year.</p>	<p>Assessment undertaken no users identified.</p> <p>Assessment completed. Special purpose statements to be continued.</p> <p><i>Additional audit comment:</i></p> <p>This matter will be reassessed during the 2019-20 audit and discussed with management.</p>
19IR-9	<p>Financial statements – Application of AASB 141 Agriculture</p> <p>CTEF's current financial statements do not account for its biological assets as required by Australian Accounting Standard AASB 141 <i>Agriculture</i>.</p>	<p>Completed</p> <p>Financial Statements appropriately updated.</p>
19IR-10	<p>Financial statements – Content of Directors' Report not compliant with Corporations Act</p> <p>We recommend that CTEF update the current Directors' Report contents to comply with its legislative obligations and to reflect current circumstances.</p>	<p>Completed</p> <p>Directors Report was updated appropriately.</p>
19IR-11	<p>Mutdapilly property residence materially overvalued</p> <p>CTEF recalculate the value of the property from date of acquisition to 30 June 2019 in accordance with Australian Accounting Standards.</p>	<p>Completed</p> <p>Financial Statements appropriately updated.</p>

Appendix B

Our rating definitions for internal control deficiencies

We assess internal control deficiencies on their potential to cause a material misstatement in the financial statements as follows:

Assessed category	Definition/Criteria	Prioritisation of remedial action
Significant deficiency	<p>A significant deficiency is a deficiency, or combination of deficiencies, in internal control that requires immediate remedial action.</p> <p>Also, we increase the rating from a deficiency to a significant deficiency based on:</p> <ul style="list-style-type: none">• the risk of material misstatement in the financial statements• the risk to reputation• the significance of non-compliance with policies and applicable laws and regulations• the potential to cause financial loss including fraud, or• where management has not taken appropriate timely action to resolve the deficiency.	<p>This requires immediate management action to resolve.</p>
Deficiency	<p>A deficiency arises when internal controls are ineffective or missing, and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations and/or inappropriate use of public resources.</p>	<p>We expect management action will be taken in a timely manner to resolve deficiencies.</p>
Other matter	<p>An other matter is expected to improve the efficiency and/or effectiveness of internal controls, but does not constitute a deficiency in internal controls. If an other matter is not resolved, we do not consider that it will result in a misstatement in the financial statements or non-compliance with legislative requirements.</p>	<p>Our recommendation may be implemented at management's discretion.</p>

Our risk rating definitions for financial reporting issues

We assess financial reporting issues on their potential to cause a material misstatement in the financial statements as follows:

Assessed category	Definition/Criteria	Prioritisation of remedial action
High	We assess that there is a high likelihood of this causing a material misstatement in one or more components (transactions, balances and disclosures) of the financial statements, or there is the potential for financial loss including fraud.	This requires immediate management action to resolve.
Medium	We assess that there is a medium likelihood of this causing a material misstatement in one or more components of the financial statements	We expect management action will be taken in a timely manner to resolve deficiencies.
Low	We assess that there is a low likelihood of this causing a material misstatement in one or more components of the financial statements.	Our recommendation may be implemented at management's discretion.