

**ROYAL AUSTRALIAN CHEMICAL INSTITUTE**

**AUDIT REPORT  
2020**

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## 1. Executive Summary

### Perspectives on the Organisation

Royal Australian Chemical Institute ('RACI') has generated a profit for the financial year ended 30 June 2020 as follows:

Entity	Net Result \$	Net Assets \$
Royal Australian Chemical Institute	10,065	3,271,396

### Significant Events and Performance for the Year

A summary of the operating result is as follows:

	2020 \$	2019 \$
<b>Revenue from operating activities</b>		
Membership Subscriptions	666,035	676,979
School Competition Income	212,176	279,168
Meetings, conference and symposium income	404,876	1,078,171
Sponsorships, donations and grants	166,899	318,366
Media Income	69,575	43,204
Other Income	37,850	53,803
	<u>1,557,411</u>	<u>2,449,690</u>
<b>Revenue from non-operating Activities</b>		
Investment Income	39,240	168,713
Rental Income	54,370	49,259
Government - JobKeeper & Cash Flow Boost	95,828	-
	<u>189,438</u>	<u>217,972</u>
<b>TOTAL REVENUE</b>	<u>1,746,849</u>	<u>2,667,663</u>
<b>Expenses</b>		
Employee Expenses	(626,112)	(626,539)
Depreciation Expenses	(51,489)	(67,166)
Meetings, Conference & Symposium Expenses	(454,282)	(1,061,195)
School Competitions	(163,482)	(295,363)
Finance & Accounting Expenses	(28,977)	(45,353)
Office & Administrative Expenses	(200,213)	(142,575)
Media & Advertising Expenses	(78,578)	(74,554)
Sponsorships & Award Expenses	(49,852)	(71,263)
Other Expenses from Ordinary Activities	(83,799)	(81,514)
<b>TOTAL EXPENSES</b>	<u>(1,736,784)</u>	<u>(2,465,521)</u>
<b>Surplus / (deficit) before income tax expense</b>	<u>10,065</u>	<u>202,142</u>

With respect to the annual results, we note the following: -

We note the following income variations between years:

- Subscription revenue remained broadly consistent with the prior year noting that retention rates of members is stable. However, with the difficult outlook for 2021, management is looking to explore alternate sources of income.
- Investment income is lower noting that the gain from the sale of investment units held in funds were significantly lower than that of the prior year. In the prior year, investment units in funds were sold to restructure the portfolio so as to optimise returns going forward. Further, the economy was in a better state and offered larger returns.

- Both General Income (particularly sponsorships) and Business Unit income from conferences are significantly lower than in 2019 as a result of the onset of Covid-19 whereby conferences were cancelled. Another large stream of revenue being the annual ANCQ Quiz event has now been cancelled.

There has been a reduction in expenditure, we note:

- Conference and business unit expenses were well below 2019 as a result of the cancellation of events mentioned previously.

Overall, a small trading surplus was achieved, which is considered a sound result in light of the challenges to revenue streams. After taking into account the revaluation of RACI's investment portfolio, it incurred a cumulative loss of approximately \$31,000.

**Reconciliation Review** As part of our procedures we reviewed key balance sheet account reconciliations and ensured that they were adequately reconciled on a timely basis. No significant issues were noted however, recommendations are indicated below:

Account	Findings
Membership in Advance	No issues noted, however we recommend that the iMIS report be reconciled to the memberships paid in advance on a monthly basis.
Sponsorship in Advance	No issues noted on the reconciliation of sponsorship received in advance, however we refer you to recommendations regarding sponsorship funds received in Section 2.

**Going Concern and Future Forecast Performance** The capacity of RACI to generate positive returns in the future is dependent upon its capacity to maintain membership levels; continue to host conferences and events and receive ongoing government funding.

At reporting date, we believe the going concern assumption is appropriate.

Management notes that Covid-19 may impact membership subscriptions, annual quiz revenue and conference revenue streams in future and therefore forecasts a break-even position next year.

**Materiality** Year-end materiality is as follows:

Entity	Base	2020 \$'000
Royal Australian Chemical Institute	2% of Annual Turnover	52,000

**Income and Expense Testing** As part of our year end procedures we reviewed key income and expenses recorded in the period and ensured that they were appropriately supported and recorded.

We noted no matters from our testing.

## 2. Assessment of Control Environment

We note the following matters:-

2020 points	High	Moderate	Low	Total
	0	2	3	5
Observation	High	Moderate	Low	30 June 2020 Status
<p>Conflict of Duties</p> <ul style="list-style-type: none"> <li>There is a conflict of duties in relation to the Associations accounting function given resource constraints. This is unavoidable given the staffing levels and close management review of monthly financial reports does mitigate the risk. We also note that our review of Board minutes indicates close and appropriate scrutiny of Association's performance (which is an important financial governance control);</li> </ul>			X	OPEN
<p>Key Person Risk</p> <ul style="list-style-type: none"> <li>We note that significant knowledge of processes and operations rely on a small number of employees. This presents a risk from a business continuity perspective. We recommend that the current business operations manual be updated, so that the continuity of key roles and integrity of process is preserved.</li> </ul>			X	OPEN
<p>Credit Card Policy</p> <ul style="list-style-type: none"> <li>We note that the Association has a business operation manual in place which broadly considers credit cards. We do however recommend that a detailed credit card policy be drafted which governs the eligibility, usage and termination of credit cards, so that employees are aware of the guidelines and consequences of non-adherence.</li> </ul>			X	OPEN

## 2. Assessment of Control Environment (Continued)

Observation	High	Moderate	Low	30 June 2020 Status
<p>Sponsorship</p> <ul style="list-style-type: none"> <li>▶ During our review, we noted that one staff member is responsible for preparation on invoices, receipt of sponsorship income and reconciliation of the amounts received thereafter. We recommend that an added layer of review be implemented such as sign off over the matching of amounts received to the bank statement. Areas where a single person is responsible for preparation and review presents a risk of manipulation.</li> </ul>		X		OPEN
<p>Unused Cheque Books</p> <ul style="list-style-type: none"> <li>▶ We note that the Association has a number of blank cheques on site. Whilst not in use, cheque books have historically been susceptible to fraud. We recommend all cheque books be stored in a secured location and/or destroyed if they are not to be used.</li> </ul>		X		OPEN

### 3. Risk Considerations

Our audit process focuses on those risks with the potential for a significant financial statement impact.

#### Areas of audit focus:

We identified certain areas of heightened financial statement risk from an audit perspective. We detail below relevant areas of audit focus and the outcomes of our audit focus at year end.

Area of audit focus to test	Reason for additional focus	Year End Procedures
Accounts Receivable	Risk of non - recoverability	Tested existence and recoverability of trade receivables - we substantively tested the balance of trade receivables by reference to subsequent receipts for invoices.
Property, Plant and Equipment	High asset balance on the balance sheet	<p>Tested existence and occurrence of fixed assets.</p> <p>Completeness / valuation and allocation - reconciled register to general ledger totals to ensure all assets are recorded.</p> <p>A sample of additions and disposals (if applicable) was tested, noting any material errors.</p> <p>A review of repairs and maintenance on a sample basis was performed to detect any potential items of a capital nature.</p> <p>A review of depreciation rates on a test basis was performed to ensure they are in accordance with the rates noticed in the Association's accounting policies.</p>
Cash and Cash Equivalents	By its nature cash is susceptible to fraud and error	<p>Obtained third party bank confirmations for all cash balances held in financial institutions.</p> <p>Reviewed all reconciliations and investigated reconciling items where appropriate.</p> <p>Reviewed cut off of receipts and payments to ensure that they were loaded in the correct period.</p>
Income Received in Advance	High balance on the balance sheet	Tested accuracy and completeness of income received in advance to ensure correct recognition in period based on terms and conditions of revenue receipted.
Trade Creditors	By its nature trade creditors is susceptible to fraud and error	Tested completeness and accuracy of trade and other payables - our audit procedures included a test of creditor balances to supporting supplier statements and subsequent payment. Additionally, cut off procedures included a search for unrecorded liabilities.
Compliance with accounting standards	Compliance with legislative requirements for financial reporting.	The accounts are a general purpose financial report prepared in accordance with Australian Accounting Standards.

### 3. Risk Considerations (Cont'd)

Area of audit focus tested	Reason for additional focus	Year End Procedures
Compliance with audit standards	Audit standards are enforceable. Auditor independence needs to be considered.	Formal meeting with management to include appropriate fraud enquiry. Audit to be in accordance with ASA 240. Audit independence to be maintained through the audit engagement.
Revenue	Assessment of revenue cycle. By its nature revenue is susceptible to fraud and error	Tested existence and completeness of revenue - documented and tested system controls over revenue streams.  Selected a sample of revenue items during the period and agree to supporting documentation, testing completeness and recognition of revenue.  No issues in testing noted.
Expenditure	Assessment of expenditure cycles. By its nature expenses is susceptible to fraud and error	Tested existence and completeness of expenditure - documented and tested system controls over expenditure streams.  Selected a sample of expenditure during the period and agree to supporting documentation.  No issues in testing noted.
Payroll	Assessment of cost of payroll cycles. By its nature payroll is susceptible to fraud and error	Tested existence, accuracy, occurrence and completeness of payroll - documented and tested system controls over payroll streams.  Selected a sample of payruns during the period and agreed to employee file information.  No issues in testing noted.

#### 4. General

We would like to take this opportunity to thank the staff of Royal Australian Chemical Institute for the co-operation offered during our year end audit.

In accordance with our firm policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party other than the Association in respect of this report, including any errors or omissions therein, arising through negligence or otherwise however caused.

This report is not to be used for any purpose other than those specified herein, nor may extracts or quotations be made without our express pre-written approval.