SHIRE OF IRWIN
DONGARA-PORT DENISON
A BRILLIANT BLEND

Audit Committee Meeting

Tuesday, 13 January 2026

Attachment 4

Audit Closing Report

PITCHER PARTNERS

Office of the Auditor General
Serving the Public Interest

Shire of Irwin

Report to the Audit Committee

For the year ended 30 June 2025

28 November 2025

bakertilly
NETWORK MEMBER

PITCHER PARTNERS

Private & confidential

Level 11
12-14 The Esplanade
Perth
WA 6000

Tel: +61 8 9322 2022
Fax: +61 2 9223 1262

28 November 2025

The Audit Committee
Shire of Irwin
11-13 Waldeck Street
Dongara WA 6525

Dear Audit Committee (the "AC") members

We have substantially completed our audit of The Shire of Irwin (the "Shire") financial report for the year ended 30 June 2025.

The audit has been conducted in accordance with Australian Auditing Standards and practices, to enable the:

- Formation of opinions by the Auditor General;
- Reporting of audit findings, significant control weaknesses and other relevant matters; and
- Auditor General to report on any matter which may affect the Auditor General's responsibilities under the Auditor General Act 2006.

We anticipate that our auditor's report will be unmodified upon finalisation of the outstanding items as included on page 4 of the attached report.

We have set out in this report certain matters in respect of our audit. The information in this report is not intended as a detailed commentary on the results and activities of the Shire during the year.

We would like to take this opportunity to express our appreciation for the professional assistance provided by Shane Ivers and the team at the Shire during the course of the audit.

If you wish to discuss this matter further, or require more detailed information, please contact me on +61 8 9322 2022.

Yours faithfully

PITCHER PARTNERS BA&A PTY LTD

Michael Liprino
Executive Director

OFFICE OF THE AUDITOR GENERAL

Vignesh Raj
Director

Table of contents

Making business *personal*

Report purpose

This report has been prepared for communication purposes and as a basis for discussion with the Audit Committee of the Shire of Irwin ("Shire"), which includes specific auditing standard requirements and other relevant matters pertaining to our audit for the year ended 30 June 2025. This report is to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process.

Audit Scope

We were engaged to perform an audit of the financial report of the Shire for the year ended 30 June 2025 in accordance with Australian Auditing Standards with the objective of expressing an opinion on the financial report.

Outstanding Items

At this point in time, we have substantially completed our audit with the following items outstanding and still to be finalised:

- *Receipt of signed Management Representation Letter*
- *Completion of review of subsequent events*
- *Signed Financial Statements*

Going concern

During the audit, we obtained managements assessment on going concern and concluded that, managements use of the going concern basis of accounting in the preparation of the financial statements was appropriate.

Cooperation encountered

During our audit, we received full cooperation from management and had no unresolved disagreements overs the application of accounting principles, the scope of our review or disclosures to be included in the financial statements.

Audit differences

A summary of our adjusted and unadjusted audit differences is set out on page 19 of this report.

Written Representations

We have requested a letter of representation from management. A copy of the letter is available on request.

Over the horizon

We have highlighted the key accounting and regulatory updates which will have an impact on the Group in future periods

Audit Opinion

Subject to finalisation and satisfactory resolution of the outstanding items noted and after approval of the financial report by the Audit Committee, we expect to sign our auditor's report which will be unmodified. A copy of the draft audit report is attached.

Checklist
✓ Independence
✓ Fraud considered
✓ Review of board minutes
✓ Going concern
✓ Compliance with laws and regulations
✓ No significant difficulties encountered during the audit
✓ Significant accounting estimates

Audit completion process and timeline

Key
- Planning
- Fieldwork
- Completion

1	2	3	4	5	6
April	May	October (Early)	October (Late)	October (Late)	November (Early)

Planning

Approach

Understand your business, including impacting external factors

Document our understanding of system processes and internal controls

Identify, assess and document audit risks

Identify audit procedures to be performed

Confirm timetables

Allocate resources

Determine client information required for the audit

Perform tests on key controls and determine audit reliance (where applicable)

Deliverables

Audit plan

Client assistance package

Timetable

Fieldwork

Approach

Verify transactions and balances

Perform analytical and data analysis

Address risk areas identified throughout the planning process and interim visit

Perform audit procedures on year end balances

Perform tests of details

Deliverables

Financial report/statements template

Completion

Approach

Perform audit completion procedures

Discuss and agree audit findings and adjustments

Review and finalise procedures on the financial report/statements

Report findings to management/the Audit Committee

Attend audit close out meeting

Provide auditor’s report

Provide updated management letter and obtain feedback prior to finalisation

Deliverables

Audit Findings Report

Independence declaration

Receipt of signed financial report/statements

Signed auditor’s report

Management letter

OAG Office of the Auditor General Serving the Public Interest

Auditor Independence

We are satisfied that the provision of other services has not compromised our independence in our audit of the Shire.

Independence declaration

Independence is fundamental to our ongoing relationship with the Shire. We believe that we have complied with all professional regulations relating to auditor independence including those outlined in:

- APES 110 Code of Ethics for Professional Accountants (including independence standards).

Audit and non-audit services

During the year ended 30 June 2025, we did not provide any non-audit services.

Safeguards

- Compliance with the Quality Management Standards:
  - ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*
  - ASQM 2 *Engagement Quality Reviews*
  - APES 320 *Quality Management for Firms that provide Non-Assurance Services*
- Independence Policy
- Prohibited Securities Policy
- Conflict of Interest Policy
- Acceptance & Continuance of Client Relationships

Our services have not involved partners or staff acting in a managerial or decision –making capacity, or being involved in the processing or originating of transactions;

We are not aware of any relationships between Pitcher Partners or other firms that, in our professional judgment, may reasonably be thought to bear on independence.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that the Audit Committee consider the facts of which you are aware and come to a view.

Areas of Audit Focus

As part of our planning procedures, we identified a number of key areas of focus for our audit of the financial statements of the Shire. This report sets our perspective in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of audit focus" section of this report.

We request that you review these, and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues;
- You concur with the resolution of the issue; and
- There are no further significant issues you are aware of to be considered before the financial report is finalised.

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Council and the Audit Committee.

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
Revenue recognition for government grants and contributions, rates and fees and charges *Key Judgements:* *Timing of revenue recognition* *Relevant accounting standards:* *AASB 15 Revenue from contracts with customers ("AASB 15")* *AASB 1058 Income of Not-for-Profit Entities ("AASB 1058")*	Included in the Statement of Comprehensive Income for the year ended 30 June 2025 is an amount for $2.27 million (2024: $2.13 million) relating to operating and non-operating grant, subsidies and contributions, an amount for $6.92 million (2024: $6.84 million) relating to rates revenue, and an amount for $2.60 million (2024: $2.58 million) for fees and charges. **Audit procedures performed to ensure compliance with accounting policies and Australian Accounting standards.** We have performed the testing surrounding the control environment for the recognition of revenue to ensure that income relating to all key material revenue streams is being recognised in accordance with *Australian Accounting Standards* and the terms of the source of income. We have performed substantive tests of details utilising our sampling methodology as well as year end analytical review procedures to add to the level of assurance obtained. We have worked with management to assess the contractual nature of any new revenue streams identified in the year to assess and conclude on the appropriate revenue recognition.	Based on the audit procedures performed, we concur with management's conclusion that government grants, contributions, rates and fees and charges have been appropriately accounted for in accordance with AASB 1058 and AASB 15. Nothing further to report.

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
Property, plant and equipment and Infrastructure assets *Key Judgements:* Valuation techniques used to determine the fair value of property, plant and equipment and infrastructure assets Useful lives of property, plant and equipment and infrastructure assets and depreciation rates *Relevant accounting standards:* AASB 116 Property, Plant and Equipment ('AASB 116") AASB 136 Impairment of Assets ("AASB 136") AASB 13 Fair Value Measurement ("AASB 13") *Relevant other regulations:* *Local Government (Financial Management) Regulations 17A(2)* (the "LGR")	Included in the Statement of Financial Position for the year ended 30 June 2025 is an amount for $40.72 million (2024: $41.83 million) relating to property, plant and equipment and $62.68 million (2024: $64.12 million) relating to infrastructure assets. No revaluations of any Property, Plant & Equipment and Infrastructure were performed during the 2024-25 period. Management has performed multiple assessments towards the value of the property, plant and equipment and infrastructure assets. An impairment trigger analysis was performed and concluded that no impairment triggers noted. As part of our audit procedures, we have performed the following: • We documented the key controls around property, plant and equipment and infrastructure balances and assess accounting policies associated with fair value assessment to ensure it is in accordance with Australian Accounting Standards. • We reviewed the capitalisation threshold required by Local Government (Financial Management) Regulation 17A(5) and test samples of additions and disposals. • We reviewed management's assessment for impairment indicators and ensure fair value disclosures are properly disclosed in accordance with AASB 13. • We documented the depreciation policy applied and perform depreciation recalculations factoring in management's assessment of the useful life of property, plant and equipment, and infrastructure to ensure reasonableness. • We reconciled the joint arrangement agreements between the Shire and Homeswest to determine the appropriate proportion of the assets have been recognsied in accordance with the Shire's percentage share.	Based on the audit procedures performed, we concur with managements conclusion that property, plant and equipment and infrastructure assets have been accounted in accordance with AASB 116, AASB 136 and AASB 13. Nothing further to report.

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
Employee benefits provision *Key Judgements:* *Inflation rate, discount rate and probabilities applied for the long service leave calculation* *Relevant accounting standards:* *AASB 137 Provisions, Contingent Liabilities and Contingent Assets ("AASB 137")* *AASB119 Employee* *Benefits ("AASB119")* *Relevant Regulatory requirement:* *Long Service Leave Act 1958 ("LSL Act")* *Local Government (Long Service Leave) Regulations ("LG LSL Regulation")*	Included in the Statement of Financial Position for the year ended 30 June 2025 is an amount for $0.85 million (2024: $0.85 million) relating to employee benefit provisions. As part of our audit procedures, we have performed the following: • We documented the key controls around the fortnightly payroll process and assessed the accounting policies associated with the rates and probabilities used in the provision calculations to ensure the balance is in accordance with Australian Accounting Standards. • We obtained provision reconciliation workings that reconciled to the trial balance. Employee samples were then further selected, and their calculation inputs were vouched to supporting contracts, pay slips and leave forms to ensure calculations were appropriately performed. • We reviewed management's policies for the classification between current and non-current employee provisions for both annual leave and long service leave accruals to ensure was in accordance with Australian Accounting Standards. • We performed a recalculation of the annual leave and long service leave accrual schedules to check the arithmetical accuracy. This ensured the Shire included all employees including casual employees in the long service leave calculation.	Based on the audit procedures performed, we concur with managements conclusion that employee benefit provisions have been accounted in accordance with AASB 137 and AASB 119. Nothing further to report.

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
Existence and completeness of expenditure *Key Judgements:* *Timing of expense recognition* *Relevant Regulatory requirement:* *Local Government Act1 995* *(the "LGA")*	Included in the Statement of Comprehensive Income for the year ended 30 June 2025 is an amount for $4.60 million (2024: $4.45 million) relating to employee costs, an amount for $3.85 million (2024: $4.68 million) relating to material and contracts, an amount for $5.09 million (2024: $4.86 million) relating to depreciation, and an amount for $1.32 million (2024: $1.33 million) relating to other expenditure items. **Audit procedures performed to ensure compliance with accounting policies and Australian Accounting standards.** We have performed the testing surrounding the control environment to ensure appropriate quotations, tenders, purchase orders, approvals, and reviews have been performed in accordance with the Shire's adopted purchasing policy for required expenditure items. We have performed substantive tests of details utilising our sampling methodology as well as year end analytical review procedures to add to the level of assurance obtained.	Based on the audit procedures performed, we concur with managements conclusion that existence and completion of expenditure have been accounted in accordance with Australian Accounting Standards. Nothing further to report.

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
Provision for rehabilitation *Key Judgements:* Inflation rate, discount rate and probabilities applied for the long service leave calculation *Relevant accounting standards:* AASB 137 P*rovisions, Contingent Liabilities and Contingent Assets* (“AASB 137”)	Included in the Statement of Financial Position for the year ended 30 June 2025 is an amount for $0.00 million (2024: $0.00 million) relating to rehabilitation provision. The Shire of Irwin is licensed by the Department of Water and Environmental Regulation (“DWER”) to operate the Dongara Transfer Station, a waste management facility until 17 December 2028. From PP assessment of the license arrangement between the Shire of Irwin and Department of Water and Environmental Regulation the Shire has a Category 1 Landfill Site. The Shire of Irwin’s licence has been issued under Part V of the Environmental Protection Act 1986 (WA) (“EP Act”), which allows prescribed waste of more than 20 tonnes, but less than 2,000 tonnes per annum to be disposed of at these sites. Under the EP Act (or associated regulations), there is no legal requirement to rehabilitate the landfill site whilst it is registered and in use. Should the landfill site be closed, or be classified as “contaminated” by DWER, a legal obligation to remediate the land may arise.	Based on the audit procedures performed, we concur with managements conclusion that provision for rehabilitation have been accounted in accordance with Australian Accounting Standards. Nothing further to report.

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
Risk of Management Override of Controls *Key Judgements:* *Management override of controls*	Management override of controls is a significant risk as it can undermine the effectiveness of established internal controls, allowing unauthorised or inappropriate transactions to occur. This risk is particularly relevant to journal entries and adjustments made outside normal processes. **Audit procedures performed to ensure compliance with accounting policies and Australian Accounting standards.** We have obtained an understanding of journal entry processes and controls. We have performed general journal testing, focusing on non-standard and manual entries. We applied data analytics to identify unusual patterns, such as entries posted at odd times or by unexpected personnel. We reviewed supporting documentation for selected entries to confirm validity and appropriateness.	Based on the audit procedures performed, we are satisfied that journal entries tested were valid, appropriately authorised, and supported by adequate documentation. No evidence of management override was identified. Nothing further to report.

Areas of Audit Focus

<table>
<tr><th>Areas of focus</th><th>Background</th><th>Conclusion reached</th></tr>
<tr><td>Quality Delivery of Financial Reporting</td><td>Quality and timeliness of financial reporting is key for sound financial management, public accountability and effective decision making. Absence of an effective project plan for year end financial reporting can result in delays, errors, poor quality and increased costs.

<table>
<tr><th>Areas for management consideration</th><th>Relevant for Shire</th><th>Management response</th></tr>
<tr><td>Financial report being delivered as “audit ready”</td><td>Yes</td><td>The financial report was received on 30 September 2025, in a form and manner to which we believe constitutes as “audit ready” with minimal changes required as a result of audit procedures undertaken and our review of the financial report as a whole.</td></tr>
<tr><td>Assessing the impact of material, complex and one-off significant transactions</td><td>No</td><td>Management concluded no impact relating to complex transactions.</td></tr>
<tr><td>Assessment of fair value of property, plant and equipment and infrastructure assets</td><td>Yes</td><td>Management has performed an impairment indicator analysis and noted no impairment indication.</td></tr>
</table>
</td><td>Based on the audit procedures performed, we are satisfied that there is no significant deficiency in the quality delivery of financial reporting that would impact the issuance of the audit opinion.

Nothing further to report.</td></tr>
</table>

Areas of Audit Focus

Areas of focus	Background			Conclusion reached
Quality Delivery of Financial Reporting	**Areas for management consideration**	**Relevant for the Shire**	**Management response**	
	• Engagement with the Audit Committee early in the financial reporting process to review the project plan and impact on the financial statements of judgments and estimates such as: • useful lives of assets; • deprecation; • expected credit loss (ECL); • revenue recognition; • compliance with contract terms; • use of restricted funds; • terms of lease agreements; and • capitalisation of interest for qualifying assets.	Yes. Below is relevant for the Shire: • Useful lives of assets • Depreciation • Revenue recognition; and • Use of restricted funds	Revenue recognition assessment has been performed for each material source of income. The Shire has monitored the use of the restricted funds in accordance with its approved budgets.	

Other Areas of Audit Focus

Other Areas of focus included in the audit plan	Relevant to the Shire	PP Perspective
AASB 1059 *Accounting for Service Concession Arrangements – Grantors*	No	No agreements were noted during the course of the audit that would fall under the requirements of AASB 1059 *Accounting for Service Concession Arrangements – Grantors.* Based on the assessment performed, AASB 1059 has no impact on the financial statements.
Leases	No	Lease calculations and the inputs used in the calculations were reviewed. Based on the audit procedures performed, no deficiencies were noted.
IT General control	Yes	The effectiveness of logical access and program change controls was assessed using Pitcher Partners' IT work programs. Based on the audit procedures performed, no deficiencies were noted.
Specific Local Government ("LG") General Purpose Financial Reporting requirements	Yes	The general-purpose financial statements were reviewed as part of the audit procedures performed to ensure compliance with local government and Australian Accounting Standards requirements. Based on the audit procedures performed, no disclosure deficiencies were identified.
Existence of cash and cash equivalents	Yes	Cash balances were agreed to bank statements and confirmations and it was ensured that restricted funds are being appropriately accounted for by the Shire.
Related party transactions	Yes	Related party transactions and disclosures were tested and reviewed as part of audit procedures performed. Based on the audit procedures performed, no deficiencies were noted in the related party transactions or KMP disclosures.
Employee expenses, superannuation contributions	Yes	Walkthroughs and tests of key controls of the payroll process were performed to ensure key controls have been adhered to. Substantive testing has been performed on representative samples. Based on the audit procedures performed, no significant control deficiencies were identified
Implementation of new ERP system	Yes	The new ERP system was not implemented within the Shire during the final site visit in October. PP questioned the planned implementation procedures and controls around the data transfer in preparation for the FY26 audit. Based on initial discussions with management, no significant deficiencies were identified (full ERP system will be audited in FY26)

Other Areas of Audit Focus

Other Areas of focus included in the audit plan	Relevant to the Shire	PP Perspective
Joint arrangement	Yes	Since 1987, the Shire has participated in a joint arrangement with Homeswest for the construction of the following: - Stage 1 – 4, 1 bedroom units (units 5 – 8) with the Shire having 100% share in the assets - Stage 2 – 6, 1 bedroom units (units 9 – 14) with the Shire having 18.03% share in the assets - Stage 3 – 4, 1 bedroom units (units 15 – 18) and 6, 2 bedroom units (units 19 – 24) with the Shire having 19.18% share in the assets - Stage 4 - 5, 1 bedroom units (units 25 – 28 and 30) and 1, 2 bedroom unit (unit 29) with the Shire having 12.23% share in the assets - Stage 5 – 5, 1 bedroom units (units 31 – 35) and 4, 2 bedroom units (units 36 – 39) with the Shire having 14.38% share in the assets Calculation inputs were reconciled to the underlying joint arrangement agreements and mathematically check to ensure materially stated. A reconciliation was performed on the fixed asset register to ensure the appropriate asset balance was being carried in proportionate to the Shire's percentage share of the assets. Audit procedures performed did not identify any material misstatements for deficiency matters.
Others: • Recognition and recoverability of receivables; • Completeness and classification of borrowings; • Completeness of creditors, accruals and provisions; and • Treatment of associated borrowing costs including capitalisation to any qualifying assets.	Yes Yes Yes Yes	Audit procedures performed did not identify any specific deficiency matters. Audit procedures performed did not identify any specific deficiency matters. Audit procedures performed to identify unrecorded liabilities did not identify any specific deficiency matters. Audit procedures performed did not identify any specific deficiency matters.

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
30 June 2025 Management Findings	Management findings that have been identified and presented to the Shire of Irwin's management team during the 30 June 2025 audit engagement. The Management Letter findings are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. The audit has given consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).	Based on the audit procedures performed, we are satisfied that there is no significant management findings to report during the 30 June 2025 engagement.

Matters Identified During 30 June 2025 Audit	Rating	Status
1) Excessive leave balances	Moderate	On-going

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
30 June 2024 Management Findings	The Management Letter findings are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. The audit has given consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).	

Matters Identified During 30 June 2024 Audit	Ratings	Status
1) Excessive leave balances	Moderate	On-going
2) Update of UV valuations in SynergySoft	Moderate	Resolved

Identified misstatements

The following tables summarizes the adjustments that were identified during the year that have been corrected and also not corrected by management.

Corrected misstatements

Misstatements arising during the audit that were corrected by management in the financial report are detailed as follows:

Description	Asset Increase/ (Decrease) $AUD	Liability (Increase)/ Decrease $AUD	Profit/(loss) Increase/ (Decrease) $AUD
N/A – No Adjustments Identified	-	-	-

Uncorrected misstatements

Accumulated misstatements arising during the audit that have not been corrected in the financial report are detailed as follows:

Description	Asset Increase/ (Decrease) $AUD	Liability (Increase)/ Decrease $AUD	Equity (Increase)/ Decrease $AUD	Profit/(loss) Increase/ (Decrease) $AUD
N/A – No Uncorrected Adjustments Identified	-	-	-	-

Regulatory Matters

- ***ASIC updates, including focus areas***
- ***Future financial reporting developments***

Regulatory matters

ASIC focus areas for 30 June 2025 financial reports

ASIC have outlined its focus areas for 30 June 2025 financial reports [25-079MR].

They are continuing to focus on areas where significant judgement from preparers of financial reports is required, which include:

- Revenue recognition
- Asset valuation
- Estimation of provisions.

ASIC have indicated that preparers should take extra care when making such judgements especially considering recent capital market volatility.

Enduring focus areas

ASIC refer to their previously identified enduring financial focus areas that include:

- Asset values – covering impairment of non-financial assets, values of property assets, expected credit losses on loans and receivables, financial asset classification and values of other assets such as inventories, deferred tax and investments in unlisted entities.
- Provisions – considering the adequacy of provisions for matters such as onerous contracts, make good provisions, financial guarantees given and restructuring.
- Subsequent events – and whether such events relate to new conditions requiring disclosure or impact assets, liabilities, income or expenses at year end.
- Disclosures including those in the financial report and those specifically required as part of a listed entity's Operating and Financial Review (OFR).
- Non-IFRS financial information presented in the OFR or market announcements so as not to be presented in a potentially misleading manner.
- Disclosure in half-year reports to focus on significant developments and changes in circumstances since the last full year financial report.

Other specific matters identified

Registrable superannuation entities (RSE)

ASIC will continue to review lodged RSE financial reports focusing on the measurement and disclosures of investment portfolios and the disclosure of marketing and advertising expenses.

Grandfathered entities

ASIC will continue to monitor compliance of the financial reports of previously grandfathered entities with the legislative requirements and applicable accounting standards. In particular, they will be looking for instances of non-lodgement of financial reports.

Sustainability reporting standards

For Group 1 entities with sustainability reporting commencing 1 January 2025, ASIC has indicated they will review these sustainability reports as part of their 2025-26 program and share observations with market preparers.

Regulatory matters

Future financial reporting developments – AASB 18

Presentation and disclosure in financial statements

AASB 18 replaces AASB 101 *Presentation of Financial Statements.* A number of requirements in AASB 101 will be carried forward to AASB 18 along with new requirements, to help achieve comparability of the financial performance of similar entities.

Further, some content in AASB 101 will be relocated to AASB 108 *Accounting policies, Changes in Accounting Estimates and Errors*, and AASB 108 renamed to *Basis or Preparation of Financial Statements.*

Amendments are also made to AASB 107 *Statement of Cash Flows* to:

- remove the option for classifying interest and dividend cash flows as operating activities; and
- require the new sub-total 'Operating Profit' to be the starting point for the reconciliation to the net cash flows from operating activities.

Who is impacted?

All entities preparing Tier 1 general purpose financial statements will be initially impacted, including for-profit and not-for-profit entities.

In the coming months, the AASB will consider the impact for Tier 2 entities preparing financial statements in accordance with AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities.*

Application and impact

AASB 18 includes:

- Revised structure of the statement of profit or loss. This incorporates two new sub-totals and three new categories of income and expenses depending on an entity's main business activities.
- Disclosure of management-defined performance measures ("MPMs") or non-GAAP measures in the notes to the financial statements. This will include disclosures such as how the measure is calculated, how it provides useful communication and a reconciliation to the most comparable sub-total in AASB 18 or other accounting standards.
- Additional guidance on aggregating and disaggregating information in the financial statements, which focuses on grouping items based on their shared characteristics.

AASB 18 does not impact the recognition and measurement of amounts in the financial statements, including net profit numbers.

However, it will make certain 'non-GAAP' measures part of the audited financial statements, which traditionally may have been presented outside of the financial statements.

Applying the new standard will enable entities to better communicate their story and focus on the result from main business activities. Consistency of presentation in the statement of profit or loss and cash flows will be improved, especially between entities within the same industry.

Effective date

AASB 18 applies to entities preparing Tier 1 general purpose financial statements as follows, with earlier application permitted:

- for-profit entities (other than superannuation entities) for annual reporting periods commencing on or after 1 January 2027, including for interim (or half-year) financial statements.
- not-for-profit entities and superannuation entities for annual reporting periods commencing on or after 1 January 2028.

Retrospective application will be required, so comparative information needs to be presented and disclosed in accordance with AASB 18.

Guidance

Financial Reporting Guide

AASB 18 Presentation and disclosure in financial statements – June 2024

Regulatory matters

Future financial reporting developments - Other standards issued and effective within the next 12 months

New Pronouncement	Effective Date	Application
AASB 2023-5 *Lack of Exchangeability*	1 January 2025	All entities
AASB 2024-2 *Classification and Measurement of Financial Instruments*	1 January 2026	All entities
AASB 2025-2 *Classification and Measurement of Financial Instruments: Tier 2 Disclosures*	1 January 2026	Tier 2 entities
AASB 2024-3 Annual Improvements Volume 11	1 January 2026	All entities
AASB 2025-1 Contracts Referencing Nature-dependent Electricity	1 January 2026	All entities

Other matters

- Cyber Security Act 2024
- Wage underpayments and related matters
- Payday Super
- Compliance plan deficiencies in the managed investment industry

Other matters

Artificial intelligence (including machine learning)

Increased focus due to associated risks

Artificial intelligence (AI) is increasingly becoming part of the business landscape. The release of ChatGPT and other similar AI tools has placed further focus on this area, including the associated business risks.

Machine learning, a type of AI, adapts itself through iterative training using large amounts of data. Each new piece of data refines the system, automatically adjusting network settings for accuracy based on underlying mathematical equations. Machine learning systems lack broader knowledge beyond their trained model. As a result, the quality of the data input into the system, drives the output quality. The model doesn't retain training data; it generates answers from its complex, trained model.

Generative AI, built on foundation models, creates content that rivals human creation which are often deployed via cloud services. This introduces additional risks, such as where the data input is stored and who has access to it.

Common AI-related business risks

Input risk

AI tools are dependent on the input information, which has two broad risk areas: the skill and capability of the user and the training data used to build the AI tool.

Execution / Output risk

AI tools are based on the specific training data, and so there is no guarantee the output is correct. Businesses using AI need to have appropriate processes and controls in place to make sure the AI output is factually correct. This can be especially challenging if using open-source models (which may use irrelevant data to build a response) or inhouse tools (which may use incomplete or insufficient training data).

Confidentiality/Privacy risk

The information input to an AI tool may not be as secure and private as required, particularly if open-source systems are being used. Businesses need to consider what information is used, where and how it is stored and who has access to it.

ESG reporting risk

Looking forward with the focus on ESG reporting, climate and sustainability information related to AI tools may be included in the consideration factors. Businesses will need to have in place the appropriate systems, processes, and controls to obtain the relevant data for reporting purposes.

Considerations

Some of the key points to consider are:

- What, where and how AI is used in your business and supply chains
- Whether an enterprise approach to AI is an option and preferable to open-source AI
- The training required to make the best use of AI in your business
- Whether you may need to seek legal advice in using AI
- The level of assurance (if any) to be obtained on your AI systems

References

Osborne Clarke - What risks need to be considered by a business using artificial intelligence?

McKinsey - Confronting the risks of artificial intelligence

Other matters

Cyber Security Act 2024

The *Cyber Security Act 2024* (the "CSA"), enacted on 29 November 2024, is landmark legislation aimed at strengthening Australia's cyber security practices and implements four initiatives outlined in the Australian Cyber Security Strategy (2023-2030).

The CSA includes measures to:

- Mandate minimum cyber security standards for smart devices;
- Introduce a mandatory ransomware and cyber extortion reporting obligation for certain businesses to report ransom payments;
- Introduce a Limited Use obligation for the National Cyber Security Coordinator to encourage industry engagement with the government following cyber incidents; and
- Establish a Cyber Incident Review Board to conduct reviews of significant cyber incidents and share lessons learned.

Subordinate legislation in the form of Rules has also been created to give effect to some of the measures under the CSA (referred to collectively as "Cyber Security Rules").

Those charged with governance should consider the applicability of the CSA and Cyber Security Rules and take appropriate action to comply with the requirements (as applicable).

Ransomware payment reporting

Part 3 of the CSA establishes a ransomware and cyber extortion payment reporting obligation on reporting business entities.

The Ransomware payment reporting rules **became effective from 30 May 2025**.

Who must report?

A reporting business entity is one that carries on business in Australia with an annual turnover of the previous financial year that exceeds $3 million and is not a Commonwealth or State body. It includes responsible entities for critical infrastructure assets to which Part 2B of the *Security of Critical Infrastructure Act 2018* applies.

Conditions for reporting?

The following questions can assist in determining when a report is required:

1) Has a cyber security incident occurred, is it occurring or is imminent?
2) Does/will the incident have a direct or indirect impact on a reporting business entity?
3) Has an extorting entity made a demand for payment or benefit?
4) Has a payment or benefit been made in direct response to the demand?

When to report?

Within 72 hours of:

- Making a ransomware payment, or
- Becoming aware that a payment was made on behalf of the entity.

How to report?

Via a portal on the Australian Signals Directorate's website: https://www.cyber.gov.au/

Required information includes details relating to the business and contact, incident and impact, extortion demand and payment and communications with the extorting entity.

Those charged with governance should assess whether the entity is a reporting business entity and if so, understand the ransomware payment reporting obligations and implement appropriate processes, systems and controls to comply.

Guidance

Australian Cyber Security Strategy (2023-2030)

Cyber Security Act 2024

Cyber Security (Ransomware Payment Reporting) Rules 2025

Factsheet - Ransomware and cyber extortion payment reporting

Other matters

Wage underpayments and related matters

Wage underpayments and related employee benefits are currently an area where there has been significant legislative change or planned change.

Wage Underpayments

From 1 January 2025 as part of changes to workplace laws, intentional underpayment of wages by employers will become a criminal offence.

Employers will commit an offence if:

- they're required to pay an amount to an employee (such as wages), or on behalf of or for the benefit of an employee (such as superannuation) under the Fair Work Act, or an industrial instrument; and
- they intentionally engage in conduct that results in their failure to pay those amounts to or for the employee on or before the day they're due to be paid.

The new offence only applies to intentional underpayments that happen after these provisions take effect. This includes where the underpayments are part of a course of conduct that started before the provisions take effect.

Penalties

Some of the penalties are outlined below but there are a broad range of potential penalties.

For a company

The following penalties will apply:

- if the court can determine the underpayment, the greater of 3 times the amount of the underpayment and $7.825 million, or
- if the court can't determine the underpayment, $7.825 million.

For an individual

The following penalties will apply:

- maximum of 10 years in prison
- if the court can determine the underpayment, the greater of 3 times the amount of the underpayment and $1.565 million, or
- if the court can't determine the underpayment, $1.565 million.

Considerations

Those charged with governance should be alert to this topical issue and upcoming changes to workplace laws.

Consider what actions are appropriate, which may include:

- Review the applicable awards and industry agreements
- Review the configuration of payroll systems
- Consider whether controls over wage compliance are adequate.

Remember your obligations are for each employee's wages, and small errors can result in significant penalties even where most employees have been paid correctly.

Guidance

Fair Work Australia - Criminalising wage underpayments and other issues

Other matters

Wage underpayments and related matters (continued)

Compliance Notices

Since 27 February 2024, a Fair Work compliance notice works in two ways.

The new laws state that compliance notices issued to employers can require the employer to:

- calculate the underpayment amount owed to an employee
- pay the amount owed to the employee

In addition, courts can order employers (who have been issued with a compliance notice) to comply, either wholly or partly, with its terms.

New Discrimination protections

Since 15 June 2023, there are stronger protections against discrimination for employees experiencing family and domestic violence.

This means that it's unlawful for an employer to take adverse action (including dismissal) against an employee because the employee is (or has been) experiencing family and domestic violence.

Voluntary Small Business Wage Compliance Code

A Voluntary Small Business Wage Compliance Code (Voluntary Code) will be established by Fair Work Australia.

Compliance with the Voluntary Code means a small business won't be criminally prosecuted if they underpay their employees.

Considerations

Those charged with governance should be alert to these topical issues and consider how the business will ensure its ongoing compliance with these matters.

Guidance

Fair Work Australia - Criminalising wage underpayments and other issues

Other matters

Payday Super

In the 2023-24 Budget, the Government announced a reform to align employers' payment of Superannuation Guarantee (SG) contributions with salary and wages, instead of the current quarterly requirement.

This will take effect from 1 July 2026.

Employers to pay SG alongside wages

From 1 July 2026, an employer will be required to make SG contributions on 'payday'.

Payday = the date an employer makes an Ordinary Times Earnings (OTE) payment to an employee.

Each time OTE is paid, there will be a new 7 day 'due date' for contributions to arrive in the employees' superannuation fund.

An employer will be liable for the new SG charge unless SG contributions are received by their employees' superannuation fund within 7 calendar days of payday.

There will be some limited exceptions:

- Contributions for OTE paid within the first two weeks of employment for a new employee will have their due date deferred until after the first two weeks of employment.
- Small and irregular payments that occur outside the employee's ordinary pay cycle would not be considered a payday until the next regular OTE payment or payday occurs.

Updated SG charge

Where employers fail to pay contributions in full and on time, they are liable for the SG charge.

The SG charge will:

- Be updated for the payday super environment and continue to reflect the seriousness of underpayment or late payment of SG;
- Ensure that employees are fully compensated for any delay in receiving their superannuation; and
- Create an incentive for employers to address unpaid superannuation quickly.

All assessments of the updated SG charge will be made by the Australian Taxation Office (ATO).

Components of the updated SG charge	
Outstanding SG shortfall	The SG shortfall will be calculated based on OTE to be consistent with the base used for calculating the SG.
Notional Earnings	The SG shortfall will incur daily interest calculated at the general interest charge rate on a compounding basis. Interest accrues from the day after the due date.
Administrative uplift	An additional charge will be levied to reflect the cost of enforcement. This will be calculated as an uplift of the SG shortfall component of up to 60 per cent.

Additional interest and penalties apply if the assessed SG charge is not paid by the due date.

Recognising late contributions

If funds are not received in an employee's superannuation account within 7 days, the employer will be liable to pay the SG charge, even ahead of the ATO issuing an assessment.

An employer should make contributions to their employee's superannuation fund as soon as possible as this will minimise their liability and penalties. The longer the period of non-compliance, the larger the SC charge will be.

The approach to correcting late contributions will be simplified under payday super.

Considerations

Those charged with governance need to ensure they have appropriate governance and systems in place, so employees receive their full legal entitlements, including salary, wages and SG, on time.

Guidance

ATO Payday superannuation

Payday Super fact sheet.pdf

Other matters

Compliance plan deficiencies in the managed investment industry

ASIC media release 25-090MR detailed findings on the widespread compliance plan deficiencies in the managed investment industry.

Background

ASIC assessed 50 compliance plans used by Responsible Entities (REs) in the operation of a combined 1,471 funds and found that most of the compliance plans failed to adequately address the most important requirements across the design and distribution obligation (DDO), internal dispute resolution (IDR) and reportable situations (RS) regimes.

Considerations

Responsible Entities (REs) should consider reviewing and updating their plans appropriately remembering:

- REs must develop and maintain a compliance plan for each registered managed investment scheme they operate. The intention is that these plans are a documented reference for each fund's RE, its staff, its auditor, and ASIC of the measures REs will apply to ensure compliance with their obligations under the *Corporations Act 2001*.
- These RE obligations are designed to protect fund members. Therefore, it is vital that REs identify all their obligations, set out the adequate control measures they have developed to address each obligation, and diligently implement those controls.
- If a compliance plan is not adequate and implemented, fund investors will not have the benefit of the full range of intended protections under the *Corporations Act 2001*.

Guidance

Media Release - 25-090MR

Review of managed fund compliance plans: "Failing to plan is planning to fail"

Contact us

Michael Liprino

Executive Director

p. +61 8 9322 2022
e. *liprinom@pitcher-wa.com.au*

Michael is an Executive Director within our Business Advisory and Assurance team at Pitcher Partners Perth. As a chartered accountant with over 14 years of experience within a professional practice environment, Michael provides his clients with extensive experience across a full range of business advisory services, bringing them a peace of mind that only comes from using a fully qualified and experienced professional.

Caden Manfield

Senior Accountant

p. +61 8 9322 2022
e. *manfieldc@pitcher-wa.com.au*

An Assistant Manager with 5 years of experience delivering external audit services across a wide range of clients including listed companies. As a qualified Chartered Accountant, Caden had worked across a broad range of sectors, gaining exposure to reporting requirements and diverse stakeholder environments.

PITCHER PARTNERS

Making
business
personal

OAG

Office of the Auditor General
Serving the Public Interest