

INDEPENDENT AUDIT REPORT
Report on the general purpose financial report



To Armidale Dumaresq Council

SCOPE

The financial report comprises the income statement, balance sheet, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the Statement by Councillors and Management in the approved form as required by Section 413(2)(C) of the Local Government Act 1993 for Armidale Dumaresq Council (the Council), for the year ended 30 June 2007.

Councils' responsibility for the financial report

The Council is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the Local Government Act 1993 and regulations and the Local Government Code of Accounting Practice and Financial Reporting. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report to the Council based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Audit Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our audit responsibility does not extend to the Original Budget figures included in the Income Statement and Cash Flow Statement and the Original Budget disclosures in Notes 2(a) and 16 to the financial statements and accordingly, we express no opinion on them.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial report.

We believe that, subject to the qualification of our audit opinion noted below, the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

BASIS FOR QUALIFIED AUDITOR'S OPINION

Council introduced new accounting computer applications during the 2007 financial year. To ensure there was a common software platform for NESAC and due to perceived pressure to commence NESAC by the Department of Local Government, a short timeframe was imposed to implement all the new software in July and August 2006. The implementation was not as successful as anticipated in terms of control over accounting transaction processing and computer change management. This contributed to significant problems in processing transactions on a timely basis and not allowing reconciliation of critical general ledger balances to occur. Once Council was able to clear the backlog of transactions it became clear that there was an unreconciled balance in the operating bank ledger control account of \$953,000.

Owing to the nature of the bank reconciliation problem, we were unable to satisfy ourselves, by the use of other audit procedures, as to where the bank reconciliation adjustment should have been processed.

QUALIFIED AUDITOR'S OPINION

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to where the adjustment made to the bank reconciliation should have been processed:

- (a) The accounting records of the Council have been kept in accordance with the requirements of Division 2 of Part 3 of the Local Government Act, 1993;
- (b) the general purpose financial report:
 - (i) has been prepared in accordance with the requirements of Division 2 of Part 3 of the Local Government Act, 1993;
 - (ii) is consistent with the Council's accounting records; and
 - (iii) presents fairly, in all material respects, the Council's financial position as at 30 June 2007 and the results of its operations for the year then ended;
- (c) we have been able to obtain all information relevant to the conduct of our audit; and
- (d) no material deficiencies in the records or the financial reports were detected in the course of the audit.

Forsyths

Forsyths Business Services Pty Ltd

A handwritten signature in black ink, appearing to read "RA Finch", written over a horizontal line.

RA Finch
Principal

19 March 2008
111 Faulkner Street Armidale

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW)"