

PKF LAWLER Review of Governance, Business Performance, Internal Control Environment and Financial Statements

Key Recommendations and Actions of Directors

Summary of Key Recommendations	Actions
(a) Governance structure	
<p>i. The Board and governance structure requires re-design to become appropriate for the advocacy and commercial functions of the association.</p>	<p>Directors are currently considering options with a view to presenting recommendations to members regarding the size, composition and election/appointment methodology for the future Board of NSW GBOTA.</p> <p>This evaluation has included the preparation of a Governance review undertaken by Grant Thornton. The report was discussed at the October 2015, Directors’ meeting and the initial considerations of Directors are summarised in a separate report.</p> <p>Directors are also considering the most appropriate structure to ensure its commercial and advocacy functions are carried out effectively and without potential for conflict.</p>
<p>ii. The Board election process requires amendment to ensure that the Association is able to attract and retain Board members with the skills and capabilities necessary to successfully lead and govern a significant commercial operation. In light of the current challenges facing the Association, independent directors with relevant financial, marketing and business development skills are imperative.</p>	<p>Directors are currently considering options with a view to presenting recommendations to members regarding the size, composition and election/appointment methodology for the future Board of NSW GBOTA.</p> <p>The current state of deliberations are expanded upon more fully in the actions arising from the Grant Thornton Governance Review.</p> <p>Various views are held on size and election/appointment methodology. Importantly, however, Directors have concluded that the Board’s commercial functions would be enhanced by a portion of the Directorate being appointed independent Directors.</p>

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<p>iii. Introduce the use of Board sub-committees to improve the efficiency and effectiveness of the Board meetings to ensure strategy and not operations is the focus. Recommended sub-committees include:</p> <ul style="list-style-type: none"> • Audit & Finance • Business Development & Marketing • Racing & Regulatory 	<p>Directors have supported the recommendation.</p> <p>Previously, the Board of Directors were supported by a Finance Committee and Management Committees at each NSW GBOTA tracks.</p> <p>The Board of Directors are now supported by the following committees:</p> <ul style="list-style-type: none"> • Audit and Finance Committee (meets monthly) • Racing and Regulatory Committee (meets quarterly) • Business Development and Marketing Committee (meets quarterly) • Membership Committee (meets quarterly) • Remuneration, Human Resource and Compliance Committee (meets at least once a year) <p>In addition, Directors intend appointing a Young Members Committee in January 2015.</p> <p>Governance and delegated authorities of the committees have been reviewed by Directors and formal approval of the final documentation will occur at the January, 2016 Directors meeting.</p> <p>The over-arching Governance Charter of the Directorate has also been reviewed as a consequence of the supporting committee structure. Its formal endorsement will occur at the January 2016, Directors Meeting.</p>

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<p>iv. Track advisory/management committees should be discontinued in regard to the commercial operations of the Association and track managers should ideally report through to a Chief Operating Officer (or in the absence of such a position, the Chief Executive Officer). Ongoing “local” support and advice could continue to be provided to the local track manager on an ad hoc basis by those currently on the track advisory/management committees.</p>	<p>Directors have supported the recommendation.</p> <p>Track Management Committees have been phased out.</p> <p>A review of the Association’s organisation structure, human resource procedures and organisation policy has been put in place. A report will be considered at the January 2016 Directors Meeting. It is envisaged that all Track Line Managers will report to Head Office via a head of Operations with direct liaison relationships in place with the heads of Business Development/Marketing and Finance Departments.</p>
(b) Financial sustainability and business performance	
<p>i. A sustainable increase in income is now critical to the future viability of the Association and its ability to continue delivering greyhound racing events in NSW. The appointment of a business development manager to assist the Association replicate successful track income initiatives and development non-track income streams is imperative.</p>	<p>Directors have supported the recommendation.</p> <p>Kathy Symons was appointed as Commercial and Business Development Manager in October 2015.</p> <p>Kathy has prioritised a review of the Association’s communication plan, including the website and social media platforms. Kathy will also focus on reviewing current commercial procedures and seek to drive business growth initiatives across the track network during 2016.</p>
<p>ii. Transformational change in the internal operations, administrative systems and processes of the Association is required to reduce labour-intensity, remove excessive duplication and reduce administrative costs.</p>	<p>Directors have supported the recommendation.</p> <p>The organisation structure, human resource procedures and organisation policy is currently being reviewed, including the efficiency of current arrangements involving interaction between head office and track management.</p>

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	<p>This review includes assessing current technological support and making recommendations to Directors by the January 2016 Directors Meeting.</p>
<p>iii. The existing arrangements with the Wentworth Park Sporting Complex Trust need to be addressed to consolidate all the activities and responsibilities under the control of one organisation. The current arrangements are duplicative, inefficient and counter-productive to the objectives of all stakeholders. Wentworth Park is critical to the overall success of the Association and its operations and structure require attention.</p>	<p>Directors have supported the recommendation.</p> <p>It is clear that current arrangements at Wentworth Park are inefficient and counter-productive. This reality was addressed in a Lease proposal (supported by the Wentworth Park Sporting Complex Trust, GRNSW and NSW GBOTA) which was placed before the Government in January 2015.</p> <p>The Government has delayed its consideration of the Lease proposal, with the Minister for Lands confirming this position in November 2015.</p> <p>Directors, in reaction, have determined to re-engage with GRNSW with a view to considering the medium to long term future of metropolitan greyhound racing, consistent with the requirements of the Metropolitan Racing Policy.</p> <p>Terms of Reference have been presented to GRNSW for consideration. Tenure and operational arrangements at Wentworth Park will be assessed in the process.</p>
<p>iv. The development and effective ongoing use of a long-term strategic plan (5 to 10 years forward) will be critical to ensure that the Board and management are appropriately focused on the future strategic priorities and make decisions which are consistent with the agreed strategy.</p>	<p>Directors have supported the recommendation.</p> <p>Strategic priorities have been defined in a strategic planning workshop co-ordinated by Grant Thornton.</p> <p>The priorities will form the basis of the 2020 Strategic Plan to be</p>

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	finalised in line with the strategic plan of GRNSW and issues emerging from the Special Commission of Inquiry.
<p>v. The development and effective ongoing use of a comprehensive asset management strategy will be necessary to ensure that track assets are appropriate and capital is allocated efficiently between competing needs as the portfolio continues to age, racing operations change and patronage trends evolve.</p>	<p>Directors have supported the recommendation.</p> <p>The current asset register has been reviewed by the Financial Controller, condition assessments undertaken and projections as to future maintenance needs prepared.</p> <p>Future asset management strategy will be aligned with the 2020 Strategic Plan.</p> <p>Directors have also commenced a value assessment of key assets, including the Lidcombe property which has been formerly re-valued.</p>
<p>vi. The Association needs to perform a benchmarking exercise to identify areas of waste throughout the Association as there are varying levels of operational costs being incurred.</p>	<p>Directors have supported the recommendation.</p> <p>A full track costing benchmarking process was undertaken in conjunction with preparation of the 2015/16 budget. A cost benchmarking between tracks is to remain under constant management consideration, including preparation of arising recommendations to Directors.</p>
<p>(c) Internal controls</p>	
<p>i. Pursue an appropriate and integrated technology platform to provide the necessary foundation for the transformational change required in internal operations, administrative systems and processes. Ensure that robust controls are a key part of the essential requirements for the technology. The system and related business processes include at a minimum:</p> <ul style="list-style-type: none"> • Track admissions and parking (where relevant) 	<p>Directors have supported the recommendation.</p> <p>A review of current technology and control systems has been undertaken, including seeking the view of the external auditor. Recommendations regarding an integrated technology platform, which will accommodate all requirements in the PKF recommendation, are to be presented to Directors at their January 2016 meeting for immediate roll out.</p>

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<ul style="list-style-type: none"> • Trial booking and income • Bar and Catering POS (income, expenditure, inventory levels etc) • Function income and expenditure • Rostering, timesheet capture and integrated payroll processing • Track purchasing and procurement (including capital and operating expenditure) 	
<p>ii. Ensure that key processes are consistently implemented at all tracks, with appropriate change management, training and support. Compliance and operational efficiency should form a key component of track managers' performance assessment.</p>	<p>Directors have supported the recommendation.</p> <p>Reviewed Employee management procedures and an up-graded performance management system will be part of the recommendations regarding the Organisation structure/human resource procedures/policy review to be considered in January 2016.</p>
<p>iii. Conduct regular internal audit visits to tracks to monitor compliance and control effectiveness.</p>	<p>Directors have supported the recommendation.</p> <p>An internal audit process for both operational compliance and controls will be part of the recommendations regarding the Organisation structure/human resource procedures/policy review to be considered in January 2016.</p>
<p>iv. Determine whether the implementation by the Association or GRNSW of a system similar to the "Fast Track" system administered by GRV in Victoria would be appropriate for NSW. This has led to significant efficiency for activities like trial booking and administration in Victoria and the cost and administration of the system is managed by GRV centrally, thereby reducing the burden on the race clubs to invest and maintain separate system.</p>	<p>Directors have supported the recommendation.</p> <p>The capacity to book trials electronically will be part of the new website that is to be progressively rolled out during December 2015 and January 2016.</p>

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<p>(d) Accounting matters in the financial report</p> <p>The financial statements for the year ended 30 June 2014 contain the following important issues that should be addressed by management in the preparation of the financial statements for the year ending 30 June 2015:</p>	
<p>i. The intangible assets (representing the Wentworth Park race calendar and associated rights and benefits acquired from the NCA in July 2008) have not previously been subject to systematic amortisation. There are a number of factors which lead us to question the appropriateness of the indefinite useful life assumption which has been applied in order to avoid amortising the assets. The benefits embodied in the rights and other intangible assets acquired are consumed over time which calls into question whether the indefinite life assumption is appropriate. We recommend that management reconsider the relevant factors, including the remaining term of the Metropolitan Racing Policy (ending 2017) and the Licence Agreement with the Wentworth Park Sporting Complex Trust (ending 2027) in order to determine an appropriate useful life for the assets and begin amortisation over the appropriate useful life in accordance with Australian Accounting Standard AASB 138.</p>	<p>Directors supported formal evaluation of the recommendation.</p> <p>This process involved referring the recommendation to the Association’s external auditor and reference to the transaction deed which provided for the 2008 acquisition.</p> <p>Directors agreed to the following note being included in the “notes to the Financial Statement for the ended 30 June 2015” in the 2014/15 Annual Report.</p> <p><i>“Expenditure which is expected to result in significant future benefits over more than one accounting period has been capitalised. This expenditure was incurred to enable the entity to hold an exclusive licence for the conduct of a minimum of 104 metropolitan race meetings per year as the single metropolitan race club and receive funding for same from GRNSW. The continuation of the asset is dependent on the continuation of the policy. The expenditure will be written off on expiry of that benefit in future accounting benefits.”</i></p>
<p>ii. The current challenges facing the Association provide indicators of impairment for all the intangible and physical (PP&E) assets. In accordance with the relevant accounting standard (AASB 136), detailed impairment testing is required</p>	<p>Directors have supported the recommendation.</p> <p>Directors support the need for annual impairment testing of goodwill and fixed assets, should impairment indicators exist. Directors will</p>

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<p>to be performed. Such testing is required to determine the recoverable amount of the relevant assets and whether any impairments are required to be recognised in the financial statements. As such testing has not previously been performed, we recommend that this activity be commenced early by management, as it is likely to take a reasonable amount of time to complete to the required standard and significant judgements are required to be made.</p>	<p>engage the external auditors to put in place a framework for the annual testing of Goodwill and the impairment testing of assets, if impairment indicators are present.</p> <p>The external auditors will present the framework by no later than the end of March 2016, so that any required testing can be completed by June 30, 2016.</p>
<p>iii. Based on discussions with management, the Provision for Future Prizemoney does not satisfy the recognition requirements under the accounting standards. Where a present obligation does not exist, the provision should be de-recognised from the financial statements.</p>	<p>Directors have supported the recommendation.</p> <p>The future prizemoney provision had been previously agreed to as a safeguard against the fluctuating returns that were being paid to clubs from a now defunct GRNSW Club Incentive Fee.</p> <p>The provision for future prizemoney provisions has been written back in the 2014/15 financial statements presented in the 2014/15 Annual Report.</p>
<p>iv. Provisions for dismantling, removal and restoration (and the related additional accounting requirements) for the Association's assets are required to be recognised in accordance with AASB 137 and AASB 116. Currently, no such provisions have been recognised.</p>	<p>Directors have supported formal evaluation of the recommendation.</p> <p>In the process, Directors have reviewed the provisions for dismantling, removal and restoration as June 30, 2015. Directors and the external auditors are of the opinion that, given the history of the Association having long tenures at leased land and premises, it was the likelihood of an event that would give rise to the liability to make good is very low.</p> <p>As such, Directors determined that recognition of no provision is currently appropriate. This position will be reviewed annually in order to assess whether current treatment remains appropriate.</p>

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<p>v. The financial report contains certain presentation issues which are not fully compliant with current accounting standards. These include:</p> <ul style="list-style-type: none"> • The presentation of Extraordinary Income • The inappropriate and inconsistent use of the term “Consolidated” throughout the report • Certain other specific terminology issues that require correction. <p>We recommend that these issues be appropriately addressed by management.</p> <p>In response to our enquiries, the auditor also indicated that management do not provide them with a complete copy of the draft financial report (in the format included in the Annual Report) prior to approval and publication. This is a significant process deficiency that the auditor has indicated they intend to remedy. It is critical that the auditor is provided with a draft of the full annual report prior to publication and that any issues raised by the auditor are addressed prior to finalisation and publication.</p>	<p>Directors have supported the recommendation.</p> <p>The Financial Controller has been instructed ensure terminology and presentation matters in the financial statements in this year’s annual report are fully compliant with current accounting standards.</p> <p>The Financial Controller has been instructed to ensure that the final version of the Annual Report is reviewed by the external auditor.</p> <p>The external auditor received and reviewed the final copy of the financial statements provided to members. The external auditors were satisfied that the recommended changes had been actioned.</p>