

As requested, I have summarized the key observations in relation to my review of the **audited financial statements of The Sovereign Islands Gateway Company Limited for the years ended 30 June 2025 dated 24 November 2025 (refer to as “Original report” therein) and 11 September 2025 (refer to as “Revised report” therein), respectively.**

Below is a summary of the key observations in relation to the review of two financial statements of Original report and Revised report with different report dates. The focus is the rationale of the key changes in these two financial statements with the same reporting period as well as its implication on the audit opinion in accordance with the auditing standards in respond to the changes/ revised disclosures mentioned therein.

### **Key observations**

- (1) Error identified in Revised report (page 14 note 2 (i) of Revised report) – comparative data and \$65,425 prior year discounts

An error has been identified in Revised report due to historical unidentified error in Stratamax (the financial reporting software) where levies in arrears were overstated. The discount to owners on paid security contributions was not accurately reflected within the profit and loss account at the time the discount was realized.

- (a) Given the revision represented 51.8% of 2025 revised profit (\$126,181) and 9.5% revised net asset of 2024 financial position (\$686,674), further investigation should be carried out by management as to which period of this error belongs to. In addition, since levies collection is regarded as one of the major recurring businesses/activities of the company, management should have kept proper record considering repetitive nature and significance of this activity. Otherwise, considering the relevant revised amount is material to both financial performance and net asset position, we strongly believe that the Revised report is misleading to the user of financial statements.**

**Given the fundamental uncertainty of this issue and the root cause of the error has not been resolved as of report date, in any case, the opinion type should not be an “unqualified one”. We have significant doubt on how the auditors can issue a “clean” opinion as this financial statement does not give a “true and fair view” of the company’s financial position as at 30 June 2025 and of its financial performance for the year the ended. (Auditing Standard ASA 700 (Forming an Opinion and Reporting on a Financial Report))**

**Considering the error is due to use of financial reporting software, has auditors performed sufficient understanding of the control and IT control environment in relation to the use of Stratamax? Whether there is any evidence to support that this financial reporting system is reliable so as to conclude that the other financial statement line items are free of material errors?**

(b) **Also, having considered this significant finding, has auditors reported this significant deficiency in internal control identified during audit and how management remediate the control deficiencies?**

(c) **With the re-issuance of audit report on the financial statements for the years ended 30 June 2025, has management and auditors perform due diligence work to recall the previously issued financial statements so avoid an undue reliance on previously issued financial statements by report users?**

(2) Revision in disclosure of loan balance with related party (page 19 note 12 of Revised report and page 18 note 12 of Original report)

It has been mentioned in Revised report that the entire amount of borrowing from related party (\$150,000) is due for repayment within 3 months from the balance sheet as of 30 June 2025. However, in the Original report, there is a disclosure of “there is no agreement in place to suggest the following: repayment terms, interest and length of loan” and “directors have minutes approving the loan and determinate the loan is repayable at \$50,000 per annum”).

(a) In the Revised report, there is no description as to why there is such a fundamental change in related party disclosure. In Original report, auditors should have reviewed the terms of the contract/agreement/ minutes and confirm the related party transaction disclosure. \$100,000 loan balance is reclassified from non-current liabilities to current liabilities due to the change in such related party repayment term.

**Considering the drastic change in related party disclosure, we would like to understand the rationale for the changes and whether there is proper corporate governance by board of directors to review and approve such related party transaction and whether there is any subsequent revision in the approval document by board of directors for the underlying loan transaction. Also, whether the loan is interest bearing or not has not been fully disclosed in the note.( Auditing Standard ASA 550 (Related Parties)**

(3) Transparency of major expenses (Page 8 of Revised account -Security expenses – 2025 \$927,528 ; 2024 \$807,094)

**Considering the significance of this expense, it has been suggested a breakdown of security expenses should be disclosed in note to the financial statements. Also, we would like to understand whether auditors have performed proper audit procedures to verify the genuine of the amount and whether proper control has been in place to safeguard the asset of the company, including proper control in place for bidding procedures for key suppliers and management selection procedures for appropriate suppliers.**

- (4) Revision in significant accounting estimates (page 14 of Revised report - depreciation changed from 10% to 20%; Page 17 note 7 of Revised account and page 13 of Revised account-reclassification of trade receivables and levies in advance)

**There is insufficient disclosure for the rationale of the changes in depreciable lives of asset. Also, the revision in the assessment in life of asset should be reflected prospectively instead of retrospectively under accounting standard. We would like to understand why auditors agree with management's judgement to revise the account retrospectively given the amount of accumulated depreciation has been restated as this is obviously not in compliance with accounting standard (*AASB 116 Property, Plant and Equipment*).**

**Terms of reference:**

**Auditing Standard ASA 700 (Forming an Opinion and Reporting on a Financial Report)**

Form of Opinion

16. The auditor shall express an unmodified opinion when the auditor concludes that the financial report is prepared, in all material respects, in accordance with the applicable financial reporting framework.

17. **If the auditor:**

(a) concludes that, based on the audit evidence obtained, the financial report as a whole is not free from material misstatement; or

(b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial report as a whole is free from material misstatement,

the auditor shall modify the opinion in the auditor's report in accordance with ASA 705.

18. **If the financial report prepared in accordance with the requirements of a fair presentation framework does not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report in accordance with ASA 705. (Ref: Para. A16)**

Evaluating Whether the Financial Report Achieves Fair Presentation (Ref: Para. 14)

A7. Some financial reporting frameworks acknowledge explicitly or implicitly the concept of fair presentation.<sup>22</sup> As noted in paragraph 7(b) of this Auditing Standard, a fair presentation<sup>23</sup> financial reporting framework not only requires compliance with the requirements of the framework, **but also acknowledges explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the framework.**

A8. The auditor's evaluation about whether the financial report achieves fair presentation, both in respect of presentation and disclosure, is a matter of professional judgement. This evaluation takes into account such matters as the facts and circumstances of the entity, including changes thereto, based on the auditor's understanding of the entity and the audit evidence obtained during the audit. The evaluation also includes consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of the users taken on the basis of the financial report as a whole), such as the effect of evolving financial reporting requirements or the changing economic environment.

A9. Evaluating whether the financial report achieves fair presentation may include, for example, discussions with management and those charged with governance about their views on why a particular presentation was chosen, as well as alternatives that may have been considered. The discussions may include, for example:

- The degree to which the amounts in the financial report is aggregated or disaggregated, and whether the presentation of amounts or disclosures obscures useful information, or results in misleading information.
- Consistency with appropriate industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted.

## **Auditing Standard ASA 550 (Related Parties)**

Conformity with International Standards on Auditing This Auditing Standard conforms with International Standard on Auditing ISA 550 Related Parties issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

The following requirements are additional to ISA 550:

If the auditor is unable to

- obtain sufficient appropriate audit evidence regarding related parties and related party transactions; or
- form a conclusion as to the completeness of the disclosure of related party relationships and transactions in accordance with the applicable financial reporting framework;

**the auditor shall modify the auditor’s opinion in accordance with ASA 705.** (Ref: Para. Aus 27.1)

- If the auditor concludes that the related party disclosures in the financial report do not satisfy the requirements of the applicable financial reporting framework, the auditor shall modify the auditor’s opinion in accordance with ASA 705. (Ref: Para. Aus 27.2)

Compliance with this Auditing Standard enables compliance with ISA 550.

### **Authorisation and approval of significant transactions and arrangements (Ref: Para. 14(b))**

A21. Authorisation involves the granting of permission by a party or parties with the appropriate authority (whether management, those charged with governance or the entity’s shareholders) for the entity to enter into specific transactions in accordance with pre-determined criteria, whether judgemental or not. Approval involves those parties’ acceptance of the transactions the entity has entered into as having satisfied the criteria on which authorisation was granted. Examples of controls the entity may have established to authorise and approve significant transactions and arrangements with related parties or significant transactions and arrangements outside the normal course of business include:

- Monitoring controls to identify such transactions and arrangements for authorisation and approval.
- Approval of the terms and conditions of the transactions and arrangements by management, those charged with governance or, where applicable, shareholders.

### **Maintaining Alertness for Related Party Information When Reviewing Records or Documents Records or Documents That the Auditor May Inspect (Ref: Para. 15)**

A22. During the audit, the auditor may inspect records or documents that may provide information about related party relationships and transactions, for example:

- Third-party confirmations obtained by the auditor (in addition to bank and legal confirmations).
- Entity income tax returns.
- Information supplied by the entity to regulatory authorities.
- Shareholder registers to identify the entity's principal shareholders.
- Statements of conflicts of interest from management and those charged with governance.
- Records of the entity's investments and those of its superannuation plans.
- Contracts and agreements with key management or those charged with governance.
- Significant contracts and agreements not in the entity's ordinary course of business.
- Specific invoices and correspondence from the entity's professional advisors.
- Life insurance policies acquired by the entity.
- Significant contracts re-negotiated by the entity during the period.
- Reports of the internal audit function.
- Documents associated with the entity's filings with a securities regulator (for example, prospectuses).
- Arrangements that may indicate the existence of previously unidentified or undisclosed related party relationships or transactions. (Ref: Para. 15)

## AUDITING STANDARD ASA 540 (Auditing Accounting Estimates and Related Disclosures)

### Significant Assumptions

24. In applying the requirements of paragraph 22, with respect to significant assumptions, the auditor's further audit procedures shall address:

(a) Whether the significant assumptions are appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate; (Ref: Para. A95, A102–A103)

(b) Whether judgements made in selecting the significant assumptions give rise to indicators of possible management bias; (Ref: Para. A96)

(c) Whether the significant assumptions are consistent with each other and with those used in other accounting estimates, or with related assumptions used in other areas of the entity's business activities, based on the auditor's knowledge obtained in the audit; and (Ref: Para. A104)

(d) When applicable, whether management has the intent to carry out specific courses of action and has the ability to do so. (Ref: Para. A105)

### Disclosures Related to Accounting Estimates

31. The auditor shall design and perform further audit procedures to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement at the assertion level for disclosures related to an accounting estimate, other than those related to estimation uncertainty addressed in paragraphs 26(b) and 29(b).

## **AASB 116 Property, Plant and Equipment**

Under Australian Accounting Standards (which are effectively the Australian equivalent of International Financial Reporting Standards - IFRS), a change in the estimated useful life of an asset is applied prospectively, not retrospectively.

This treatment is specified in AASB 116 Property, Plant and Equipment (which corresponds to IAS 16).

### Key Explanation:

1. Prospective Application: This means the change is applied from the current accounting period forward. You do not go back and restate prior years' financial statements.
2. Accounting Treatment:
  - The carrying amount (cost less accumulated depreciation) of the asset at the date of the change is depreciated over the asset's revised remaining useful life.
  - No adjustment is made to past depreciation expense. The change only affects the current and future periods.

### Disclosure Required:

AASB 116 requires disclosure of the **nature and effect** of the change in estimate. This typically includes:

- The reason for the change.
- The effect on the current period's depreciation expense.
- The effect on assets, liabilities, and profit for the period.