

**ASSURANCE & ADVISORY SERVICES**



**TOWN OF PORT HEDLAND**

**AUDIT CLOSING REPORT**

**30 JUNE 2018**



# CONTENTS

<b>1</b>	<b>INTRODUCTION</b>	<b>1</b>
1.1	PURPOSE OF THE AUDIT CLOSING REPORT	1
1.2	SCOPE OF THE AUDIT	1
1.3	INDEPENDENCE	1
1.4	OUR APPRECIATION	1
<b>2</b>	<b>ENGAGEMENT COMPLETION</b>	<b>2</b>
2.1	AUDIT OPINION - FINANCIAL REPORT	2
2.2	EMPHASIS OF MATTER – BASIS OF ACCOUNTING	2
2.3	AUDIT OPINION - OTHER LEGAL AND REGULATORY REQUIREMENTS	2
2.4	MANAGEMENT LETTER – CONTROL WEAKNESSES	2
2.5	COMPLIANCE WITH LAWS AND REGULATIONS	4
2.6	UNADJUSTED AUDIT DIFFERENCES	4
2.7	SUMMARY OF AUDIT ADJUSTMENTS	4
2.8	CONTINGENT LIABILITIES AND COMMITMENTS	4
2.9	SUBSEQUENT EVENTS	4
<b>3</b>	<b>AREAS OF AUDIT EMPHASIS</b>	<b>4</b>
<b>4</b>	<b>OTHER CRITICAL DISCLOSURES IN THE FINANCIAL REPORT</b>	<b>6</b>
<b>5</b>	<b>FRAUD RISK</b>	<b>6</b>
5.1	MANAGEMENT OVERRIDE OF CONTROLS ON KEY ESTIMATES AND JUDGMENTS	6
<b>6</b>	<b>NEW ACCOUNTING STANDARDS NOT YET ADOPTED</b>	<b>7</b>
6.1	POTENTIAL IMPACT ON NEW ACCOUNTING STANDARDS	7
	<b>ANNEXURE A: MANAGEMENT LETTER ON THE FINAL PHASE OF THE AUDIT</b>	<b>9</b>



# 1 INTRODUCTION

## 1.1 Purpose of the Audit Closing Report

This Audit Closing Report is the key document to summarise the results of our completed audit engagement and communicates any significant findings to those charged with governance at the Town of Port Hedland (**Town**). This document should be read in conjunction with our Audit Planning Memorandum (**APM**) presented to the Audit Committee at the Audit Entrance Meeting on 29 May 2018.

## 1.2 Scope of the audit

There have been no changes to the engagement scope or approach set out in the APM.

### 1.2.1 Financial report audit

The Auditor is required to issue an opinion on the financial report of the Town for the year ended 30 June 2018. The objectives of the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes the audit opinion.

### 1.2.2 Other legal and regulatory requirements audit

The Auditor is also required to report if he becomes aware of any instance where the Town did not comply with the requirements of the *Local Government Act 1995 (Act)* or the *Local Government (Financial Management) Regulations 1996 (Financial Management Regulations)* as they relate to the financial report. Several such instances came to our attention during the course of the engagement and are outlined in section 2.3.

### 1.2.3 Audit report

The audit report will be addressed to the Councillors with a copy being forwarded to the Town Mayor, the Chief Executive Officer (**CEO**) and the Minister for Local Government in accordance with section 7.9(1) of the Act.

## 1.3 Independence

The audit methodologies of RSM Australia (**RSM**) require that we conduct a regular evaluation of our client relationship. The evaluation includes, among other things, an assessment of independence, which is governed by APES 110 Code of Ethics for Professional Accountants and Australian Auditing and Assurance Standards. We confirmed that we are not aware of any matter that causes independence to be impaired in respect of this audit.

## 1.4 Our appreciation

Finally, we wish to express our appreciation for the co-operation provided by the Town during the course of the engagement.



## 2 ENGAGEMENT COMPLETION

### 2.1 Audit opinion - financial report

We have completed the audit engagement fieldwork on the financial report of the Town for the year ended 30 June 2018. The financial report is a general purpose financial statement prepared in accordance with the Act, the Financial Management Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

We have discussed all significant auditing and accounting issues with management and these have been satisfactorily resolved and are discussed in this report. The audit procedures are designed to support the audit opinions and they cannot be expected to identify all weaknesses or inefficiencies in the Town's systems and working practices.

Based on the evidence that has been assessed as part of our engagement, we expect to conclude that the annual financial report of the Town:

- (i) Is based on proper accounts and records; and
- (ii) Fairly represents, in all material respects, the results of the operations of the Town for the year ended 30 June 2018 and its financial position at the end of that period in accordance with the Act, the Financial Management Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

We expect that an unqualified opinion is issued on the financial report.

### 2.2 Emphasis of matter – basis of accounting

Note 1 to the financial report describe the basis of accounting for land under roads. The financial report has been prepared for the purpose of fulfilling the Town's financial reporting responsibilities under the Act. Regulation 16 of the Financial Management Regulations does not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report. The audit opinion will not be modified in respect of this matter.

### 2.3 Audit opinion - other legal and regulatory requirements

We have completed the audit engagement fieldwork on the requirements of the *Local Government (Audit) Regulations 1996 (Audit Regulations)* and Part 6 of the Financial Management Regulations for the year ended 30 June 2018. Based on the evidence that has been assessed as part of our engagement, we expect to report the following exceptions in accordance with the Audit Regulations:

- (i) The following material matters indicate significant adverse trends in the financial position or the financial management practices of the Town and are disclosed in Note 30 of the financial report:
  - a. The Debt Service Cover Ratio and the Operating Surplus Ratio are below the Department of Local Government, Sport and Cultural Industries (**DLGSC**) standard in the current year.

### 2.4 Management letter – control weaknesses

Our audit approach involves the use of a rotation approach when planning our test of controls. Consequently, not all control cycles are subject to testing and only certain transaction cycles are in audit scope each year. In accordance with the APM, we performed key management control testing over the revenue, payment, cash and fixed asset cycles. We rotated the control testing over the payroll cycle.

Based on our testing, the following control weaknesses were identified during the prior period audits, the current year preliminary and final audit stages:

### 2.4.1 Prior period audits

Four significant and five moderate matters were reported during the prior year audit:

Findings	Rating	Status
1. Submission of annual financial report to auditors	Significant	Resolved <sup>1</sup>
2. Reconciliation of Fixed Assets	Significant	Resolved <sup>1</sup>
3. Ratio's	Significant	Open <sup>2</sup>
4. Bank reconciliations	Significant	Resolved
5. Non-compliance with purchasing policy	Moderate	Resolved
6. Completeness of Tenders Register	Moderate	Resolved
7. Failure to submit 'Related Party Disclosure' declaration forms	Moderate	Resolved
8. Nature of income and expenditure (IE) codes 701 and 702	Moderate	Resolved
9. Incomplete overhead allocation	Moderate	Resolved

<sup>1</sup>Although marked as resolved, a similar issue was identified for the 2018 audit. See below.

<sup>2</sup>The Ratio finding is now reported in the Audit Report.

### 2.4.2 2017/18 final audit

The flowing matters were identified during the 2017/18 final audit:

Findings	Rating	Status
1. Submission of annual financial report to auditors	Significant	Open
2. Readiness for the 30 June 2018 final audit	Significant	Open
3. Bank reconciliations	Moderate	Open
4. Long outstanding rates receivable	Moderate	Open
5. Non-compliance with Investment Policy	Moderate	Open
6. Unidentified variance in rates revenue recognised	Moderate	Open

Details of these matters are included in Annexure A.

## 2.5 Compliance with laws and regulations

We have reviewed the Town's controls that are in place to manage the risk of systemic failure to comply with relevant laws and regulations. We also reviewed Council and Audit Committee minutes of meetings throughout the year to identify any reported non-compliance with relevant laws and regulations.

Except for those matters reported in the audit report and the management letter, nothing came to our attention, within the scope of our engagement, which would indicate the controls over compliance with laws and regulations are ineffective.

## 2.6 Unadjusted audit differences

One unadjusted audit difference was identified during the course of the audit.

Entry	Account number	Account Description	Debit (\$)	Credit (\$)
1	00001006.00 E1118200.350	Prepaid Expenses Contract Service Providers – Courthouse/Community <i>Being the recognition of prepaid management fees for the period July – September 2018.</i>	203,750	203,750

## 2.7 Summary of audit adjustments

One audit adjustment was passed during the course of the final audit.

Entry	Account number	Account Description	Debit (\$)	Credit (\$)
1	00001270.00 00001301.00 00001458.00	Accumulated Depreciation – Buildings Revaluation Reserve – Buildings Non-current Assets – Buildings <i>Being the recognition of the impairment of the Stevens Street Retirement Village.</i>	1,657,282 3,018,558	4,675,840

## 2.8 Contingent liabilities and commitments

Management has represented to us that, other than those matters disclosed in the financial report, there are no other outstanding or pending litigation, contingent liabilities or commitments.

We have received and reviewed all the solicitors' confirmations and, except for those matters detailed in the financial report, we have not become aware of any other material contingent liabilities, pending litigation or commitments.

## 2.9 Subsequent events

Management has represented that, other than those matters disclosed in the financial report, there are no significant subsequent events between the end of the financial year and the date of this Audit Closing Report, which may significantly impact the results of the operations and the state of affairs of the Town for the financial year.

# 3 AREAS OF AUDIT EMPHASIS

As mentioned in the APM, our audit focus was on those areas where we assessed there to be a higher risk of material misstatement in the financial report. We designed and performed procedures to be able to conclude, with reasonable assurance, whether or not each high-risk area is free from material misstatement.

The following is a summary of the high-risk material balances for the past three financial years:

High risk area	30 June 2018 \$000	30 June 2017 \$000	30 June 2016 \$000
<b>Revenue and receivables cycle</b>			
<ul style="list-style-type: none"> <li>Rates</li> </ul>	25,570	23,991	25,195
<ul style="list-style-type: none"> <li>Fees and charges</li> </ul>	10,442	10,359	10,366
<ul style="list-style-type: none"> <li>Trade and other receivables (current and non-current)</li> </ul>	13,567	9,916	10,614
<b>Purchases and payment cycle</b>			
<ul style="list-style-type: none"> <li>Materials and contracts</li> </ul>	17,230	13,120	15,043
<ul style="list-style-type: none"> <li>Property, Plant and Equipment (additions)</li> </ul>	3,887	1,976	1,749
<ul style="list-style-type: none"> <li>Infrastructure (additions)</li> </ul>	7,727	8,877	6,750
<b>Fixed assets cycle</b>			
<ul style="list-style-type: none"> <li>Infrastructure</li> </ul>	171,585	259,614	250,546

High-risk area	Key risks	Free from material misstatement
<b>Revenue and receivables cycle</b> <ul style="list-style-type: none"> <li>Rates</li> <li>Fees and charges</li> <li>Trade and other receivables</li> </ul>	Rates revenue is material and is high-risk due to the multifaceted method of calculation, the high dependency on information systems and the significant regulatory compliance regime.	✓
<b>Purchases and payment cycle</b> <ul style="list-style-type: none"> <li>Materials and contracts</li> <li>Property, Plant and Equipment (additions)</li> <li>Infrastructure (additions)</li> </ul>	These expenditure items are high-risk due to the materiality of the amounts, the different cost allocation methods, the strict and complex requirements of the Town's purchasing policy and the risk of management override of controls.	✓

High-risk area	Key risks	Free from material misstatement
<b>Fixed assets cycle</b> <ul style="list-style-type: none"> <li>Infrastructure</li> </ul>	Infrastructure is a material asset in the Statement of Financial Position. All classes of infrastructure were revalued by an independent valuer during the financial year. Infrastructure is a key audit area due to the complexity of the valuation model and reliance on significant assumptions regarding the assets' service potential, consumption curves, useful life, asset condition and residual values.	✓

## 4 OTHER CRITICAL DISCLOSURES IN THE FINANCIAL REPORT

We also audited the following critical disclosures in the financial report by verifying the underlying calculations and auditing the evidence to support the amounts disclosed:

Critical disclosure	Key risks	Comply with accounting standards / Financial Management Regulations
Related party	Disclosures of key management personnel remuneration and related party transactions are not in accordance with AASB 124 <i>Related Party Disclosures</i> .	✓
Financial Ratios	The underlying data is incomplete or inaccurate and the calculations of the ratios are incorrect and not in accordance with Financial Management Regulations.	✓
Capital and other commitments	Capital and other commitments relating to future asset construction and replacements are inaccurately calculated or not sufficiently disclosed in accordance with AASB 17 <i>Leases</i> , AASB 116 <i>Property, Plant and Equipment</i> and AASB 101 <i>Presentation of Financial Statements</i> .	✓

## 5 FRAUD RISK

Under Australian Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, when planning and performing audit procedures and evaluating the results, the auditor must consider the risk of material misstatement in the financial report because of fraud and error. To address our responsibilities relating to fraud we designed and implemented audit procedures to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud.

### 5.1 Management override of controls on key estimates and judgments

#### 5.1.1 Key risks

Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare a fraudulent financial report by overriding controls that otherwise appear to be operating effectively.

### 5.1.2 Our audit approach

We have assessed the Town's processes in place to prevent and detect fraud. We documented our understanding of controls in place over the creation of manual journals as well as reviewing the list of personnel who have access to create journals in the general ledger. Our testing mainly focussed on unusual and non-routine journal entries.

We also incorporated an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed as individuals within the entity who are familiar with the audit procedures normally performed on engagements may be more able to conceal fraudulent financial reporting.

Management also completed a Fraud Risks Assessment Questionnaire as part of our audit procedures and confirmed that nothing has come to their attention to indicate any instances of material fraud in the current year.

### 5.1.3 Conclusion

Based on our work, nothing has come to our attention to indicate that the Town does not have proper processes to manage the risk of management override of controls and that material key estimates and judgments are properly assessed and brought to account. Our audit did not detect any instances of fraud.

## 6 NEW ACCOUNTING STANDARDS NOT YET ADOPTED

### 6.1 Potential impact on new accounting standards

As disclosed in the notes to the 2018 financial report, the Town has assessed, or is in the process of assessing, the implication of changes in Accounting Standards that have been issued but are not yet effective and have not been early adopted. The following Accounting Standards are considered to be the most relevant to the Town:

Reference	Summary	Effective date	Town's assessment
<b>AASB 9 <i>Financial Instruments</i></b>	Addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting.  The standard is not applicable to the Town until the reporting year ending 30 June 2019.	1 July 2018	The Town has assessed that given the nature of the financial assets of the Town, it is not anticipated the standard will have any material effect.
<b>AASB 15 <i>Revenue from Contracts with Customers</i></b>	Replaces AASB 118 <i>Revenue</i> , which covers contracts for goods and services, and AASB 111 <i>Construction Contracts</i> , which covers construction contracts.  Establishes the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.  The standard is not applicable to Town until the reporting year ending 30 June 2020.	1 July 2019	The Town has not yet determined the potential impact of the Standard.

Reference	Summary	Effective date	Town's assessment
<b>AASB 1058</b> <b><i>Income of Not-for-Profit Entities</i></b>	<p>AASB 1058 has made complementary changes to the existing AASB 1004 <i>Contributions</i> and has also added new guidance AASB 15 <i>Revenue from Contracts with Customers</i> to clarify its application in the not for profit sector.</p> <p>The standard is not applicable to the Town until the reporting year ending 30 June 2020.</p>	1 July 2019	The Town has not yet determined the potential impact of the Standard.
<b>AASB 16</b> <b><i>Leases</i></b>	<p>AASB 16 introduces a single lease accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</p> <p>The standard is not applicable to the Town until the reporting year ending 30 June 2020.</p>	1 July 2019	The Town has assessed that, based on the number of operating leases held by the Town, the impact is not expected to be significant.



## ANNEXURE A: MANAGEMENT LETTER ON THE FINAL PHASE OF THE AUDIT

**TOWN OF PORT HEDLAND****Management letter on the final phase of the audit****For the year ending 30 June 2018**

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
<b>MATTERS IDENTIFIED DURING THE CURRENT YEAR AUDIT</b>			
<b>1. Submission of annual financial report to auditors</b>	✓		
<b>2. Readiness for the 30 June 2018 final audit</b>	✓		
<b>3. Bank reconciliations</b>		✓	
<b>4. Long outstanding rates receivable</b>		✓	
<b>5. Non-compliance with Investment Policy</b>		✓	
<b>6. Unidentified variance in rates revenue recognised</b>		✓	

**KEY TO RATINGS**

The ratings in this management letter 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. We give 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).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating could indicate the need for a modified audit opinion in the current year, or in a subsequent reporting period if not addressed. However even if the issue is not likely to impact the audit opinion, it should be addressed promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

**TOWN OF PORT HEDLAND****Management letter on the final phase of the audit****For the year ending 30 June 2018****1. Submission of annual financial report to auditors****Findings:**

Section S 6.4(3) of the *Local Government Act 1995 (Act)* states:

*By 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its auditor —*

- a. the accounts of the local government, balanced up to the last day of the preceding financial year; and*
- b. the annual financial report of the local government for the preceding financial year.*

On behalf of the Minister, the Department of Local Government, Sport and Cultural Industries granted the Town an extension to submit the Annual Financial Report to RSM by 15 October 2018.

The 30 June 2018 annual financial report for the Town of Port Hedland was submitted to the auditor on 20 November 2018, which is after the extended time of 15 October 2018 allowed by the Minister and not in compliance with section 6.4(3)(a) of the Act.

**Rating: Significant****Implication:**

The Town has not complied with the requirements of section S 6.4(3) of the Act.

**Recommendation:**

The Town should review, design and implement procedures to ensure compliance with section 6.4(3) of the Act. All accounts should be balanced up to the last day of the preceding financial year and annual financial report should be submitted to the auditor by 30 September each year.

**Management Comment:**

The Town acknowledges late submission to the auditors of the financial statements for the year ended 30 June 2018. There were a number of factors contributing to this as follows:

- Asset revaluations on infrastructure completed by an external third party excluded some assets and this was not identified until late in the process.
- Reconciliation of fixed assets register and historical asset revaluations took longer than expected due to issues with historical record keeping.
- Transition to one fixed asset register (recommendation from prior year audits) took longer than expected.
- The Town has been unable to recruit suitably qualified accountants for over 12 months, and the skill set of existing officers in financial accounting is limited. This in turn meant that completion of standard financial processes required for year-end were delayed.
- Budget process for financial year ended 30 June 2019 was delayed by approval of rates by Department of Local Government, Sport and Cultural Industries.
- Our accounting software (Synergy) is currently unstable with the provider currently unable to explain nor fix issues. For example, trial balance not balancing and sub-ledgers not equaling the general ledger.

***TOWN OF PORT HEDLAND***

**Management letter on the final phase of the audit**

**For the year ending 30 June 2018**

Management is working to address all of the above issues. The issues associated with the fixed asset register are predominantly related to the transition to one register and will not occur again. The Town will also complete a 'hard-close' process as at 31 May 2019 to identify and address any major issues prior to completing year-end.

**Responsible Person:**

Manager Financial Services

**Completion Date:**

Mid-June 2019

**TOWN OF PORT HEDLAND****Management letter on the final phase of the audit****For the year ending 30 June 2018****2. Readiness for 30 June 2018 final audit****Findings:**

In accordance with the Audit Planning Memorandum, the final audit visit occurred during 22 – 24 October 2018.

At the time of the final audit visit, a number of significant matters remained outstanding, impacting on the efficiency and timeliness of the audit. Such matters included, but were not limited to:

1. Draft financial statements were not available at the time of the final audit visit. The draft financial statements were provided on 20 November 2018. However, material accounting adjustments, initiated by management, were still being processed as late as 3 December 2018;
2. Analysis and recording of infrastructure revaluation was not complete. The Town revalued infrastructure at 30 June 2018 in accordance with Regulation 17A of the *Local Government (Financial Management) Regulations 1996*. At the time of the final audit visit, the draft valuation report failed to include material assets. The identification and resolution of these errors had not been addressed by management with the independent valuer at the time of the final audit visit;
3. On 1 July 2017, the Town migrated its fixed asset register from Assetic to Synergy. However, at the time of the final audit visit, the Town had not reviewed the data transferred for completeness and accuracy; and
4. Prior to the final audit fieldwork, the auditors provided the Town with an audit preparation checklist. However, the information requested in the checklist was not fully supplied to the auditors at the time the final audit fieldwork commenced. For example, support for material disclosures in the financial statements was not provided when the financial statements were sent to the auditors on 20 November 2018.

**Rating: Significant****Implication:**

The insufficient preparation for the final audit visit has led to inefficiencies and delays in the finalisation of the audit.

**Recommendation:**

The Town needs to appropriately resource and prioritise annual financial report and audit preparation tasks in order to ensure that the audit can be completed efficiently and within agreed timeframes and the requirements of the *Local Government Act 1995*.

**Management Comment:**

The Town agrees with the issues raised. Contributing factors identified are the same as for item 1, with a lack of capacity and appropriate skill amongst existing resources to complete processes and deliver information to a satisfactory level. The Town is considering options to address the skill shortage including outsourcing of some activities.

As stated in item 1, The Town will also complete a 'hard-close' process as at 31 May 2019 to identify and address any major issues prior to completing year-end and prioritise limited resources accordingly.

***TOWN OF PORT HEDLAND***

**Management letter on the final phase of the audit**

**For the year ending 30 June 2018**

**Responsible Person:**

Manager Financial Services

**Completion Date:**

Mid-June 2019

**TOWN OF PORT HEDLAND****Management letter on the final phase of the audit****For the year ending 30 June 2018****3. Bank reconciliations****Findings:**

Bank reconciliations are an essential control in managing the accuracy and completeness of the Town's accounting records and financial statements. Bank reconciliations are also a key aspect of internal controls over cash resources.

During the financial year the Town fell behind with its monthly bank reconciliation process. To address this matter, the Town engaged a contractor to perform the bank reconciliations. At the time of the final audit visit, the 30 June 2018 municipal account bank reconciliation contained numerous reconciling items, many of which related to processing errors.

**Rating: Moderate****Implication:**

Inconsistent application of the bank reconciliation preparation process increases the risk of fraud, errors and omissions remaining undetected, which in turn could lead to misstatements in the Town's financial reporting. There is a further risk of non-compliance with *Regulation 5(2)(a)* of the *Local Government (Financial Management) Regulations 1996* which requires the CEO to ensure that the resources of the local government are effectively and efficiently managed.

**Recommendation:**

Bank reconciliations should be consistently prepared and reviewed on a monthly basis by an independent senior management staff member. The purpose of such review is to ensure that the reconciliations are prepared in a timely manner and contain only appropriate reconciling items.

**Management Comment:**

During the financial year ended 30 June 2018, staff and contractors spent many hours addressing unreconciled items on the bank reconciliation with some items outstanding for 10 years. The bank reconciliation as at 30 June 2018 had 15 unreconciled items listed ranging from 34 cents to \$16,616.12 in absolute value. The net value of unreconciled items was \$43,182.13 with the oldest item relating to July 2017. Given the volume and value of transactions processed by the Town, management believe the number of unreconciled items to be reasonable.

The Town acknowledges that bank reconciliations were not formally reviewed during the year by virtue of a physical signature. The reconciliations were however reviewed regularly by the Manager Financial Services with relevant staff and contractors.

The Town does not have a policy that deals with bank accounts and reconciliations (refer to Town of Port Hedland Policy Manual last amended 2 November 2018). However, the Town acknowledges that it is both good and standard practice that all reconciliations be formally reviewed and signed off. The Town will update processes accordingly.

**Responsible Person:**

Manager Financial Services

**Completion Date:**

June 2019

**TOWN OF PORT HEDLAND****Management letter on the final phase of the audit****For the year ending 30 June 2018****4. Long outstanding rates receivable****Findings:**

The total outstanding rates receivables at year-end amounted to \$4,243,000 and represents 16.5% of the total rates revenue for the year ended 30 June 2018. The balance has increased by \$1,567,000 on the prior year balance.

**Rating: Moderate****Implication:**

The worsening trend in the collection of rates, increases the risk of the outstanding amounts becoming irrecoverable, exposing the Town to potential economic loss and negatively impacting its cash flows.

**Recommendation:**

The Town should review its procedures for the recovery of outstanding rates receivable. Where a payment plan is agreed with a ratepayer, for example, the repayment plan should ensure that the outstanding debt is recovered within a reasonable period of time.

**Management Comment:**

A breakdown of rates outstanding as at 30 June 2018 and payments received subsequently are outlined below.

Financial year	Rates outstanding as at 30 June 2018	Rates collected to 30 November 2018	Rates outstanding at 30 November 2018
FY18	\$2.9M	\$1.5M	\$1.4M
FY17	\$0.9M	\$0.2M	\$0.7M
FY16	\$0.4M	\$0.1M	\$0.3M
Total	\$4.2M	\$1.8M	\$2.4M

Included in the amount outstanding are rates for Mia Mia of approximately \$1.0M with administrators appointed to all relevant entities on 5 July 2018.

The rates area was not resourced for a period of time in 2017 and some catch up occurred in the first half of 2018. Rates officers have now caught up on debt collection processes evidenced by the \$1.8M collected to 30 November. A full review of all overdue rates including an assessment of collectability will be completed in February 2019.

**Responsible Person:**

Manager Financial Services

**Completion Date:**

February 2019

**TOWN OF PORT HEDLAND**

**Management letter on the final phase of the audit**

**For the year ending 30 June 2018**

**5. Non-compliance with Investment Policy**

**Findings:**

*Section 2/010 Council Investments of the Town of Port Hedland Policy Manual* requires that direct investment exposure to individual institutions be limited to 35%. As at 30 June 2018 it was noted that \$86,353,521 representing 37.17% of the Town's investments, had been placed with Westpac Banking Corporation, exceeding the prescribed investment limit.

**Rating: Moderate**

**Implication:**

Non-compliance with the Town's Council-approved policy with regard to investments exposes the Town to unnecessary financial risk and potential loss.

**Recommendation:**

The Town should arrange the investment of its cash resources within the parameters laid down by the investment policy.

**Management Comment:**

Investment policy states 'If any ...maturing investments are redeemed, such that counterparty portfolio percentages are no longer compliant with the Investment Policy, the relevant investments will be divested as soon as practicable.'

\$7,900,000 of general reserve funds invested at 2.58% with Westpac matured in October 2018 and were reinvested with another financial institution, alleviating this breach in policy.

The portfolio percentage breach of the policy was a direct result of other counterparty investments maturing and not being able to re-invest due to cash flow requirements. As per the investment register, Westpac Banking Corporation had investments maturing, with the percentage balance rectified by 15 October 2018. This was deemed a practicable solution by management without the need to withdraw term deposits before their maturing date.

**Responsible Person:**

Manager Financial Services

**Completion Date:**

October 2018

**TOWN OF PORT HEDLAND**

**Management letter on the final phase of the audit**

**For the year ending 30 June 2018**

**6. Unidentified variance in rates revenue recognised**

**Findings:**

As at 30 June 2018, rate revenue reported in the general ledger was \$118,514 greater than reflected in the Synergy rating system.

**Rating: Moderate**

**Implication:**

The risk of misstated revenue being recognised and reported is increased.

**Recommendation:**

The Town should determine the source of the variance and take corrective action.

**Management Comment:**

The immaterial balance was unable to be identified due to system instability. Following our detailed review of the system, we engaged IT Vision to complete a reconciliation. IT Vision were not able to advise or rectify the imbalance between the sub ledger and GL. Investigations are to be continued to identify the issue and to ensure this does not occur in the next financial year.

Improved monthly rates reconciliations will be implemented and completed by the Rates Officer to identify issues earlier.

**Responsible Person:**

Manager Financial Services

**Completion Date:**

March 2019

**THE POWER OF BEING UNDERSTOOD**  
AUDIT | TAX | CONSULTING

RSM Australia Pty Ltd is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network.

Each member of the RSM network is an independent accounting and consulting firm each of which practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 11 Old Jewry, London EC2R 8DU.

The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

© RSM International Association

**rsm.com.au**

Liability limited by a scheme approved under professional standards legislation

