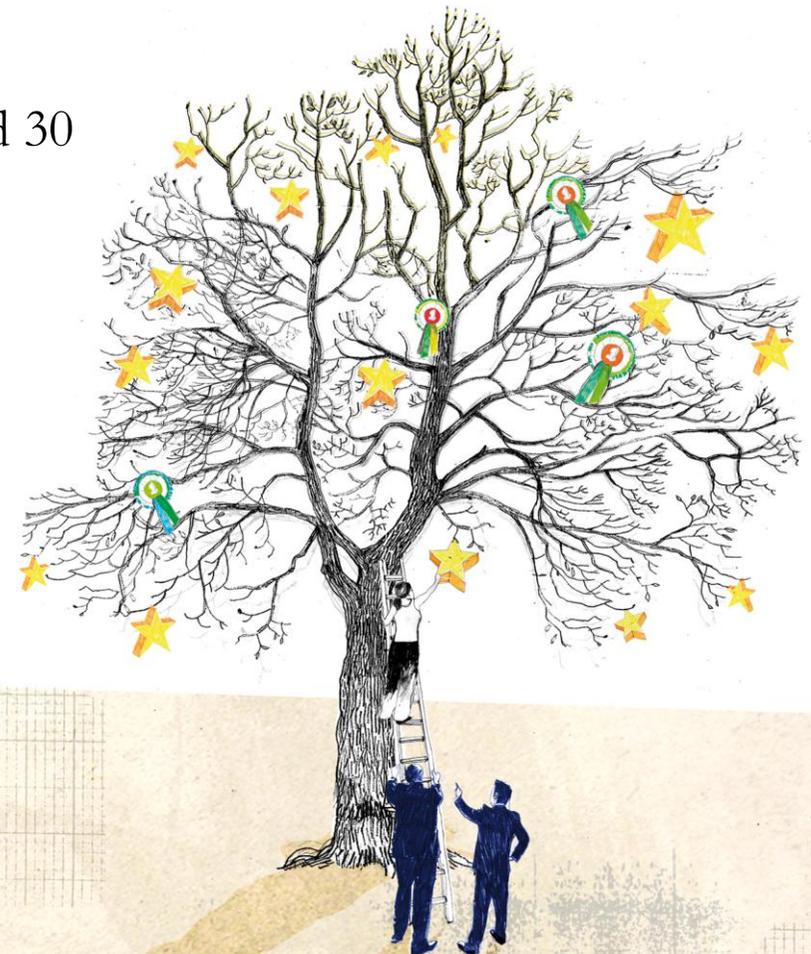

Town of Port Hedland

Report to the Audit Committee for the year ended 30
June 2012

25 February 2013





Audit Committee
Town of Port Hedland
PO Box 41
PORT HEDLAND WA 6721

25 February 2013

Dear Sirs

TOWN OF PORT HEDLAND

REPORT TO THE AUDIT COMMITTEE FOR THE YEAR ENDED 30 JUNE 2012 Please find attached our Report to the Audit Committee for the year ended 30 June 2012.

We confirm our audit work is complete. Subject to the receipt of the signed management representation letter and signed financial statements we will issue our audit opinion which includes qualification on two Local Government Act compliance matters.

We trust that you find this report informative and we appreciate the opportunity to be of service to you.

If you have any queries or wish to discuss any issues further, please do not hesitate to contact either Michelle Spain or myself. Yours faithfully

GRANT THORNTON AUDIT PTY LTD

A handwritten signature in black ink, appearing to read "M Hillgrove", written over a light grey rectangular background.

M J Hillgrove
Partner – Audit & Assurance

Grant Thornton Audit Pty Ltd
ABN 94 269 609 023

10 Kings Park Road
West Perth WA 6005
PO Box 570
West Perth WA 6872

T +61 8 9480 2000
F +61 8 9322 7787
E admin@gtwa.com.au
W www.grantthornton.com.au

Table of contents

	Page
1 Executive summary	1
2 Key findings and analysis	5
3 Report of audit differences findings and analysis	8
4 Specific reporting requirements	9

1 Executive summary

1.1 Scope of the audit

We have conducted an independent audit of the financial statements in order to express an opinion on it to the ratepayers of Town of Port Hedland.

Our audit has been conducted in accordance with Australian Auditing Standards with the objective of obtaining reasonable assurance about whether the financial report is free from material misstatement.

The scope of our audit was in accordance with the terms of our Engagement Letter.

1.2 Materiality

Materiality is the magnitude of a misstatement or an omission from the financial report or related disclosures that the audit team believes would make it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the misstatement or omission.

Our audit has been conducted based on a quantitative materiality, this was determined using the benchmark of total expenditure. Materiality benchmarks are selected to represent the measure which is most relevant to users of the financial report.

1.3 Summary of unadjusted differences

We have not identified any uncorrected audit differences that could, in our judgement, either individually or in aggregate have a significant effect on the financial report for the year ended 30 June 2012.

1.4 Current year areas of focus

Our audit procedures were focused on those areas of Town of Port Hedland's activities that are considered to represent the key audit risks identified in our planning memorandum and through discussions with management during the course of our audit. We are satisfied that these key areas of focus have been addressed appropriately and are properly reflected in the Town of Port Hedland's financial report.

Focus Area	Response
Rates & Grant Revenue	<p>Audit procedures were tailored to ascertain the completeness and accuracy of both recognised rates and grants revenue. During audit fieldwork we performed substantive testing of a sample (as determined by our audit software based on risk inputs) of rates payers and held detailed discussions with the officer in charge of the Council's rates system to gain an understanding of the processes and the procedures in place over the processing of information.</p> <p>Analytical procedures were also performed to ascertain the reasonableness of both rates and grant revenue balances. Significant grant revenue amounts recognised during the period were substantively verified to supporting documentation such as grant funding agreements and confirmations received directly from funding bodies.</p> <p>The substantive audit procedures performed did not uncover and material misstatement of rates and grant revenue balances. At balance date these amounts appear to be reasonably accounted for and recognised appropriately.</p>
Debtor Recoverability	<p>The recoverability of other debtors was determined to be a significant risk to the financial statements. The debtors' trial balance was reviewed and all debtors over audits predetermined scope were selected for further scrutiny with specific reference to the recoverability of the balance.</p> <p>The total from the above sample approximated \$5.1 million or 60% of the total outstanding balance at 30 June 2012. Audit queried whether the amounts were deemed to be recoverable and whether a provision for impairment should be recognised against these balances. It was determined that post balance date the Town of Port Hedland had recovered its material debtors.</p>
Property, Plant & Equipment and Infrastructure	<p>Audit procedures performed aimed to assess the appropriateness of the useful lives of infrastructure and capital assets, the accuracy of resulting depreciation charges, the treatment of capital additions/disposals and assess the assets for possible impairment.</p> <p>Capital asset and infrastructure additions report was reviewed and a sample of \$29.5m comprising 64 items was tested for appropriateness of asset capitalisation in line with Town's policies and procedures and tested for accuracy to supporting documentation.</p> <p>Asset reconciliation schedules were verified against trial balance reported amounts. Additional procedures performed included reviewing the carrying value of infrastructure assets and compared the values against similar assets from other Councils. It was noted that the carrying value of the assets were reasonable.</p> <p>Results of the testing procedures conducted did not note any material misstatement of the infrastructure and capital asset schedules.</p>
Purchasing and Payments	<p>To ascertain adequate controls are in place for Purchasing and Payments, audit procedures were performed to review and assess the processes and policies in these areas. Interviews were held with the relevant personnel involved in these areas to gain an understanding of the processes and procedures, followed by an assessment of the overall controls in place.</p> <p>Additionally, analytical procedures were performed on expenditure items to assess items for reasonableness and to ensure that fluctuations from prior year balances were consistent with our expectations developed at the interim audit.</p>

Focus Area	Response
Rates & Grant Revenue	<p>Audit procedures were tailored to ascertain the completeness and accuracy of both recognised rates and grants revenue. During audit fieldwork we performed substantive testing of a sample (as determined by our audit software based on risk inputs) of rates payers and held detailed discussions with the officer in charge of the Council's rates system to gain an understanding of the processes and the procedures in place over the processing of information.</p> <p>Analytical procedures were also performed to ascertain the reasonableness of both rates and grant revenue balances. Significant grant revenue amounts recognised during the period were substantively verified to supporting documentation such as grant funding agreements and confirmations received directly from funding bodies.</p> <p>The substantive audit procedures performed did not uncover and material misstatement of rates and grant revenue balances. At balance date these amounts appear to be reasonably accounted for and recognised appropriately.</p>
Employee Remuneration	<p>Discussions were held with relevant payroll and human resources staff. This procedure undertaken facilitated the understanding of the processes and policies in place for payroll and human resources.</p> <p>Substantive audit procedures were also performed to verify completeness and accuracy of payroll and payroll related expenditure balances for the year ended 30 June 2012. Analytical procedures tested payroll and statutory superannuation balances, comparing expected results to actual results and highlighting fluctuations in monthly payments which were then subject to further examination. Employee benefit provisions were also examined and substantively tested on a sample basis.</p> <p>Employee benefit provisions were examined and substantively tested on a sample basis. Audit testing of employee leave provisions involved the calculation of an audit predicted amount which was then compared to the amount recorded in the leave listings.</p> <p>Our sample testing of annual leave and long service leave balances noted no variances.</p>

1.5 Disclaimer

This report has been prepared for the Committee and management of Council only. It should not be quoted or referred to, in whole or in part, without our prior written consent. No warranty is given to, and no liability will be accepted from, any party other than Town of Port Hedland.

1.6 An opportunity for feedback

At Grant Thornton we strive for a high level of client satisfaction. Our business is built around the relationships we maintain with our clients. We want to hear feedback from our clients, both positive and negative, to ensure the services we provide to you exceed your expectations.

You will shortly be receiving a Client Satisfaction Survey from us, via email, we would appreciate it if you would take the time to complete the survey; your feedback is important to us.

2 Key findings and analysis

During our audit planning procedures and risk identification process, we identified a number of focus areas. In addition, during the course of the fieldwork, other accounting and audit issues were noted. Our consideration of these matters is set out below.

We request that the Audit Committee review the matters below and satisfy themselves that:

- there are no other matters of which you are aware that would impact these issues;
- there are no other significant issues that ought to be considered before the adoption of the financial statements; and
- you concur with the resolution of the issues as described below.

2.1 Key findings

Focus Area	Key Findings	Resolution/Recommendation	Management Response
2.1.1 Internal audit	<ul style="list-style-type: none"> • We understand there is no internal audit function at the Town of Port Hedland. • Internal audit provide an important role in reviewing systems and processing and making recommendations on how these could be improved. 	<ul style="list-style-type: none"> • We strongly recommend an internal audit function be implemented as soon as possible by the Town of Port Hedland. 	<p>Management have identified the need for an internal audit function. As a result, the internal audit role has been factored into the work force plan 2012-2016, in the 2013-2014 financial year. In the future, it is anticipated the internal audit function will be able to operate independently and report directly to the CEO.</p>
2.1.2 Timeliness of information provided	<ul style="list-style-type: none"> • Based on agreement with management we conducted our site visit for the year end audit in mid October 2012 • During this visit, significant sections of the audit, being cash, fixed assets including infrastructure, accrued expenses and reserves were not ready for audit. This resulted in inefficiencies and delays in conducting the audit. • Significant delays in obtaining this information were experienced and additional time costs incurred. 	<ul style="list-style-type: none"> • Reconciliations of all significant accounts should be prepared and reviewed on a timely basis. 	<p>Whilst the preparation and review of monthly reconciliations of all significant accounts are in place, the Town encountered difficulties around fixed assets, accruals and reserve transactions. The Town are working towards implementing better processes for future audits to ensure timely, accurate information is prepared.</p>

2.1.3 Subsequent general ledger adjustments	<ul style="list-style-type: none"> • Audit requested a listing of all journal entries posted to the general ledger since the time of the audit team's final visit. This was not provided due to its length and complexity, as such a final trial balance was provided. In comparing the previously audited balances with the revised Trial balance, it was noted that 2 key account balances had changed significantly, being Accrued Income – other and Income in advance, which required us to perform additional procedures at the last minute. We were not made aware of these changes and therefore were required to request additional information 2 days prior to expected sign off. 	<ul style="list-style-type: none"> • All journal entries posted subsequent to audit need to be relayed immediately to the audit team with appropriate supporting documentation to ensure timely completion of the audit. 	<p>The Town have noted this and will ensure all information is provided in a timely manner in the future.</p>
2.1.4 Bank reconciliations	<ul style="list-style-type: none"> • On review of bank reconciliations sent through for audit there was no evidence of review of these reconciliations for the reconciliations sent through for 30 June 2012. 	<ul style="list-style-type: none"> • We recommend bank reconciliations are signed as evidence of review by a person other than the person responsible for the preparation of the bank reconciliation. 	<p>Bank reconciliations are prepared on a daily basis for the Municipal bank account. These are reviewed on a monthly basis and signed off by the Coordinator of Financial Operations.</p> <p>In addition, all bank reconciliations are reviewed monthly before the Financial Statements go up to Council.</p>
2.1.5 Cheques	<ul style="list-style-type: none"> • We noted on the Municipal bank reconciliation at 30 June 2012 we noted cheques dating back to 2008 and 2009. 	<ul style="list-style-type: none"> • We recommend these cheques are reviewed and removed from the bank reconciliation. 	<p>The Town have already commenced processes around addressing old reconciling items on the bank reconciliation including a review of stale cheques.</p>
2.1.6 Unreceipted deposits	<ul style="list-style-type: none"> • We note that unreceipted deposits on bank reconciliations are not being cleared in a timely manner. 	<ul style="list-style-type: none"> • We recommend procedures are in place to ensure that staff understand their role and are adequately trained and supervised. 	<p>The Town will be developing additional processes around the month end tasks for debtors to ensure all items are receipted prior to month end and year end.</p>
2.1.7 Fixed Assets	<ul style="list-style-type: none"> • We understand a number of temporary staff are employed by the Town as asset officers. • We note during our audit the fixed asset register had not been reconciled in a timely manner. 	<ul style="list-style-type: none"> • We recommend procedures are in place to ensure that staff understand their role, are adequately trained and supervised. • We recommend procedures are implemented whereby the fixed asset register is reconciled in a timely manner. 	<p>The Town have identified the need for an Asset Management Officer whom will be involved in the implementation of the asset management policy from 1 July 2013. The Asset Management Officer will also be responsible for completing several asset tasks, which will aid in more timely, accurate reporting.</p> <p>The fixed asset register is reconciled on a monthly basis. At year end, there</p>

			<p>was an issue relating to accrued expenditure and this impacted on the year end reconciliation of fixed assets. For future audits, the Town have developed processes to eliminate the same issues occurring.</p>
2.1.8 Reserves	<ul style="list-style-type: none"> We note a numerous late adjustments to correct reserve transfers for various projects at 30 June 2012. 	<ul style="list-style-type: none"> We recommend processes are implemented including the training and proper review and supervision of staff to ensure accurate financial information is produced in a timely manner. 	<p>The Town will ensure all reserve transactions are captured and accounted for in a timely manner. A work paper has been designed and implemented to calculate transfers on a monthly basis.</p>
2.1.9 Purchasing and receipt of goods	<ul style="list-style-type: none"> We understand from discussions with management that delivery dockets are not being signed on receipt of goods. 	<ul style="list-style-type: none"> We recommend processes are implemented whereby goods received forms are signed on receipt of goods. We also recommend a segregation of duties between the receipt of goods and the authorising of the invoice for payment. 	<p>The Town will review this process and add further internal controls to ensure there is sufficient segregation of duties and sufficient documentation around deliverables.</p>
2.1.10 Payroll suspense account	<ul style="list-style-type: none"> We note the Town have an unallocated salaries and wages account at 30 June 2012 of \$90k. Whilst at the time of our review the balance of this account was not material, we would like to emphasize the importance of regular and timely clearing of all unallocated salaries and wages and suspense account amounts. 	<ul style="list-style-type: none"> We recommend procedures are implemented whereby all payroll 'suspense' accounts are cleared in a timely manner. 	<p>The Town will implement steps to the end of month processes and the year end processes to ensure suspense accounts are cleared timely, going forward.</p>

3 Report of audit differences findings and analysis

3.1 Adjusted audit differences

In performing our audit for the year ended 30 June 2012, no adjusting audit differences have been identified.

3.2 Unadjusted audit differences

In performing our audit for the year ended 30 June 2012, no unadjusted audit differences have been identified.

3.3 Disclosure deficiencies

No disclosure deficiencies that would result in a qualified audit opinion were noted in our review of the financial statements.

4 Specific reporting requirements

Reporting requirement	Description
4.1 Fraud	<ul style="list-style-type: none"> We are required by Auditing Standards to consider the risk of fraud in planning the nature and extent of our audit tests. In performing our audit we have not become aware of any incidence of fraud. We have also inquired with management and the board, and obtained in writing, representations regarding the existence of fraud, policies and procedures in place to prevent and detect fraud, noting no instances of fraud that management are aware of.
4.2 Errors, irregularities and illegal acts	<ul style="list-style-type: none"> We have noted no errors or irregularities that would cause the financial report to contain a material misstatement.
4.3 Books & records and conduct of review	<ul style="list-style-type: none"> We have been presented with all the necessary books and records and explanations requested of management to support the amounts and disclosures contained in the financial statements. We take this opportunity to thank Jodie McMahon and Jodie Ellis and the finance team for their assistance and courtesy during our audit.
4.4 Compliance with laws & regulations	<ul style="list-style-type: none"> In performing our audit procedures we have not become aware of any non-compliance with applicable laws or regulations that would have an impact on the determination of material amounts and disclosures in the financial report.
4.5 Going concern	<ul style="list-style-type: none"> As part of our audit, we have assessed and agreed with the conclusions reached by the Councillors and management concerning the application of the going concern concept.

Reporting requirement	Description
4.6 Disagreements with management	<ul style="list-style-type: none"> • There have been no disagreements with management during the course of the audit.
4.7 Independence	<ul style="list-style-type: none"> • Internal independence checks are performed every 12 months before commencement of the full year engagements to ensure that firm-wide no conflicts have arisen. • We confirm that, as at the date of this report, we are independent having regard to Grant Thornton's policies, professional rules and relevant statutory requirements regarding auditor independence. • During the year ended 30 June 2012 Grant Thornton has not provided any non-audit services to Town of Port Hedland.
4.8 Fair Value Measurements	<p>During the year amendments have been made to the Local Government Act whereby the value of an asset shown in the Local Government's financial reports must be the fair value of the asset.</p> <ul style="list-style-type: none"> • A Local Government must show in each financial report, for the year ended 30 June 2013 the fair value of all assets of the Local Government that are Plant and Equipment. • For the year ended 30 June 2014, the fair value of all of the assets of Local Government that are Plant and Equipment and that are Land and Buildings or Infrastructure. • For the year ended 30 June 2015, the fair value of all of the assets of Local Government. • We recommend a written plan is implemented to ensure these assets are fair valued by the reporting timeline and the method by which the assets will be valued.

4.9 Update on prior year issues

Issues

Observation	Recommendation	Status update
<p>Certain depreciation rates used for various items of property, plant and equipment and infrastructure were not in line with the rates disclosed in Council's accounting policy.</p>	<p>Depreciation rates being used be reviewed and the fixed asset register or accounting policy, as deemed appropriate, be updated.</p>	<p>The Town have engaged external consultants to review the fixed asset register with regards to written down values, useful lives and asset classes. Their findings will be rolled out in due course.</p>
<p>The long service leave liability balance did not include adjustments for amounts payable to and receivable from other councils in relation to employees who have moved to or from other councils.</p>	<p>A review is undertaken to help ensure the provisions disclosed are as accurate as possible.</p>	<p>The Town are looking into conducting a review and establishing processes to ensure the Long Service Leave Liability is accurate and complete in the future.</p>