

27st June 2012

Audit Committee
Town of Port Hedland
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Dear Audit Committee,

FINANCIAL MANAGEMENT SYSTEMS AND PROCEDURES REVIEW

We have completed our financial management systems review of the Town of Port Hedland (“The Town”) in accordance with the requirement of Regulation 5(1) of the Local Government (Financial Management) Regulations 1996 and are please to submit our report to you.

Australian Auditing Standards require us to obtain an understanding of the internal control structure and accounting systems applicable to financial reporting at the Town of Port Hedland as part of our audit process.

During June 2012, we carried out audit procedures necessary for us to comply with the requirements of the auditing standards in respect to audit planning, risk assessment, assessment of fraud and assessment of the control environment.

During our review of certain area, sample testing was conducted to determine whether the processes we had documented as being in place were supported by the selection of a random sample. We have considered the effectiveness of management’s internal controls over financial reporting, however our review is not designed to provide assurance on internal controls.

There were no areas where we were unable to perform procedures which would enable us to comply with Australian Auditing Standards.

The areas that were reviewed included:

- Purchases/Payments/Payables
- Receipts/Receivables/Cash Management
- Payroll
- Rates
- Cost Allocations (Including Administration Allocations)
- Minutes and Meetings
- Principal Activity Plan
- Fixed Assets

- Registers

Background

The Town utilises the Synergy system to process its accounts. This system has been in operation for a number of years.

We report as to our work done and our findings as follows.

Purchasing / Payments/Payables

Review Objective and Scope

The primary objectives of the review were:

- To ensure proper processes were followed with regards to the Purchasing Policy.
- To ensure payments have made in accordance with the Local Government (Financial Management) Regulations 1996.

Review Approach

We documented the Purchasing Cycle and reviewed a sample of invoices paid and accompanying documentation from July 2011 to May 2012 to determine whether purchases were authorised, supported and then correctly allocated to the general ledger.

Our review of the controls over payments and account payable did not identify any significant control weaknesses. The Synergy system establishes authority limits defined in the Delegation Register which restricts each employee to a spending limit based on their title.

Whilst no exceptions were noted in our sample selection, we understand the system would allow accounts payable staff getting around this delegation register and spending limit, by splitting up a large purchase into multiple purchase orders so that further authorisation from senior management was not required.

We also understand from discussions with staff that goods receipts forms are not being completed. We recommend that procedures are implemented at the Town whereby goods receipt forms are completed. We also recommend a segregation of duties between those receipting the goods and those authorising the invoice for payment.

We have also noted at the time of our final audit, the Town was unable to produce a complete accruals listing including all fixed asset additions, in a timely manner.

We recommend processes are implemented whereby those responsible for determining accruals can do so in a timely manner.

We recommend the Town implement procedures to ensure staff are trained and policies and procedures are followed with regards to the purchasing system.

Receipts/Receivables/Cash Management

Review Objective and Scope

The primary objectives of the review were:

- To review processes in place are followed with regards to the collection and control of cash and recording of financial information.

Review Approach

We conducted observation, inquiry and inspection procedures with regards to the Receipts Cycle, which includes Accounts Receivable and Bank Reconciliations for the Town to determine whether any matter has come to our attention which causes us to believe appropriate procedures are not in place regarding the Receipt of Income.

In addition, a sample of receipts were tested.

We note that bank reconciliations were being prepared on a daily basis and reviewed by finance staff.

We note however that unreceipted deposits on bank reconciliations are not also being cleared in a timely manner. We recommend procedures are implemented to ensure the timely receipt of deposits.

We understand however that reconciliation of reserve bank statements and reserve movements has been an area of difficulty for the Town with some reserve account bank reconciliations taking months to finalise the movement within reserves.

We recommend procedures are implemented included staff training on the processes required for determining and recording reserve transactions.

Payroll

Review Objective and Scope

The primary objectives of the review were:

- To review processes followed with regards to Payroll.
- That the process followed complied with the Town's Policy and legislative requirements.

We documented the Payroll Cycle and reviewed the processing and balancing controls for the pay run. Commencements, Termination and Annual Leave were also reviewed as part of our scope.

We note the Town uses a payroll suspense account. 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 suspense account amounts.

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Rates

Review Objective and Scope

The primary objective of the review was:

- To ensure proper processes are followed with regards to processing and collection of rates and are no instance of non compliance was noted.

Review Approach

We documented the Rates Cycle and conducted a high level review the procedures in place. Our review included reviewing a sample of 10 rates being charged to rate payers for the financial year ended 30 June 2012 for compliance with legislative requirements.

We understand from discussions with management, that processes are underway to review the rates process to ensure all properties are rated correctly and that the details of the rate information as maintained by the Town is complete and reviewed and updated as necessary.

Cost Allocations (Including Administration Allocations)

Review Objective and Scope

The primary objective of the review was:

- To ensure the cost allocations (including administration costs) of the Town are adequate for the Town to achieve accurate reporting.

Review Approach

We undertook a review of cost allocations through observation and inquiry and documented the procedures for cost allocation.

Based on our observations and inquiry, cost allocation (including administration costs) appears adequate for the Town to achieve their reporting requirements.

Minutes and Meetings

Review Objective and Scope

The primary objective of the review was:

- To ensure the Town's minutes complies with procedures and legislative requirements.

Review Approach

The Town's minutes were reviewed for compliance with procedures and no matters of non compliance were noted.

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Principal Activity Plan

Review Objective and Scope

The primary objectives of the review were:

- To ensure the Principal Activity Plan complies with the legislative requirements

Review Approach

The Town of Port Hedland is currently has a five year strategic plan in place for the years 2010 to 2015 and are undertaking a strategic planning process with the aim of developing a Strategic Plan for the 2013 – 2023 period in line with legislative requirements. No matters of non compliance were noted during our review.

Fixed Assets

Review Objective and Scope

The primary objectives of the review were:

- To ensure the acquisition and disposal of fixed assets are in compliance with the Town's Policies.

Review Approach

We documented the Fixed Asset Cycle and reviewed 5 additions for the period July 2011 to May 2012. We note through discussion with management there have been no disposals of assets during the financial year through to May 2012.

Grant Thornton understands that there is a number of temporary staff working as asset officers. Grant Thornton emphasises the importance that the Town must ensure that each temporary officer understands their responsibilities, is adequately trained and properly supervised.

We also note findings in the prior year management letter regarding depreciation rates within the asset register and ensuring they align with the Town's accounting policies on depreciation rates.

The Town of Port Hedland have engaged KPMG to review and update their asset management policies and that this engagement was underway at 30 June 2012.

Registers

Review Objective and Scope

The primary objective of the review was:

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- To ensure the Town's Registers are maintained and to review for non compliance with legislation.

Review Approach

The Tender Register, Register of Financial Interest and Delegation Register were reviewed for being maintained and no exceptions were noted at the time of our visit.

A register of Contracts and Legal Documents is not maintained and we would recommend one is implemented, however contracts and legal documents are fully indexed and an adequate filing system is in place.

Conclusion

Based upon our work done, which was limited to the procedures outlined above, processes need to be implemented to ensure the timely production of financial information as mentioned in the paragraphs above.

This report has been prepared for the distribution to the addressee for the purpose of our engagement. We disclaim any assumption of responsibility for any reliance on this report to any person other than the addressee, or for any other purpose other than that for which it was prepared.

Finally, we would like to take this opportunity to thank Natalie Octoman, Jodie McMahon and the team at the Town of Port Hedland that assisted in the review for their assistance during our visit.

If you have any questions or wish to discuss anything raised in the report, please do not hesitate to contact Michelle Spain or myself on (08) 9480 2000.

Yours sincerely



M J Hillgrove
Partner – Audit and Assurance