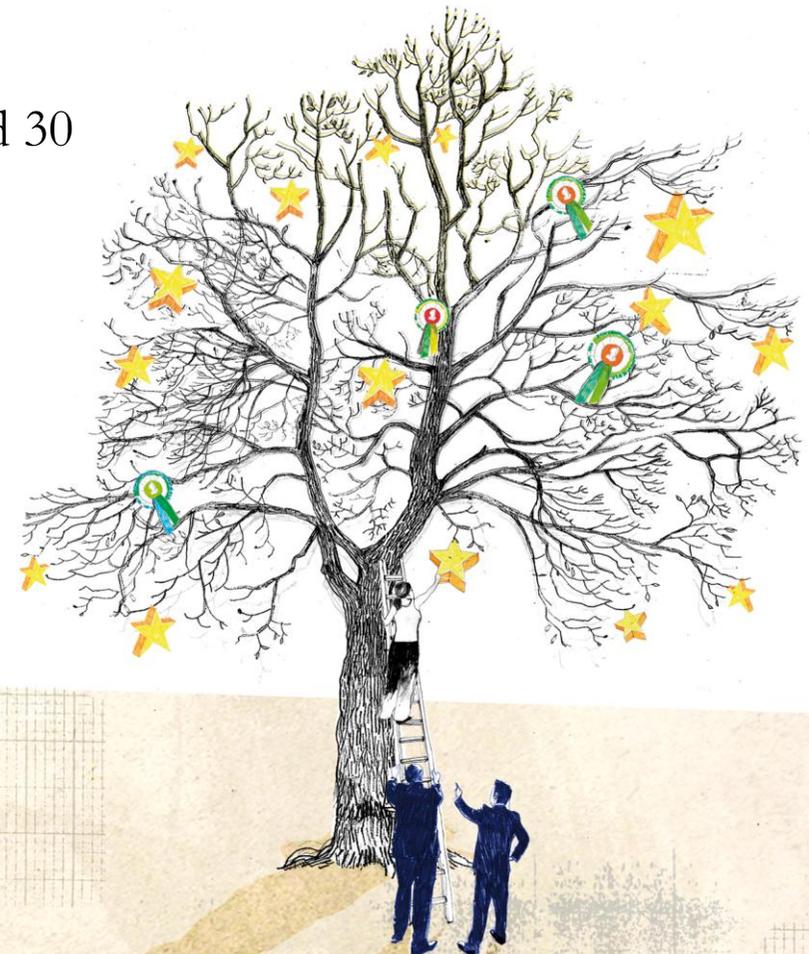

Town of Port Hedland

Report to the Audit Committee for the year ended 30
June 2013

16 December 2013





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

16 December 2013

Dear Members

**TOWN OF PORT HEDLAND
REPORT TO THE AUDIT COMMITTEE FOR THE YEAR ENDED 30 JUNE 2013**

Please find attached our Report to the Audit Committee for the year ended 30 June 2013. We confirm to you that our audit work was completed on 16 December 2013 and we issued an unqualified audit opinion.

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 Simon Franich or myself.

Yours faithfully
GRANT THORNTON AUDIT PTY LTD

A handwritten signature in black ink, appearing to read "M Hillgrove".

M J Hillgrove
Partner – Audit & Assurance

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1 Executive summary

Status of audit and outstanding matters

Our audit of the Town of Port Hedland has been completed. We have received the signed representation letter and signed statements by the CEO on the 16 December 2013, and we have issued our unqualified audit report on this date.

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 the 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 expenditures. Materiality benchmarks are selected to represent the measure which is most relevant to users of the financial report. We confirm that the benchmark of total expenditures is consistent with our approach on all of local government audits.

1.3 Assessment of internal controls

Our engagement team has gained an understanding of the internal controls in place within the organisation and we provided a summary of our findings of the internal controls at Section 5 to this report.

1.4 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 2013. The net effect of the unadjusted differences identified was to decrease the net result by \$383,227. Please refer to Section 3 for detailed findings.

1.5 Current year areas of focus

Our audit procedures were focused on those areas of the 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 |
|----------------|---|
| Capital Assets | <p>Our audit procedures performed aimed to assess the appropriateness of the useful lives of infrastructure and capital assets, the accuracy of resulting depreciation charges and the treatment of capital additions/disposals. In addition, we considered the Town's adoption of Fair Value in respect of the Plant and Equipment for the year ended 30 June 2013.</p> <p>Capital asset and infrastructure additions report was reviewed and a sample from the population of \$24M was selected. 60 items were 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>As part of new local government legislation, the Town was required to value its plant and equipment on a fair value basis from historical cost. Audit procedures tested on a sample basis the valuation to fair value from cost on the Town's plant and equipment. The Town re-valued its plant and equipment using Redbook and an independent valuer, AVP. We have relied upon the values adopted by these external valuers.</p> <p>Results of the testing procedures conducted did not note any material misstatement of the infrastructure and capital asset.</p> |

| | |
|-------------------------|---|
| 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>For the year ended 30 June 2013, 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 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 \$28M or 80% of the total outstanding balance at 30 June 2013. Audit tested based on subsequent receipt of the balances whether the amounts were deemed to be recoverable and whether a provision for impairment should be recognised against these balances.</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> |
| 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 for the year ended 30 June 2013. 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> |

1.6 Disclaimer

This report has been prepared for the Audit Committee and Management of the Town of Port Hedland 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 the Town of Port Hedland.

1.7 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 as 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 as outlined in Section 1.5 above. 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 |
|--------------------------------|---|---|
| 2.1.1 Trade and Other Payables | <ul style="list-style-type: none"> • The \$31M Precinct 3 payment received in the year ended 30 June 2012 was substantially recognised in revenue in the current year as the lease term was substantially for the current financial year. • In the current year a further \$3.5M was invoiced which was prematurely billed by Management. Upon receipt of further information from the new Director of Corporate Services, it was decided that an adjusting journal entry be made to reverse deferred income as well as the corresponding trade receivable. • In the current year, \$19.9M was invoiced by the Town of Port Hedland and initially treated as deferred income for the construction of the Wallwork Bridge. Upon discussions with the new Director for Corporate Services and the receipt of further information it was deemed that it would be appropriate to recognise the income for the year ended 30 June 2013 and an adjustment to the financial statements was recorded to reflect this position. | <ul style="list-style-type: none"> • We have reviewed Managements treatment of each of the matters identified in the financial report of the Town of Port Hedland and resolved that it was in line with accounting standards. • We recommend that Management continue to monitor deferred income (income in advance) on a timely basis to ensure that it is recognised each reporting period in line with accounting standards. |

| Focus area | Key findings | Resolution / Recommendation |
|--|---|--|
| 2.1.2 Pilbara Underground Power Project (PUPP) | <ul style="list-style-type: none"> • During the year, the Town raised rates for PUPP which was recognised as income. Amounts invoiced by Horizon, the PUPP contractor, were recognised as an expense item. • On initial review of the PUPP, it was noted that the income did not match the expenditure on the statement of comprehensive income. At the finalisation of the audit, discussions were held with the Director of Corporate Services and it was deemed that it would appropriate for the Town to accrue \$3.6M and recognise the expense in the current financial year. As a result Management processed an adjusting journal entry to reflect this position. | <ul style="list-style-type: none"> • We have reviewed Management's final accounting treatment of the PUPP. |
| 2.1.3 Grant Revenues | <ul style="list-style-type: none"> • During the year, income for grant revenue was received by the Town of Port Hedland which was relating to the 2014 fiscal year. The amount was reversed from grant revenues and was accounted for as deferred income. | <ul style="list-style-type: none"> • It was resolved that the adjustment was appropriate and at year end grant revenues reflects the correct accounting position for the Town of Port Hedland. |
| 2.1.4 Debt | <ul style="list-style-type: none"> • The Town of Port Hedland has \$26.7M of debt which should be separated as current or non-current based on whether repayment is required within the next 12 months for the reporting date. Based on the work performed, it was determined that the current liability is \$1.3M. | <ul style="list-style-type: none"> • Management resolved to reflect the current portion of the debt in line with accounting standards. |
| 2.1.5 Trade and Other Receivables | <ul style="list-style-type: none"> • Audit procedures for debtors greater than 90 days discovered that a balance of approximately \$383K had been outstanding from the previous reporting period (30 June 2012). Upon discussions with management, it was determined that collectability of this amount is considered unlikely given the passage of time that the balance had been outstanding. The Town has otherwise been prudent with its provision and writing off bad debts on a time basis. | <ul style="list-style-type: none"> • Given that the debt is significantly over 12 months old, we recommended to management that a provision for bad debt is provided for in the financial report. As the balance was not material, no adjustment was required to the financial report. • We recommend that Management continue to monitor this debt and if considered unrecoverable, we recommend writing this debt off on a timely basis. |

3 Report of audit differences findings and analysis

Status of accounting records

Our audit procedures include an assessment of the status of the accounting records and reconciliations. We note that at the time of our audit visit (in early October) a number of reconciliations had not been made on a timely basis, and this ultimately resulted in the audit to be delayed. This therefore caused inefficiencies as it required our audit engagement team to complete the audit from our office in Perth through liaising with management of the Town of Port Hedland. Whilst we accept that we were provided a copy of the financial report prior to 30 September 2013 (in line with the Act), the report provided has substantially been amended since that time.

3.1 Adjusted audit differences

In performing our audit for the year ended 30 June 2013, we have identified the following adjustments that have been adjusted:

| # | Description | \$000s | | | | | | | | |
|--------------|---|--------|----|-----------|------------------|--------|----|-----------------------|---------------|------------------|
| | | Asset | | Liability | | Equity | | Profit Effect DR/(CR) | | Net Profit |
| | | DR | CR | DR | CR | DR | CR | Revenue | Expense | DR/(CR) |
| 1 | To record grants relating to 2014 financial year received in 2013 as deferred income. | | | | 1,434,990 | | | 1,434,990 | | 1,434,990 |
| 2 | To record an accrual on payroll at 30 June 2013 | | | | 51,805 | | | | 51,805 | 51,805 |
| | | | | | | | | | | |
| Total | | | | | 1,486,795 | | | 1,434,990 | 51,805 | 1,486,795 |

Please note that we have not included adjustments which Management opted to post through their own investigation.

3.2 Unadjusted audit differences

In performing our audit for the year ended 30 June 2013, we have identified the following adjustments that have been unadjusted:

| # | Description | \$000s | | | | | | | | |
|--------------|--|--------|----------------|-----------|----------------|--------|----|-----------------------|----------------|----------------|
| | | Asset | | Liability | | Equity | | Profit Effect DR/(CR) | | Net Profit |
| | | DR | CR | DR | CR | DR | CR | Revenue | Expense | DR/(CR) |
| 1 | To provide for the Hedland Senior High School receivable as it has been outstanding since the 30 June 2012 audit | | 383,227 | | | | | | 383,227 | 383,227 |
| Total | | | 383,227 | | 383,227 | | | | 383,227 | 383,227 |

3.3 Disclosure deficiencies

We have spent a considerable amount of time going through various copies of the annual financial report. As noted in Section 3, we were provided the financial report in line with the Legislative requirements by 30 September 2013, however this financial report was not considered to be accurate reflection of the Town of Port Hedland's results for the year. Upon considerable work by Management and the new Director of Corporate Services the financial report was compiled to an expected standard. We confirm that the final signed financial report has no disclosure deficiencies that would result in a qualified audit opinion.

3.4 Materiality

Management has determined and will represent to us in writing that these unadjusted audit differences are immaterial to the financial statements either individually or in aggregate. We concur with this view.

Further, management will represent to us in writing that all uncorrected misstatements that they are aware of have been brought to our attention.

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 CEO, 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. As part of our normal statutory audit no apparent illegal acts have come to our attention. |
| 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 in a timely and efficient manner. we would like to take this opportunity to thank the new Director of Corporate Services, Clare Phelan and her finance team for their assistance and courtesy afforded to us during our audit. We look forward to working with Management in the coming year to improve the financial reporting process. |
| 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. we have also received representations from management and the CEO confirming that the Town is in compliance with all laws and regulations that impact the organisation. |
| 4.5 Appropriateness of accounting policies | <ul style="list-style-type: none"> we consider that the accounting policies adopted in the financial statements are appropriately disclosed. There have been no changes to accounting policies adopted by the Town in the year ended 30 June 2013 other than new accounting standards effective for the first time. |
| 4.6 Going concern | <ul style="list-style-type: none"> as part of our audit, we have assessed and agreed with the conclusions reached by the CEO and management concerning the application of the going concern concept. |
| 4.7 Disagreements with management | <ul style="list-style-type: none"> there have been no significant disagreements with management during the course of the audit. |

| Reporting requirement | Description |
|-------------------------|--|
| 4.8 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. |

5 Internal control observations

We have ranked the issues raised in order of their importance and risk to the Town of Port Hedland, (including the COSO classification which is a generally accepted framework for evaluating controls over financial reporting) to enable you to prioritise. The key to the colour coding used below is as follows:

Material weakness Critical area that represents relatively high risk to the Town of Port Hedland since this is a material weakness; i.e. a control gap that may result in material misstatements and has a likelihood of occurrence that is not remote. Action should be taken immediately.

Significant deficiency Important matter that represents medium risk to the Town of Port Hedland which would be classified as a significant deficiency; i.e. a control gap that may result in material misstatements but has a remote likelihood of occurrence. Action should be undertaken to rectify the issue before the next reporting period.

Deficiency Housekeeping or administrative matter that represents relatively low risk to the Town of Port Hedland which is a deficiency, i.e. a control gap that is assessed to result in inconsequential misstatements.

5.1 Current year issues

| Importance | Observation | Recommendation | Management response |
|-------------------------------|---|---|--|
| Material weakness | None | N/A | N/A |
| Significant deficiency | Grant revenues recorded in the inappropriate accounting period. | Grant revenue documents should be read and corroborated with appropriate personnel prior to entry in to the accounting system. | Agreed |
| Deficiency | At final fieldwork, the Town was still processing reconciliations to its bank accounts and transferring amounts to reserves. | An internal timeline should be developed and should be followed to ensure timely reconciliations of accounts are completed. It is expected in future periods that this will be done prior to 30 September 2013, to facilitate a more efficient audit process and thus keep our time costs to a minimum. | Agreed |
| Deficiency | Certain employees have greater than 6 weeks of annual leave as on termination the payment of excess annual leave is made at the current rate of pay which is costly to the organisation and may result in a delay in the replacement of the vacated position. | We recommend that Management continue to monitor employees with excessive annual leave to mitigate and perceived fraud or commercial risks. | Agreed, and Management have informed us that it does have a process in place for managing excess leave, whilst ensuring Council service delivery is not impeded. |

5.2 Update on prior year issues

Unresolved issues

| Observation | Recommendation | Status update |
|---|--|--|
| In the prior year, audit experienced lengthy delays with receiving key reconciliations, in particular Bank reconciliations, accrued expenses and reserves. This caused the initial sign off deadline to be missed and significant amount of additional time to be spent completing the audit. | Reconciliations of all significant accounts should be prepared and reviewed on a timely basis. | The bank reconciliation did not hold up the audit; however, the bank reconciliations had not been performed until the final day of on-site field work at the Town of Port Hedland. |

Resolved issues

| Observation | Recommendation | Status update |
|---|--|--|
| In the prior year, reconciliation of the bank accounts performed by accounting staff are not reviewed by management | We suggest management review month-end reconciliations to ensure all reconciling items are highlighted and adequately resolved on a timely basis and to prevent / detect fraud and error | Bank reconciliations were appropriately accounted for |
| In the prior year, a review of year end bank reconciliations a significant number of cheques aged over 1 year. | It is recommended these cheques are followed up and necessary action taken to cancel and reissue if necessary. | No stale dated cheques for noted in the current year audit |

In the prior year, 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.

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.

Journal entries were requested on site during fieldwork and the accounting staff was co-operative in providing subsequent adjustments. That being said, it was noted that the trial balance was still adjusted significantly from the point in time in which we were provided it in October 2013. In future periods we would expect that the trial balance is finalised prior to 30 September 2013.
