

ASSURANCE & ADVISORY SERVICES



TOWN OF PORT HEDLAND

Closing Report

30 June 2016



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1 AUDIT OPINIONS

We have completed the audit fieldwork on the financial statements of the Town of Port Hedland (the Town) for the year ended 30 June 2016 and accordingly we provide our findings on the audit.

We have discussed all significant auditing and accounting issues with management and these have been satisfactorily resolved.

The audit procedures are designed to support the audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Town's systems and working practices.

We expect to report:

- An unqualified audit opinion will be issued with respect to the financial statements; and
- We did not become aware of any instances where the Town did not comply with the requirements of the *Local Government Act 1995* (the Act) and *Local Government (Financial Management) Regulations 1996* (the Regulations) as they relate to financial statements.

2 PRESENTATION OF FINANCIAL STATEMENTS

The Town is a not-for-profit reporting entity that prepares general purpose financial statements in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB), Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board, the Act and the Regulations as they relate to financial statements.

3 SCOPE OF THIS REPORT

There have been no changes in the audit approach set out in the Audit Planning Memorandum, which was presented to Audit, Risk and Governance Committee (ARGC) on 20 April 2016. The resolution of significant accounting and auditing matters are discussed in this report.

4 INDEPENDENCE

The audit methodologies of RSM Australia 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.

5 KEY ACCOUNTING AND AUDITING MATTERS

5.1 Changes in accounting standards

The Town has assessed the implication of changes in Accounting Standards and confirm that there have been no significant impacts on the 30 June 2016 financial statements. We concur with the Town's assessment.



5.2 Areas of audit emphasis

During the audit we reviewed the following areas of emphasis mentioned in the Audit Planning Memorandum and other matters identified during the course of the audit for consideration by the Town prior to adopting the 30 June 2016 financial statements:

5.2.1 Revaluation of non-current assets

Key risks:

- Revaluation of non-current assets are materially misstated.
- The carrying value of non-current assets are not accounted for in accordance with the requirements of AASB 116 *Property, Plant and Equipment*, AASB 101 *Presentation of Financial Statements* and the Regulations.
- The Town fails to properly consider impairment of land and buildings due to the changed local real estate market conditions in accordance with AASB 136 *Impairment of Assets*.

Background:

As indicated in Note 7 and Note 37 to the financial statements, as at 30 June 2016 the Town adjusted the fair value of furniture and equipment, plant and equipment, land and buildings. The Town engaged independent valuation specialists to:

- Provide a Valuation Report for furniture and equipment and plant and equipment; and
- Provide a Valuation Indexation Report for the purpose assessing whether there were any indications of impairment of land and buildings.

Following receipt of the reports, the Town adjusted the carrying value of furniture and equipment, plant and equipment, land and buildings to be in accordance with the reports.

Our approach:

We obtained the reports prepared by the independent valuation specialists and tested that the accounting entry adjustments made by the Town were in accordance with the reports. We also tested the mathematical accuracy of the reports and the adjustments made by the Town. We also tested the Town's assessment of the impairment of land and buildings, with special focus on the plausibility of whether the index rate recommended in the valuation report was a fair reflection of the movement of land and buildings values in the Town's local area during the 24 month period to 30 June 2016.

Conclusion:

We conclude that the carrying value of furniture and equipment and plant and equipment are not materially overstated and that they are accounted for in accordance with the requirements of AASB 116, AASB 101 and the Regulations. We also agree with the Town's assessment of impairment of land and buildings and that the Town has complied with AASB 136.

5.2.2 Non-compliance with tendering and quotation requirements

Key risks:

- Failure to comply with the tendering and quotation requirements of the Town's policies and procedures and the Regulations.

Background:

The Town has designed and implemented policies and procedures for the control over its purchasing activities, including tendering and quotation requirements. These policies are also designed to ensure compliance with the Regulations.

Our approach:

We have reviewed the effectiveness of the Town's internal controls operating within the purchasing and tendering functions. We have updated our assessment of key controls and performed key management control sample testing within the purchasing cycle. We have also performed a walkthrough on the key management controls over the purchase and payment cycle.



Conclusion:

We conclude that key management controls are effective to ensure compliance with the tendering and quotation requirements of the Town's policies and procedures and the Regulations.

5.2.3 Port Hedland International Airport transactions

Key risks:

- The lease of the Port Hedland International Airport (the Airport) land and buildings and the sale of the Airport business are not correctly brought to account in accordance with Australian Accounting Standards.
- The Airport transactions are not properly disclosed as discontinued operations in the financial statements.

Background:

As disclosed in Note 42 to the financial statements, on 11 March 2016 the Town entered into the following contracts in respect of the Airport:

- An agreement for lease; and
- An asset sale agreement.

The Town engaged accounting advisers to provide advice on the accounting treatment of the lease agreement and the sale agreement. The Town brought the transactions to account as follows:

- The Town engaged independent valuation specialists to provide a Fair Value for the Airport land. The valuation was \$46,208,000 and was based on the value of the lease payments due to the Town over the 50 year life of the lease agreement. The valuation was apportioned by the Town between the Airport land of \$45,079,000 and land held for resale of \$1,129,000.
- The Airport land was previously carried at a value of \$68,426,000. As disclosed in Note 7 to the financial statements, the Airport land was revalued to \$45,079,000 resulting in a revaluation decrement disclosed in Note 13 to the financial statements of \$23,347,000.
- The land held for resale was previously carried at a value of \$8,459,000. As disclosed in Note 39 to the financial statements, the land held for resale was revalued to \$1,129,000 resulting in a loss from fair value adjustment disclosed in Note 2(a) to the financial statements of \$7,330,000.
- As disclosed in Note 39 to the financial statements the Airport land, with a carrying value of \$46,208,000 was reclassified as investment property in the statement of financial position as at 30 June 2016.
- The Airport buildings, although forming part of the lease agreement, were treated as a sale for accounting purposes. As disclosed in Note 42 to the financial statements, the carrying value of the buildings and other held for sale assets associated with the Airport were disposed of for a carrying value of \$67,251,000.
- As disclosed in Note 42 to the financial statements, after taking into account the balance of the provision for airport major works of \$15,872,000 and cost to sell of \$4,113,000 the profit on sale of the discontinued airport operations was \$33,223,000 and brought to account in the statement of comprehensive income.

Our approach:

We obtained and reviewed lease agreement and supporting documentation for the Airport land and buildings and the sale agreement for the Airport business. We obtained the report prepared by the independent valuation specialists and tested that the accounting entry adjustments made by the Town were in accordance with the report. We also tested the mathematical accuracy of the report and the adjustments made by the Town. Our review included consultation with our National Technical Director who reviewed the Town's proposed accounting treatment for the land transaction.

Conclusion:

We conclude that the Airport transactions, resulting from the agreement for lease and the asset sale agreement, have been accounted for in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* as a discontinued operation and AASB 140 *Investment Property*.



5.2.4 Restricted cash reserves

Key risks:

- Restricted cash reserve general ledger account is not supported by a corresponding cash account.

Background:

As disclosed in Note 3 and Note 12 to the financial statements, the Town maintains general ledger accounts to record, monitor and report on restricted cash reserve accounts. Restricted cash is money that is reserved for a specific purpose and therefore not available for immediate or general business use. The balance of the restricted cash reserves as at 30 June 2016 was \$239,598,000. The balance includes \$162,437,000 set aside from the Airport transaction proceeds. The Town has established a policy for the investment and management of the Airport transaction proceeds.

Our approach:

We reviewed the general ledger for the restricted cash reserve accounts and tested for proper disclosure in the financial statements. We reviewed the bank reconciliations to test that they reconcile the restricted cash reserves from the general ledger back to the respective bank accounts. We also tested whether the Airport transaction proceeds have been invested and managed in accordance with the investment policy.

Conclusion:

We conclude that restricted cash reserves are supported by a corresponding cash account and the Airport transaction proceeds have been invested and managed in accordance with the investment policy.

5.2.5 Credit card purchases

Key risks:

- Credit card purchases do not comply with the Town's credit card policies and procedures.

Background:

The Town uses credit cards for procurement of goods and services. Use of credit cards is guided by the Town's credit card policies and procedures.

Our approach:

We obtained the Town's credit card transactions for the financial year and selected a sample for testing. Our testing included verifying that the purchases were in accordance with the Town's credit card policies.

Conclusion:

Nothing has come to our attention to indicate any non-compliance with the Town's credit card policies.

5.2.6 Revenue cycle

Key risks:

- Revenue is presented not in accordance with AASB 118 *Revenue*.
- Gross trade receivables and impairment allowance are not measured correctly and brought to account in the correct accounting period.
- The Town has not given proper consideration to the possibility of impairment of trade receivables in accordance with AASB 136 *Impairment of Assets*.
- Revenue is materially misstated due to management override of controls.

Background:

As disclosed in the statement of comprehensive income (by nature or type) for the year ended 30 June 2016, the Town's total revenue amounted to \$49,488,000. The major components of revenue are rates and fees and charges. Rates have fallen from last year by \$1,179,000 and fees and charges have fallen from last year by \$4,316,000. The Town advised that the main reasons for the falls are:

- There has been a decrease in the population within the Town's local area, which has resulted in fewer new building developments and therefore, there has been reduced opportunity for the Town to invoice for interim rates and less demand for the landfill facility, especially from the building and construction sector.
- The Airport transaction has resulted in reduced revenue from landing charges and passenger service fees.

Our approach:

We reviewed the effectiveness of the Town's key controls operating within the revenue cycle. We updated our assessment of the effectiveness of key internal controls and performed key management control sample testing within the revenue cycle. We also performed tests to check for the proper application of the revenue recognition policy. We reviewed the trade receivable balances and reconciliations, including direct confirmation of a sample of balances. We also considered the reasonableness of the explanations provided by the Town for the significant falls in revenue from rates and fees and charges.

Conclusion:

We conclude that the key management controls are effective to ensure that revenue has been accurately and completely recognised in accordance with AASB 118, the trade receivables balance is accurate and the Town's assessment of the provision for impairment of receivables is in accordance with AASB 136. We also concur with the Town's explanations for the significant falls in revenue from rates and fees and charges.

6 UNADJUSTED AUDIT DIFFERENCES

The following unadjusted audit differences remained at the end of the audit.

Entry	Account No.	Account Description	Debit (\$)	Credit (\$)
1	1000011200	Current Liabilities – BAS Suspense Account	199,723.60	
	1000100800	Current Liabilities – Accrued Expenditure		199,723.60
		(Recording the GST component on Accrued Expenditure as at year end)		

The Management Representation Letter contains details of the unadjusted audit differences.

The above differences is a classification adjustment between two current liability accounts in the statement of financial position and there is no impact on the operating result of the Town. We concur with management's assessment of the impact of the unadjusted differences as immaterial.

7 SUMMARY OF AUDIT ADJUSTMENTS

Refer to **ANNEXURE A** for the list of audit adjustments passed during the course of the audit.

These adjustments mainly related to the revaluation of plant and equipment and furniture and equipment.

8 INTERNAL CONTROL SYSTEM WEAKNESSES

8.1 Status of prior year issues

During the financial year we have issued a Report of Factual Findings 'for the purpose of assisting in determining if the appropriateness and effectiveness of the financial management systems and procedures in accordance with Regulation 5(2) (c) of the Local Government (Financial Management) Regulations 1996' and Interim Audit Findings Letter dated 1 June 2016.

These have been presented to ARG on the 5 July 2016. The status of these findings will be reported during the 2016/17 audit.

8.2 Status of issues reported at the final audit

The following issues were noted during the 2015/16 final audit – as per **ANNEXURE B**:

Finding	Rating	Status
Overhead allocation	Medium	Open
Non-compliance with internal purchasing policy	Medium	Open
High annual leave accrual at year end	Medium	Open

9 OTHER MATTERS

9.1 Fraud risks consideration

We have assessed the Town's processes in place to prevent and detect fraud and conclude that they are appropriate. Management has also completed the Fraud Risks Assessment Questionnaire as part of our audit procedures. Management has confirmed that nothing has come to their attention to indicate any material incidence of fraud. Our audit did not detect any material instances of fraud.

9.2 Subsequent events

Management has represented that there are no significant subsequent events between the end of the financial year and the date of this report, which may significantly impact the results of the operations and the state of affairs of the Town for the financial year.

9.3 Contingent liabilities and commitments

Management has represented to us that, other than those matters disclosed in the financial statements, there is no other:

- Outstanding or pending litigation;
- Contingent liabilities; or
- Commitments.

9.4 Management representation letter

A Management Representation Letter is required by RSM before signing the opinion on the financial statements. We have provided the Town with a draft for consideration, dating, signing and returning to us.

9.5 Considerations for next year's audit

There are no significant matters for consideration during next year's audit.

9.6 Our appreciation

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



10 ADDITIONAL INFORMATION CONTACTS

David Wall	Travis Bate
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8 St Georges Terrace	12 Bayly Street
Perth Western Australia 6000	Geraldton WA 6530
Tel: +61 8 9261 9387	Tel: +61 8 9920 7400

Completed	Reviewed	Manager	Partner
EQCR	NTD	QP	Other

Number	Date	Name	Account No	Reference Annotation	Debit	Credit	Recurrence	Misstatement
RSM001	30/06/2016	Equity - Accumulation - Accumulation Retai	1000012660			48,640,000.00		
RSM001	30/06/2016	Non Current Assets - Furniture & Equipment -	1000012860		1,246,267.53			
RSM001	30/06/2016	Equity - Asset Revaluation Reserve - Revalu	1000013020		48,640,000.00			
RSM001	30/06/2016	Non Current Assets - Property Plant and Equ	1000014630			1,246,267.53		
RSM001	30/06/2016	Non Current Assets - Property Plant and Equ	1000014630		31,922,532.92			
RSM001	30/06/2016	Materials and Contracts - Airport Governance	1012102610		1,246,267.53			
RSM001	30/06/2016	Capital Expenditure - Corporate Services: Air	1012104140			1,246,267.53		
RSM001	30/06/2016	CHANGES IN REVALUATION - DECREMENT	1014072910			31,922,532.92		
		Reversal of previously revaluation recognition						Factual
RSM002	30/06/2016	Non Current Assets - Property Plant and Equ	1000012590			400,608.42		
RSM002	30/06/2016	Non Current Assets - Property Plant and Equ	1000012590			1,974,515.99		
RSM002	30/06/2016	Non Current Assets - Property Plant and Equ	1000012590			4,337,569.65		
RSM002	30/06/2016	Non Current Assets - Property Plant and Equ	1000012710			726,321.44		
RSM002	30/06/2016	Non Current Assets - Property Plant and Equ	1000012710		1,038,480.38			
RSM002	30/06/2016	Non Current Assets - Property Plant and Equ	1000012720		51,694.91			
RSM002	30/06/2016	Non Current Assets - Property Plant and Equ	1000012720		726,321.44			
RSM002	30/06/2016	Non Current Assets - Property Plant and Equ	1000012720		5,822,942.48			
RSM002	30/06/2016	Non Current Assets - Infrastructure - Accum	1000012810			51,694.91		
RSM002	30/06/2016	Non Current Assets - Infrastructure - Fair	1000012850		400,608.42			
RSM002	30/06/2016	Non Current Assets - Furniture & Equipment -	1000012860		1,974,515.99			
RSM002	30/06/2016	Non Current Assets - Furniture & Equipment -	1000012860			1,244,446.02		
RSM002	30/06/2016	Equity - Asset Revaluation Reserve - Revaluati	1000013070			1,485,372.83		
RSM002	30/06/2016	CHANGES IN REVALUATION - DECREMENT	1014072910		205,965.64			
		Adjustment due to revaluation of Property, Plant and Equipment and Furniture and Equipment						Factual
RSM003	30/06/2016	Current Assets - Trade and Other Receivables	1000010060		31,611.03			
RSM003	30/06/2016	Non-current Assets - Trade and Other Receivab	1000010200		1,548,940.38			
RSM003	30/06/2016	Equity - Asset Revaluation Reserve - Revalu	1000013020		38,181,753.00			
RSM003	30/06/2016	Non Current Assets - Property Plant and Equ	1000014630			30,676,265.00		
RSM003	30/06/2016	Depreciation on Assets - Department Of Fire &	1005052900			24,111.32		
RSM003	30/06/2016	Depreciation on Assets - Community Services	1008132900			12,326.99		
RSM003	30/06/2016	Depreciation on Assets - Port Hedland Civic C	1011022900			4,968.88		
RSM003	30/06/2016	Depreciation on Assets - South Hedland Sport	1011102900			1,471.79		
RSM003	30/06/2016	Depreciation on Assets - Infrastructure Maint	1012042900			1,675.75		
RSM003	30/06/2016	Materials and Contracts - Airport Governance	1012102610			1,246,267.53		
RSM003	30/06/2016	Materials and Contracts - Airport Governance	1012102610			334,283.88		
RSM003	30/06/2016	Gain on Sale of Asset - Plant: Airport - Airp	1012103970		480,639.68			
RSM003	30/06/2016	Gain on Sale of Asset - Plant: Airport - Airp	1012103970		233,917.27			
RSM003	30/06/2016	Gain on Sale of Asset - Plant: Airport - Airp	1012103970		1,212,767.93			
RSM003	30/06/2016	Gain on Sale of Asset - Plant: Airport - Airp	1012103970		361,011.86			
RSM003	30/06/2016	Depreciation on Assets - Airport Maintenance	1012112900			439,232.49		
RSM003	30/06/2016	Depreciation on Assets - Airport Maintenance	1012112900			361,011.86		
RSM003	30/06/2016	Depreciation on Assets - Airport Maintenance	1012112900			1,209,620.39		
RSM003	30/06/2016	Depreciation on Assets - Airport Maintenance	1012112900			163,040.61		
RSM003	30/06/2016	Depreciation on Assets - Plant Operating Cost	1014032900			70,876.66		
RSM003	30/06/2016	Other Revenue - Changes in Revaluation - Inve	1014073910			7,505,488.00		
		Adjustment due to incorrect application of the accounting standards - airport fixed assets and cost to sell						Factual
RSM004	30/06/2016	Equity - Asset Revaluation Reserve - Revalu	1000013020			14,835,099.64		
RSM004	30/06/2016	Other Revenue - Changes in Revaluation - Inve	1014073910		14,835,099.64			
		Adjustment due to incorrect application of square meters when converting Land and Land held for resale as Investment Property.						Factual
						150,161,338.03	150,161,338.03	
Net Income (Loss)			26,524,820.53					

TOWN OF PORT HEDLAND
FOR THE YEAR ENDING 30 JUNE 2016
FINDINGS IDENTIFIED DURING THE AUDIT

INDEX OF FINDINGS	RATING			
	Extreme	High	Medium	Low
Issues identified from 2016:				
1. Overhead allocation			✓	
2. Non-compliance with internal purchasing policy			✓	
3. High annual leave accrual at year end			✓	

KEY TO RATINGS

The Ratings in this management letter are based from the Town of Port Hedland Policy Manual 1/022 Risk Management Policy adopted by council on the 16 December 2015.

Risk Matrix:

Consequence		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Almost Certain	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Medium (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Medium (6)	Medium (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Medium (6)	Medium (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Medium (5)

MEASURES OF LIKELIHOOD

LEVEL	RATING	DESCRIPTION	FREQUENCY	PROBABILITY
5	Almost Certain	The event is expected to occur in most circumstances	More than once per year	Greater than 90% chance of occurrence
4	Likely	The event will probably occur in most circumstances	At least once per year	60% - 90% chance of occurrence
3	Possible	The event should occur at some time	At least once in 3 years	40% - 60% chance of occurrence
2	Unlikely	The event could occur at some time	At least once in 10 years	10% - 40% chance of occurrence
1	Rare	The event may only occur in exceptional circumstances	Less than once in 15 years	Less than 10% chance of occurrence

MEASURES OF CONSEQUENCE

LEVEL	1	2	3	4	5
RATING	Insignificant	Minor	Moderate	Major	Catastrophic
HEALTH	Negligible injuries	First aid injuries	Medical type injuries or Lost time injury < 5 days	Lost time injury > 5 days	Fatality, permanent disability
FINANCIAL IMPACT	Less than \$3,000	\$3,000 - \$30,000	\$30,001 - \$300,000	\$300,001 - \$3M	More than \$3M
SERVICE INTERRUPTION	No material service interruption	Temporary interruption to an activity – backlog cleared with existing resources	Interruption to Service Unit(s) deliverables – backlog cleared by additional resources	Prolonged interruption of critical core service deliverables – additional resources; performance affected	Indeterminate prolonged interruption of critical core service deliverables – non-performance
COMPLIANCE	Occasional noticeable temporary non-compliances	Regular noticeable temporary non-compliances	Non-compliance with significant regulatory requirements imposed	Non-compliance results in termination of services or imposed penalties	Non-compliance results in criminal charges or significant damages or penalties
REPUTATION	Unsubstantiated, localised low impact on key stakeholder trust, low profile or no media item	Substantiated, localised impact on key stakeholder trust or low media item	Substantiated, public embarrassment, moderate impact on key stakeholder trust or moderate media profile	Substantiated, public embarrassment, widespread high impact on key stakeholder trust, high media profile, third party actions	Substantiated, public embarrassment, widespread loss of key stakeholder trust, high widespread multiple media profile, third party actions
ENVIRONMENT	Contained, reversible impact managed by on site response	Contained, reversible impact managed by internal response	Contained, reversible impact managed by external agencies	Uncontained, reversible impact managed by a coordinated response from external agencies	Uncontained, irreversible impact

TOWN OF PORT HEDLAND
FOR THE YEAR ENDING 30 JUNE 2016
FINDINGS IDENTIFIED DURING THE AUDIT

1. Overhead allocation

Findings:

Regulation 14 of the *Local Government (Financial Management) Regulations 1996* (the Regulations) requires local government to disclose by nature or type classification operating revenue and expenses in the Statement of Comprehensive Income. In order to ensure completeness of the allocations into the appropriate program titles, the Town performs a reconciliation of the amounts in the General Ledger to the amounts allocated and disclosed in the Statement of Comprehensive Income.

During the audit testing of the overhead allocation reconciliation it was noted that labour overhead costs recovery allocation cost amounts in the General Ledger were understated in the Statement of Comprehensive Income by \$241,216. The failure to fully allocate these amounts does not affect the operating results of the Town and, on this occasion, the Town determined that these amounts are not material and did not adjust the allocations to the program titles in Statement of Comprehensive Income.

Rating:

Risk Likelihood	3
Risk Impact / Consequence	3
Risk Rating	Medium (9)

Implication:

This failure to properly reconcile the amounts in the General Ledger to the amounts allocated and disclosed in the Statement of Comprehensive Income increases the risk of non-compliance with the Regulations and inaccurate disclosure of program costs.

Recommendation:

The Town should review its procedures for the reconciliation of the amounts in the General Ledger to the amounts allocated and disclosed in the Statement of Comprehensive Income.

Management Comment:

Accept the finding. The reconciliation of the overhead allocations is included on the monthly checklist of the Financial Services team and is now a responsibility of the Coordinator Financial Planning and Reporting who commenced in July 2016.

Responsible Person: Manager Financial Services

Completion Date: 28 November 2016

TOWN OF PORT HEDLAND
FOR THE YEAR ENDING 30 JUNE 2016
FINDINGS IDENTIFIED DURING THE AUDIT

2. Non-compliance with internal purchasing policy

Findings:

In terms of the Town's Sub Delegation Register Policy, the *Local Government Act 1995* (the Act) allows the Chief Executive Officer ('CEO') to delegate any of their powers to another employee (*section 5.44* of the Act), which must be done in writing. The Act allows for the CEO to place conditions on any delegations if they desire. The powers cannot, however, be further sub-delegated.

During the review of the tender register it has come to our attention that Tender 11/15 – Tyre Disposal has been sub delegated to the Director Works and Services but at the time of payment the Acting Director of Works and Services has approved payment. Therefore, contraventions have occurred of section 5.44 of the Act and section 1.10 *Contract Variations* of the Sub Delegation Register Policy.

Rating

Risk Likelihood	4
Risk Impact / Consequence	2
Risk Rating	Medium (8)

Implication:

Non-compliance with the Town's Sub Delegation Register Policy could result in a breach of the Act and increases the risk of unauthorised or inappropriate transactions.

Recommendation:

The requirement for compliance with the internal purchasing policy should be communicated across the Town in order to reduce the risk of non-compliance with the Town's Sub Delegations Register Policy and the Act.

Management Comment:

Accept the finding. The implementation of electronic centre-led procurement and purchasing is in the process of being implemented. Paper/hardcopy authorisation will be abolished and replaced with electronic authorisation of payments with sub-delegations controlled by the ERP system parameters. The system will store sub-delegations and be updated only when authorisation by CEO is obtained. This will prevent authorisation without sub-delegations being authorised.

Responsible Person: Manager Strategic Development

Completion Date: 28 November 2016

TOWN OF PORT HEDLAND
FOR THE YEAR ENDING 30 JUNE 2016
FINDINGS IDENTIFIED DURING THE AUDIT

3. High annual leave accrual at year end

Findings:

During our review we identified instances where employees have annual leave accrued balances in excess of 300 hours.

Rating:

Risk Likelihood	4
Risk Impact / Consequence	2
Risk Rating	Medium (8)

Implication:

Excessive annual leave balances accrued increases the risk of an adverse impact through excessive financial liabilities and may also indicate over-reliance on key individuals. This over-reliance can result in business interruption when the employee takes extended leave or is no longer employed by the Town. Failure to take leave can also mask fraud.

Recommendation:

The Town should continue to manage and monitor the excessive annual leave accruals to reduce the financial liability, risk of business interruption and fraud.

Management Comment:

Accept the finding however also accept the risk. Note that the higher than standard leave provisions in the EBA to ensure a work/life balance when living in the Pilbara means 300 hours is not unreasonable. In addition cross training and provision of relief to staff on extended leave is managed through relief staff being available for a majority of positions and there is not a reliance on key individuals. Regular monitoring of leave balances by Managers and Directors occurs. The leave management IOP stipulates staff with more than 228 hours are to be notified in writing and a leave plan created however this is not current practice due to the organisation supporting staff to take extended periods of leave by ensuring suitably trained relief staff are available within the organisation. Leave balances over 350 hours will be monitored and managed through reporting to ELT.

Responsible Person: Manager Human Resources

Completion Date: 28 November 2016

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

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