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# TOWN OF PORT HEDLAND

## AUDIT PLANNING MEMORANDUM

**30 JUNE 2015**



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## 1 Key engagement information

### 1.1 Town of Port Hedland logistics

Address	Civic Centre, McGregor Street Port Hedland WA 6721
Telephone	(08) 9158 9300

### 1.2 Key Town of Port Hedland personnel

Position	Name
Chief Executive Officer	Mal Osborne
Director Corporate Services	Sid Jain
Manager Financial Services	Peter Kocian

### 1.3 Key RSM Bird Cameron personnel

Position	Name
Audit Partner	David Wall
Principal	Travis Bate

## 2 Background and general information

### 2.1 Background

The Town of Port Hedland (the Town) is a Western Australian Local Government located in the Pilbara Region. The Town is home to around 20,000 people from diverse cultural backgrounds and covers 11,844 square kilometers. Port Hedland is the world's largest bulk export facility with Pilbara Ports Authority recording a record annual tonnage throughput of 372.3 million tonnes in 2013/14.

The Town contributes significantly to the Western Australian and national economies, while delivering high quality facilities and services to its community. Rapid growth has brought many positive changes to the region and set the path to becoming a vibrant and attractive regional city, yet this also carries the challenge of balancing economic and commercial development with the needs of the local community.

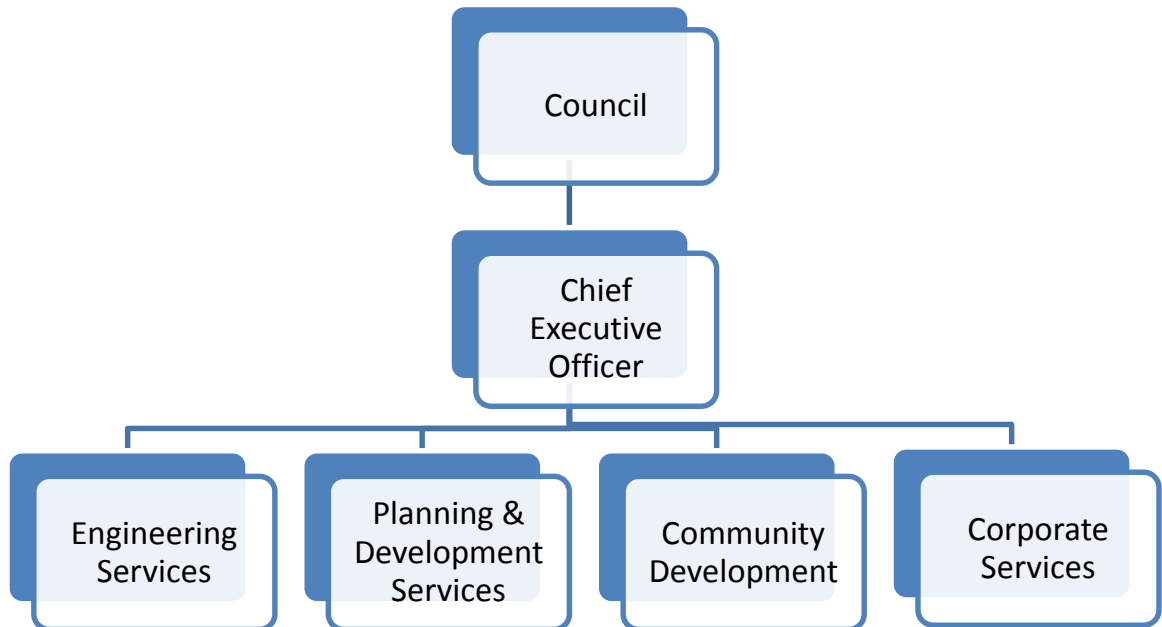
## Town of Port Hedland

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## 2.2 Corporate structure

The following diagram summarises the Town's corporate structure:



## 3 Reporting and deliverables

### 3.1 Statutory accounts

The statutory accounts will be general purpose financial statements for the financial year ended 30 June 2015, prepared in accordance with the Australian Accounting Standards (as they apply to local governments and not-for-profit entities), other authoritative pronouncements of the Australian Accounting Standards Board and the financial reporting provisions of the *Local Government Act 1995* and accompanying regulations.

### 3.2 Local Government Act 1995 (the Act)

The Act provides for the functions, operation and governance of the Town and associated matters.

The Auditor is required to form an opinion as to whether the financial report:

- a. gives a true and fair view of the Town of Port Hedland's financial position as at 30 June 2015 and of its performance for the financial year ended 30 June 2015;
- b. complies with Australian Accounting Standards (including the Australian Accounting Interpretations); and
- c. is prepared in accordance with the requirements of the *Local Government Act 1995* Part 6 (as amended) and Regulations under that Act.

Include in our report if we became aware of any instance where the Council did not comply with the requirements of the *Local Government Act 1995* and *Local Government (Financial Management) Regulations 1996* as they relate to financial statements.

### 3.3 Grants

Grants received by the local government, depending on its nature, are required to be audited and to provide a Grant Acquittal report demonstrating that the Town has met all obligations in respect of discharging the grant in accordance with the Terms and Conditions of its Funding/Grant Agreement.

The Auditor is required to form an opinion that the receipts and payments are true and fair and that the Terms and Conditions of the Funding/Grant Agreement have been adhered to.

The Grant Acquittals have different reporting deadlines which need to be adhered to in order to receive funds on time and in the near future. We will complete audits of grants as and when required to meet the Town's reporting obligations.

### 3.4 Management letters

Significant findings, emerging issues and their recommended resolution that arise during the audit will be progressively discussed and communicated to the relevant departments and the Manager of Financial Services. Any weaknesses in controls, which may be identified during the current year audit, will be highlighted in the management letter following the conclusion of the preliminary and final audits.

Prior year management letter points, if any, will be followed up as part of the current year audit procedures.

### 3.5 Other Deliverables

#### Entrance interview with AFC

The entrance interview will be held with the Audit and Finance Committee (AFC) and will mainly comprise the presentation and discussion of the Audit Planning Memorandum (APM).

#### Closing meeting with CEO

Significant accounting issues and findings noted during the final audit will be discussed with the Chief Executive Officer (CEO).

#### Exit interview with Audit Committee

The exit interview will comprise discussion of any significant matters, statutory accounts, management letters and any improvements for future audits with the Audit Committee.

## 4 Terms of Engagement

### 4.1 Arrangements

Audits are not an absolute guarantee of the accuracy or reliability of Town's information, and may not have identified all matters of significance. This is because the work undertaken to form an opinion is permeated by judgement and most audit evidence is persuasive rather than conclusive. In addition, there are inherent limitations in any audit, including the use of testing, the effectiveness of internal control structures and the possibility of collusion.

Primary responsibility for the detection, investigation and prevention of irregularities rests with Town's management. Consequently it is the Town's management who remains responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing and presenting the financial statements, complying with the *Local Government Act 1995* and other relevant laws.

### 4.2 Management Representation Letter

The audit plan assumes that Town representatives will be in a position to sign a management representation letter. We will draft a management representation letter and forward to Town for consideration and review. The management representation letter is expected to be signed at the same time as the annual financial report is signed.

We will rely on the Chief Executive Officer signing the financial statements as evidence that they confirm:

- They have fulfilled their responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation;
- They have provided us with access to all relevant information necessary or requested for the purpose of the audit; and
- All transactions have been recorded and are reflected in the financial report.

## Town of Port Hedland

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## **5 Stakeholders relationship**

### **5.1 Our relationship with the Town**

You have requested that we audit the financial report of the Town, which comprises the statement of financial position for the financial years commencing 1 July 2014 through to 30 June 2019 and the statement of comprehensive income, statement of changes in equity, statement of cash flows and rate setting statement for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Chief Executive Officer.

### **5.2 Independence**

RSM International audit methodology requires that we conduct an annual re-evaluation of our independence prior to the commencement of each assignment. We have fully satisfied ourselves that we do not have any actual or perceived conflict of interest.

## **6 Areas of audit emphasis and audit considerations**

### **6.1 Areas of audit emphasis**

As part of the risk assessment, we have determined whether any of the risks identified are, in our judgment, a significant or high risk. A significant or high risk is an identified and assessed risk of material misstatement that, in our judgment, requires special audit consideration.

The assessment is based upon:

- Inquiries of Director Corporate Services and Manager Financial Services;
- The complexity of transactions within each area;
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of uncertainty;
- Reviewing prior period working papers; and
- Whether the area is exposed to fraud risk.

The following table lists those areas that are assessed as significant or high risk. The areas assessed as low risk are listed in Appendix B.

Risk Area	Audit Approach
Valuation of Non-Current Assets	<ul style="list-style-type: none"> <li>The Town is required to implement Fair Value Accounting for Plant &amp; Equipment, Roads, Land and Buildings and Infrastructure over the years ended 30 June 2013, 2014 and 2015. We will need to perform procedures specifically to ensure the carrying value of these assets is not materially overstated and that they are accounted for in accordance with the requirements of AASB 116 Property, Plant and Equipment, AASB 101 Presentation of Financial Statements and the Local Government (Financial Management) Regulations 1996.</li> </ul>
Appropriate accounting treatment of revenue recognition or unearned income	<ul style="list-style-type: none"> <li>The Town receives various funding under Commonwealth and State stimulus packages. Such contributions will have attached conditions related to timely delivery of outcomes. The terms and conditions of the funding together with the limited time for delivery could affect the recognition of the funding as revenue or liability in the year. Audit will need to examine the conditions pertaining to material funding advised/received in the year as well as the status of project delivery at year end against stated milestones to ensure appropriate recognition and disclosure has occurred.</li> </ul>
Timely delivery of capital projects and asset maintenance	<ul style="list-style-type: none"> <li>Review management reports on progress against capital works budget;</li> <li>Compare progress with information and explanations reported in the Standard statements;</li> <li>Review explanations for delay and/or deferral of projects;</li> <li>Review timing of capitalisation of completed projects;</li> <li>Ensure the written down value of any replaced assets are expensed prior to year-end; and</li> <li>Review the status of major projects, especially any change in project scope, funding and/or completion details.</li> </ul>



Risk Area	Audit Approach
Significant judgements and estimates	<ul style="list-style-type: none"> <li>The prices of components of major non-current physical assets (such as bitumen, asphalt, concrete etc.) may alter due to conflicting price pressures, being increased demand as a consequence of government stimulus activities, offset by discounts due to the global economic crisis. Data held by the Town based on past contracts may no longer reflect current market conditions. Need to identify and examine external price information prior to year-end.</li> </ul>
Non-compliance with the tendering and quotation procedures	<ul style="list-style-type: none"> <li>Assess effectiveness of internal controls operating within the payment cycle to ensure that Town complies with their tendering and quotation procedures for decision making.</li> </ul>
Compliance	<ul style="list-style-type: none"> <li>Consider the early work performed by the Town on strategies, agreed timetable with client, early identification and resolution of issues,</li> <li>Review of LG Solutions Year End Template and budget documents.</li> <li>Ensure compliance with Local Government Act, Australian Accounting Standards, and other regulations.</li> <li>Review of the monthly financial statements and annual budget for compliance testing as well as an analysis of any adverse trends or identification of financial risk.</li> </ul>
<p>Risk of fraud through management override of controls</p> <p>(While the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities)</p>	<ul style="list-style-type: none"> <li>We will assess the processes in place to prevent and detect fraud.</li> <li>ASA 240 The auditors responsibility to consider fraud in an audit of a financial report, imposes specific audit procedures, including: <ul style="list-style-type: none"> <li>Testing the appropriateness of journal entries and other adjustments made in preparing the financial report.</li> <li>Reviewing accounting estimates for biases.</li> <li>Reviewing significant unusual transactions.</li> </ul> </li> </ul>

Risk Area	Audit Approach
<p>Revenue Cycle</p> <ul style="list-style-type: none"> <li>• Rates revenue;</li> <li>• Government grants;</li> <li>• User pays revenue;</li> <li>• Profit on sale of non-current assets; and</li> <li>• Other income.</li> <li>• Trade and other receivables</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment of the effectiveness of key internal controls operating within the revenue cycle, including the application controls.</li> <li>• Perform a walkthrough on the key management controls over the revenue cycle.</li> <li>• Perform test of control on key management controls over revenue cycle.</li> <li>• Review reconciliations and calculation of rates revenue and compare to historical results.</li> <li>• Review fees and charges on user pays revenue and other income.</li> <li>• Confirmation for grants received from local government authorities.</li> <li>• Review monthly reconciliations.</li> <li>• Determine if the disclosures in the notes to the financial statements related to client's revenue recognition policy are appropriate.</li> <li>• Review credit notes.</li> <li>• Analytical review techniques.</li> <li>• Review of receivables balances and reconciliations including confirming a sample of balances with individual debtors.</li> </ul>
<p>Purchase and payment cycle</p> <ul style="list-style-type: none"> <li>• Expenses</li> <li>• Capital expenses</li> </ul>	<ul style="list-style-type: none"> <li>• Assess effectiveness of internal controls operating within the payment cycle.</li> <li>• Perform a walkthrough on the key management controls over the purchase and payment cycle.</li> <li>• Perform test of control on key management controls over purchase and payment cycle.</li> <li>• Perform testing of a sample on expenses and capital expenses.</li> </ul>

## 6.2 Important changes in governance, management or internal control environments

This is the first year RSM has audited the Town. This will be assessed as part of the interim audit visit.

## 6.3 Cumulative knowledge of accounting and computer Systems

This is the first year RSM has audited the Town. This will be assessed as part of the interim audit visit.

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## 6.4 Material related party transactions

Town is required to advise the auditors in writing of details of all related entities that are in existence at 30 June 2015. The advice should include details of the nature of the arrangement, including the period and value. A review will be conducted to ensure proper accounting for and disclosure of related party transactions and executive remuneration.

## 6.5 Applicable Legislative Requirements

In addition to the *Local Government Act 1995*, the key legislation impacting operations and financial statements are:

- *State Records Act 2000*; and
- *Workers' Compensation and Injury Act 1981*.

# 7 Overall audit strategy

## 7.1 Planning materiality and adjusted materiality

The planning materiality level will be calculated and determined using our audit methodology. This amount may be adjusted during the course of the audit depending on the results of our audit procedures.

## 7.2 Summary of business, fraud and accounting risk assessments

Business, fraud and accounting risks are assessed as low based on the audit findings in prior year, except for those specific assertions classified as high risk as detailed in Section 10.

## 7.3 Fraud control self-assessment

We will forward Town a copy of the fraud control checklist for self-assessment prior to our final audit visit. The form allows us to make inquiries of management, to obtain their understanding on the risk of fraud within their entity and to determine whether management have knowledge of fraud that has been perpetrated on or within the entity.

In addition to reviewing the fraud control self-assessment by Town management and the Audit and Finance Committee, we will perform fraud testing as part of the audit procedures in areas of manual general journal entries.

## 7.4 Risk materiality assessment

Considering the business, fraud and accounting risk assessments, the engagement team will assess whether each material account balance or assertion within an account balance provides significant, high or low risk.

## **7.5 Audit approach for significant and high risk material balances**

For all significant and high risk material (“HRM”) account balances, the engagement team will identify audit assertions that pose high audit risk (i.e. existence, rights and obligations, completeness, valuation and cut-off). It is likely that not all the assertions will be deemed to be high risk. Those assertions that are assessed as low risk within a high risk account balance will be tested in the same manner as low risk material (“LRM”) balances and disclosures.

### **7.5.1 Test of Controls**

Where we determine that an assessed risk of material misstatement at the assertion level is a significant risk and we intend on relying on the operating effectiveness of controls intended to mitigate that significant risk, we will obtain audit evidence about the operating effectiveness of those controls from tests of controls performed in the current period.

### **7.5.2 Substantive Procedures**

Where we have determined that an assessed risk of material misstatement at the assertion level is a significant risk, we will perform substantive procedures that are specifically responsive to that risk.

## **7.6 Audit approach for low risk material balances**

LRM balances will be audited by analytical procedures and tests of details as necessary.

## **7.7 Transaction Cycle Testing**

Our audit approach involves the testing of key controls, primarily during the interim audit visit, to determine the extent to which we can rely on those controls to produce reliable financial and performance information.

Business cycle control testing will be undertaken for all business cycles in the first year of our audit. In subsequent years, business cycle control testing will be undertaken on a rotation basis. Each year, two business cycles will be selected for in depth testing. Depending on the results of our testing of controls, we are planning to rely on the controls and reduce substantive testing on account balances. The remaining business cycles will be subjected to walkthrough testing of key management controls.

For the current year, we will be conducting in depth testing on the following business cycles:

- Revenue cycle;
- Payroll cycle.
- Payment cycle; and
- Fixed asset cycle.

## **Town of Port Hedland**

### **AUDIT PLANNING MEMORANDUM**

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## 7.8 Audit preparation checklist

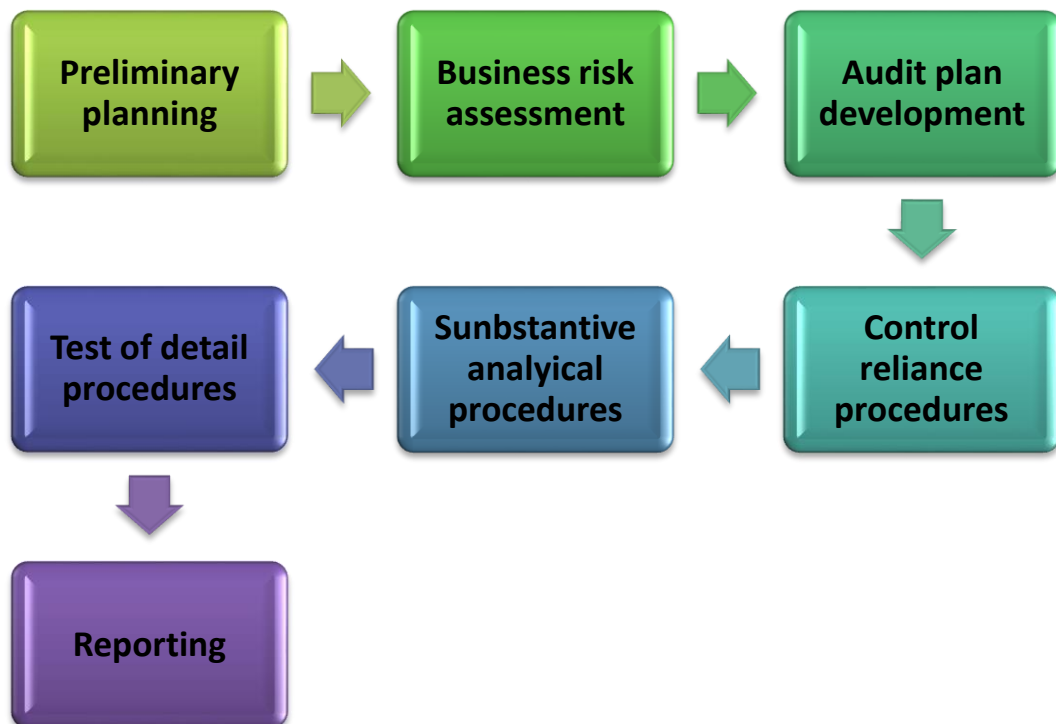
To assist Town in gathering and collating the necessary information for our preliminary and final audit visit:

- **Preliminary audit visit** - We will liaise with the Manager Financial Services to arrange meetings with relevant personnel with reference to the areas that we are going to cover, prior to the commencement of the preliminary audit visit.
- **Final audit visit** - We will forward an Audit Preparation Checklist (“APC”) in advance. As the requested information will form the basis of our audit working papers, the information must be made available to us at the commencement of our audit visit. This assists us in delivering an efficient audit and minimising interruptions to Town staff.

## 8 Approach summary

The RSM Audit Methodology is an international audit methodology, utilised by all RSM International independent network firms worldwide, that blends technical competencies with a detailed and robust knowledge of the client, its markets and the industry sector. Using these methodologies, the Firm offers a tailored audit and assurance approach, with a strong emphasis on early planning and how the client's business functions. This enables us to identify key audit and assurance components and to tailor our procedures to the unique aspects, size and nature of a client's business and their service requirements. Our approach ensures audit resources are directed at high risk business cycles and resources are not wasted on trivial balances or issues that will not add value to you as a client. The result is an efficient and cost effective audit that adds value to your operations

The following model presents a flowchart of our approach:

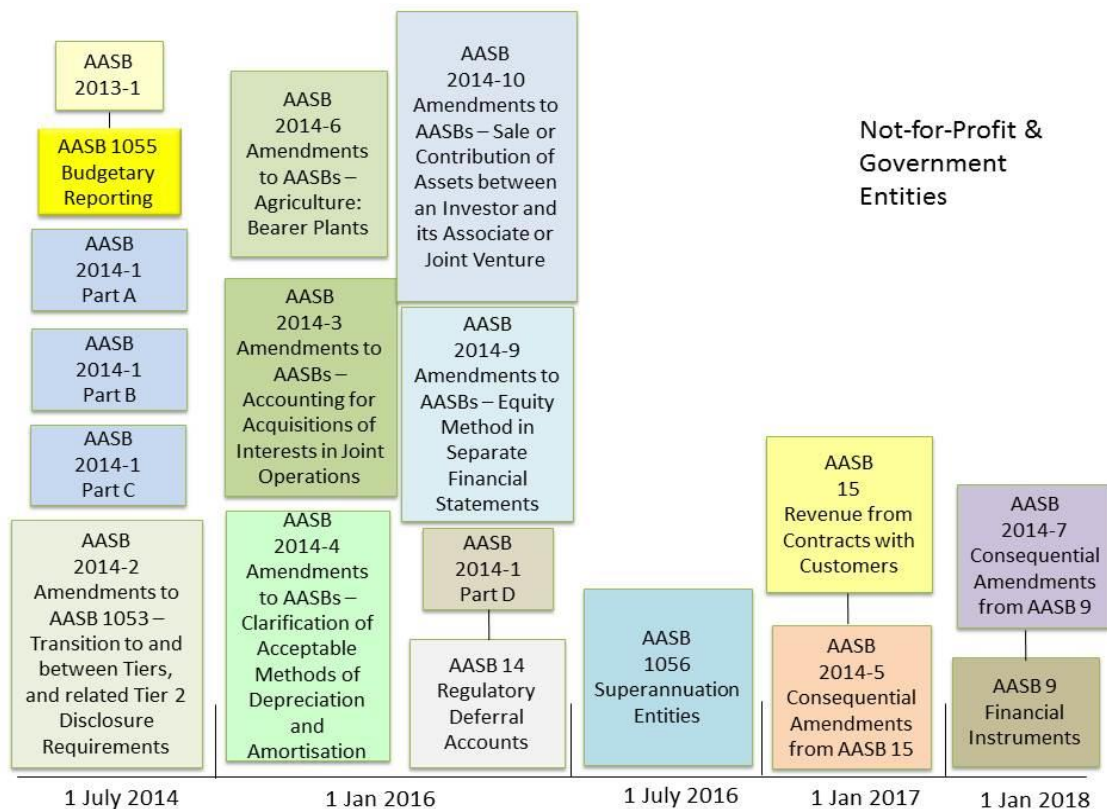


## 9 Implications of accounting standards

### 9.1 Implications of accounting standards

We have assessed the implications of accounting standards and interpretations that will impact Town's financial statements in the coming financial years. The diagram below illustrates the standards and interpretations, which have been issued but are not yet effective, that may impact Town in the period of initial application. The diagram shows that there are no accounting standards or interpretations that will have significant impact on Town during the current reporting period.

There are further accounting standard and interpretation changes, which may have implications for Town moving into 2016-17 and beyond, as per the diagram.



## 10 Timing

Timetable	Task	Indicative Time Frame	Responsible Party(ies)
Pre – Planning	Document method and develop/refine test program.	March/April 2015	RSM
Planning	Entrance meeting with Town and presentation of APM to the Audit and Finance Committee.	22 April 2015	RSM Town
Preliminary Audit Fieldwork	As per audit planning stage based on risk assessment, focusing on controls testing for transaction cycles considered to be of high risk, walkthrough on all major business cycles and review of the key reconciliation routines.	21 April 2015 to 24 April 2015	RSM Town
Preliminary Audit Management Letter and/ or preliminary audit findings	RSM issue the draft Preliminary Audit Management Letter and Preliminary Audit Findings to Town management for comment.	30 April 2015	RSM Town
	Town returns the draft Preliminary Audit Management Letter and Preliminary Audit Findings with comments to RSM.	7 May 2015	Town
	RSM to issue Preliminary Audit Findings to Town.	8 May 2015	RSM
	RSM present the Preliminary Audit Findings at the Audit Committee.	May 2015	RSM
Draft financial statement	Town submits draft financial statement as per Local Government Act deadlines.	30 September 2015	Town

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Timetable	Task	Indicative Time Frame	Responsible Party(ies)
Final Audit Fieldwork	Top up audit work based upon roll forward testing of the preliminary audit substantive testing of HRM and LRM balances.	14 to 17 September 2015	RSM Town
	Town submit final draft financial statement to RSM	30 September 2015	Town
	Follow up outstanding matters, documentation and review of files.	September 2015	RSM
	Final clearance on financial statements and Notes	October 2015	RSM
Final Audit Management Letter (if applicable)	Issue of draft Final Audit Management Letter to Town's management for comments.	30 September 2015	RSM
	Town returns the draft Final Audit Management Letter with comments to RSM.	7 October 2015	RSM Town
	Issue of Draft Final Audit Management Letter with Town management comments to the Council.	8 October 2015	RSM
Closing Report and Management Representation Letter	Issue draft Closing Report and Management Representation Letter to Town management for comment.	30 September 2015	RSM
	Town returns the draft Closing Report and Management Representation Letter with comments to RSM.	7 October 2015	Town
	RSM to confirm the final Closing Report and Management Representation Letter.	8 October 2015	RSM

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Timetable	Task	Indicative Time Frame	Responsible Party(ies)
	Issue Closing Report and Final Management Representation Letter to Town and AFC.	9 October 2015	RSM
Exit Meeting	Exit meeting with Town including presentation to the Audit and Finance Committee.	18 September 2015	RSM Town
Final Report	Sign Final Accounts and the Management Representation Letter.	9 October 2015	Town
Audit Report	RSM to sign and issue the Audit Report to Town.	12 October 2015	RSM

## 11 Appendix A: Low risk areas

Key Auditable Area	Key Associated Risks	Key Audit Approach
<p><b>Purchase and payment cycle</b></p> <ul style="list-style-type: none"> <li>Trade and other payables</li> <li>Accruals</li> </ul>	<ul style="list-style-type: none"> <li>Incorrect calculation of accruals.</li> <li>Understatement of payables.</li> <li>Classification between current and non-current</li> </ul>	<ul style="list-style-type: none"> <li>Perform substantive analytical review.</li> <li>Review the calculation of material accruals.</li> <li>Review subsequent payments after year end.</li> </ul>
<p><b>Interest Bearing Liabilities</b></p>	<ul style="list-style-type: none"> <li>Liabilities are not properly brought to account.</li> <li>The split between current liabilities and noncurrent liabilities is inaccurate.</li> <li>Failure to comply with debt covenants.</li> </ul>	<ul style="list-style-type: none"> <li>Analyse year end interest bearing liability balances.</li> <li>Determine the correct split between current and noncurrent portion.</li> <li>Analytical review to determine that finance costs have been properly brought to account.</li> <li>Review debt covenants and test for compliance where necessary.</li> <li>Obtain confirmation from lender at year to confirm the balances.</li> </ul>
<p><b>Taxation</b></p> <ul style="list-style-type: none"> <li>GST</li> </ul>	<ul style="list-style-type: none"> <li>GST has not been properly calculated in accordance with GST legislation.</li> </ul>	<ul style="list-style-type: none"> <li>Review year end GST reconciled to BAS statement.</li> </ul>
<p><b>Contingent liabilities</b></p>	<ul style="list-style-type: none"> <li>All contingent liabilities are not properly identified and disclosed in the financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>Review the contingent liabilities list.</li> <li>Analysis of year end contingent liabilities in comparison with prior period balances.</li> <li>Review minutes of meetings throughout the year to identify undisclosed contingent liabilities.</li> </ul>

Key Auditable Area	Key Associated Risks	Key Audit Approach
<p><b>Financial statement disclosures</b></p>	<ul style="list-style-type: none"> <li>Financial statements are not in accordance with Local Government Act 1995 and Australian Accounting Standards.</li> </ul>	<ul style="list-style-type: none"> <li>Conduct of review and test of details over significant financial statement disclosures, such as:               <ul style="list-style-type: none"> <li>financial instrument disclosures</li> <li>commitments and contingencies</li> <li>basis of preparation and significant accounting policies</li> <li>financial risk management</li> </ul> </li> </ul>
<p><b>Payroll cycle</b></p> <ul style="list-style-type: none"> <li>Wages and salaries</li> <li>Employee entitlement provisions</li> </ul>	<ul style="list-style-type: none"> <li>Existence of employees.</li> <li>Incomplete or inaccurate employee records.</li> <li>Overpayment or unauthorised payments.</li> <li>Understatement of provisions.</li> <li>Inaccurate calculation of provisions.</li> </ul>	<ul style="list-style-type: none"> <li>Assess the effectiveness of internal controls operating within payroll cycle.</li> <li>Perform a walkthrough on the key management controls over the payroll cycle.</li> <li>Assess the adequacy of payroll exception reporting and controls.</li> <li>Perform substantive analytical review.</li> <li>Test adequacy of provision for employee entitlements.</li> </ul>
<p><b>Cash cycle</b></p> <ul style="list-style-type: none"> <li>Cash and cash equivalents</li> <li>Restricted cash and cash equivalents</li> </ul>	<ul style="list-style-type: none"> <li>Reconciliations are not prepared on a timely basis.</li> <li>Reconciliations are not reviewed by appropriate officer.</li> <li>Mismanagement of cash.</li> </ul>	<ul style="list-style-type: none"> <li>Assess the effectiveness of internal controls operating within cash cycle.</li> <li>Perform walkthrough over cash cycle.</li> <li>Perform test of control on key management controls over cash cycle.</li> <li>Review the reconciliation for any long outstanding or unusual items.</li> <li>Obtain bank confirmation as at year end.</li> </ul>

## 12 Appendix B: Additional information contacts

<b>David Wall</b>
<b>RSM Bird Cameron</b>
<b>5<sup>th</sup> Floor, RSM Bird Cameron Building</b>
<b>8 St Georges Terrace</b>
<b>Perth Western Australia 6000</b>
<b>Tel: +61 8 9261 9387</b>