



TOWN OF PORT HEDLAND

CLOSING REPORT

30 JUNE 2015



Contents

1	KEY MATTERS	1
2	ACCOUNTING AND AUDIT ISSUES	2
3	INTERNAL CONTROL SYSTEM WEAKNESSES.....	9
4	OTHER MATTERS	10

1 Key Matters

1.1 Audit Opinions

We have completed the onsite audit fieldwork on the financial statements and controls of the Town for the year ended 30 June 2015 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* and *Local Government (Financial Management) Regulations 1996* as they relate to financial statements.

1.2 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 *Local Government Act 1995* and the *Local Government (Financial Management) Regulations 1996* as they relate to financial statements.

1.3 Scope of this Report

There have been no changes in the audit approach set out in the Audit Planning Memorandum.

1.4 Independence

The audit methodologies of RSM Bird Cameron 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.

Town of Port Hedland

Closing Report

30 June 2015

2 Accounting and Audit Issues

2.1 Changes in accounting standards

The Town has assessed that there have been no changes in Accounting Standards which will impact on the 30 June 2015 financial statements.

We concur with management's assessment of the impact of the changes in Accounting Standards.

2.2 Areas of Audit Emphasis

Accounting for Airport Lease Transaction

The Town commenced the final stages for the sale of the Port Hedland International Airport during the year ended 30 June 2015. The Town assessed that the proposed sale met the criteria to be recognised as assets held for sale as at 30 June 2015 in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

In August 2015 the Town of Port Hedland Council announced that it had resolved to enter into an agreement with AMP Capital and the Infrastructure Capital Group to enter into a 50-year lease for the land at the Port Hedland International Airport and for the sale of the Airport business. Subsequently, on 16 September 2015, the Port Hedland Council announced that it had signed an Agreement for the Lease and Asset Sale Agreement for the Port Hedland International Airport.

The Town has disclosed the sale of the Airport business as discontinuing operations in the Statements of Comprehensive Income and reclassified the Airport business assets as held for sale in the Statement of Financial Position. The Town has made no accounting adjustments for the proposed lease of the Airport land. The Town has also made disclosures in the Notes to the Financial Statements to explain the nature of these transactions.

We concur with the Town's accounting and disclosure of these transactions.

2.3 Audit Planning Memorandum Issues

The Audit Planning Memorandum mentioned nine areas of significant or high audit risk. The following details provide a summary of our findings in relation to those areas:

2.3.1 Valuation of Non-Current Assets

The Town revalued the infrastructure class of asset in the year ended 30 June 2015 as required by *Local Government (Financial Management) Regulation R17A*.

We have reviewed the methodology adopted by the Town and the subsequent revaluation increments and decrements. We did not note any instances of non-compliance with the requirements of *Local Government (Financial Management) Regulation R17A*.

Town of Port Hedland

Closing Report

30 June 2015

2.3.2 Revenue cycle

We have reviewed the effectiveness of the Town's key controls operating within the revenue cycle. We also 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 conclude from our audit work that the key management controls are effective to ensure that revenue has been accurately and completely recognised.

2.3.3 Appropriate accounting treatment of revenue recognition or unearned income

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.

We examined 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.

We conclude from our audit work that the Town has applied appropriate accounting treatment for the various funding received under Commonwealth and State stimulus packages.

2.3.4 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.

2.3.5 Timely delivery of capital projects and asset maintenance

We have:

- Reviewed management reports on progress against capital works budget;
- Compared progress with information and explanations reported in the Standard statements;
- Reviewed explanations for delay and/or deferral of projects;
- Reviewed timing of capitalisation of completed projects;
- Ensured the written down value of any replaced assets are expensed prior to year-end; and
- Reviewed the status of major projects, especially any change in project scope, funding and/or completion details.

We did not note any exceptions during our testing.

Town of Port Hedland

Closing Report

30 June 2015

2.3.6 Significant judgements and estimates

The Town evaluates estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Town.

We reviewed the Town's key estimates and judgements and conclude that the Town has properly considered and evaluated these matters during the course of preparing the financial statements.

2.3.7 Purchase and payment cycle

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

We conclude from our audit work that the key management controls are effective to ensure that purchases and payments have been accurately and completely recognised.

2.3.8 Non-compliance with the tendering and quotation procedures

We have assessed the effectiveness of internal controls operating within the payment cycle to ensure that the Town complies with its tendering and quotation procedures for decision making.

We did not note any instances of non-compliance.

2.3.9 Compliance

We have reviewed the Statutory Financial Statements, 2015 Statutory Budget and monthly financial statements for compliance with the *Local Government Act 1995* and Australian Accounting Standards.

We did not note any instances of non-compliance.

2.4 Unadjusted audit differences

There are no unadjusted audit differences remaining at the end of the audit.

2.5 Audit Adjustments

The following audit adjustments were identified during the course of the audit and were processed by the Town:

Entry	Account No.	Account Description	Debit (\$)	Credit (\$)
1	10070	Trade and Other Payables	693,000	
	10060	Trade and Other Receivables		630,000
	11200	GST Liability		63,000
	<i>Being For: To correct allocation of prepaid expenses to creditors</i>			
2	12850	Infrastructure – Culverts and Bridges	1,671,220	
	13050	Asset Revaluation Reserve		1,671,220
	<i>Being For: To correct revaluation of culverts and bridges</i>			

There are no unadjusted differences as at 30 June 2015.

The following reclassifications were made to the Financial Statements in relation to the reclassification of the Airport business as Discontinuing Operations:

Statement of Comprehensive Income by Nature and Type			
	2015 (\$000)	Budget 2015 (\$000)	2014 (\$000)
Revenue			
Fees and Charges	17,285	14,540	16,289
Other Revenue	1,984	8,713	2,084
Total Revenue	19,229	23,253	18,373
Expenditure			
Employee Costs	2,610	2,412	2,598
Materials & Contracts	4,303	2,704	1,861
Utilities	501	514	459
Depreciation	1,801	1,497	1,395
Interest Expense	72	71	75
Insurance	311	323	306
Other Expenditure	1,757	4,832	1,101
Total Expenditure	11,355	12,353	7,795
Operating Result from Discontinuing Operations	7,785	10,900	10,578

Town of Port Hedland

Closing Report

30 June 2015

Statement of Comprehensive Income by Program			
	2015 (\$000)	Budget 2015 (\$000)	2014 (\$000)
Revenue			
Transport	19,229	23,253	18,373
Total Revenue	19,229	23,253	18,373
Expenditure			
Transport	11,355	12,353	7,795
Total Expenditure	11,355	12,353	7,795
Operating Result from Discontinuing Operations	7,785	10,900	10,578

Statement of Financial Position	2015 (\$000)
Current Assets	
Inventory	51
Total Current Assets	51
Non Current Assets	
Plant and Equipment	2,147
Furniture	2,270
Buildings	9,814
Infrastructure	44,586
Work in Progress	3,361
Total Non Current Assets	62,178
Total Assets	62,229
Current Liabilities	
Leave Accruals	57
Total Current Liabilities	57
Net Assets reclassified as Disposal Group Held for Sale	62,172

Town of Port Hedland

Closing Report

30 June 2015

3 Internal Control System Weaknesses

3.1 Status of prior year issues

No issues noted in prior year.

3.2 Status of issues raised from interim audit

Our interim management letter highlighted the following findings:

Findings	Rating	Status
Reconciliation of payroll report to the general ledger	Moderate	Closed
Fortnightly payroll variance reporting	Moderate	In Progress
Employee personnel file information	Moderate	Closed
Capturing of timesheets into the Synergy system	Moderate	Closed
Monthly bank reconciliations	Moderate	Closed
Monthly credit card reconciliations	Moderate	Closed
Year end accounting issues	Moderate	Closed
Minutes	Moderate	Closed
Monthly financial reports	Moderate	Closed
Implementation of recommendations from Risk Management, Legislative Compliance and Internal Controls Review and Internal Audit	Moderate	In Progress
Outstanding cheques	Minor	Closed

3.3 2014/15 final audit

Refer to the separate issued Audit Findings Letter.

4 Other Matters

4.1 Considerations for next year's audit

In exchange for entering into the Airport Lease and Sale Agreements, the Town expects to receive \$165 million. In addition, the acquirers will be expected to make capital investments in the airport totaling \$40 million over the term of the Lease Agreement. Subsequent to the finalisation of the Sale Agreement, the Town will derecognise its airport business, including airport buildings and plant and equipment consistent with the sale of these assets.

It is anticipated the lease and sale agreement for the Port Hedland International Airport will be finalised in December 2015.

4.2 Subsequent events

Management has represented that, other than those matters disclosed in the financial statements, 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.

4.3 Contingent liabilities and commitments

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

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

4.4 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.

4.5 Other matters

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