Grant Thornton

City of Albany

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

12 November 2013

The Audit Committee
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12 November 2013

Dear Sirs,

CITY OF ALBANY
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 our audit work is complete, except for the matters listed in section 1 of this report. Subject to the completion of the outstanding matters, we expect to issue 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 Steven Hoar or myself.

Yours faithfully
GRANT THORNTON AUDIT PTY LTD

P W Warr
Partner – Audit & Assurance

M J Hillgrove
Partner – Audit & Assurance

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1 Executive summary

Status of audit and outstanding matters

Our audit of City of Albany is substantially complete. The audit work is complete except for the following list of matters which are required prior to the completion of the audit:

- completion of our subsequent events review to the date of signing of the audit report
- receipt of outstanding solicitor representation letters
- receipt of signed management representation letter
- formal adoption of the financial statements by the Chief Executive Officer and receipt of the signed Statement by Chief Executive Officer

We expect to sign an unqualified audit report after these matters are completed.

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 City of Albany.

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.

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 budgeted expenditure for 2012/13. Materiality benchmarks are selected to represent the measure which is most relevant to users (especially investors and creditors) of the financial report.

1.3 Assessment of internal controls

For further details, please refer to Appendix A.

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 increase profit after tax by $62k.

1.5 Current year areas of focus

Our audit procedures were focused on those areas of City of Albany's activities that are considered to represent the key audit risks identified in our planning memorandum and through discussions with management and the Audit Committee 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 City of Albany's consolidated financial report.

Focus area	Response
Property Plant and Equipment/ Infrastructure	**Background** Infrastructure and capital assets are key risk areas of the City of Albany ("the City"). At balance sheet date the amounts reported were $68 million for property, Plant and Equipment and $194 million for Infrastructure. **Audit work performed** Our audit procedures were performed to assess the completeness of recording of these capital assets, the accuracy of depreciation and potential impairment of assets. We have undertaken sample tests on capital and infrastructure asset additions and disposals. These transactions were assessed for appropriateness of asset capitalisation in line with the City's policies and procedures and tested for accuracy to supporting documentation. Asset reconciliation schedules were verified against trial balance reported amounts. It was noted that the carrying value of assets was reasonable. We also reviewed the change required under the regulations to show plant & equipment and furniture & equipment at fair value and tested a sample of the assets to ensure that the fair value method had been appropriately applied. During the year management have revalued some items of major plant using the use of an external expert. Audit has reviewed the report produced by the valuers and have concluded the assumptions and methods used to determine the valuation are appropriate. It was also noted the Council has adjusted the opening balance of the revaluation reserve as management were unable to reconcile the reserve to the appropriate classification of asset. The adjustment has been recorded as a prior year adjustment.

	Outcome Results of the testing procedures did not note any material misstatements of the infrastructure and capital asset schedules.
Rates, Grants and Subsidies revenue/Receivables	**Background** A key risk area identified at the planning stage is rates and grants and subsidies revenue recognition. For the year ended 30 June 2013, $27 million and $4 million were recognised as rates and grants and subsidies revenue respectively. **Audit Work Performed** Audit procedures were undertaken to ascertain the completeness and accuracy of both recognised rates and grants and subsidies revenue. Analytical procedures were performed to ascertain reasonableness of both rates and grant revenue balances. Significant grants revenue amounts recognised during the period were substantively verified to supporting documentation such as grant funding agreements. Related Receivables were reviewed for recoverability. **Outcome** The substantive procedures did not uncover any material misstatement of rates and grant and subsidies revenue balances and receivables. At balance date these amounts were reasonably accounted for and recognised appropriately.
Employee Compensation	**Background** A key risk area identified at the planning stage is employee compensation, with costs totalling approximately $19 million. **Audit work performed** Audit procedures were performed on the expenses and the provisions relating to employee compensation. Procedures included the recalculation of a sample of employees' entitlements, comparing the general ledger amounts to supporting data from the payroll system and employee contracts as well as analytical procedures. **Outcome** Results of audit procedures did not note any material anomalies and we conclude employee compensation balances were not materially misstated.

1.6 Disclaimer

This report has been prepared for the Audit Committee and management of the City of Albany 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 City of Albany.

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 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. The status of the accounting records is of an appropriate standard, and we did not note any significant issues that warrant reporting to the Directors.

2.1 Adjusted audit differences

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

		$s								
#	Description	Asset		Liability		Equity		Profit Effect DR/(CR)		Net Profit
		DR	CR	DR	CR	DR	CR	Revenue	Expense	DR/(CR)
1	Impairment incorrectly recorded through the revaluation reserve	0	0	0	0	165,437	165,437	0	165,437	165,437
2	Revaluation Reserve (Prior period adjustments)	0	0	0	0	18,774,634	18,774,634	0	0	0
Total		**0**	**0**	**0**	**0**	**18,940,071**	**18,940,071**	**0**	**165,437**	**165,437**

2.2 Unadjusted audit differences

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

		$s								
#	Description	Asset		Liability		Equity		Profit Effect DR/(CR)		Net Profit
		DR	CR	DR	CR	DR	CR	Revenue	Expense	DR/(CR)
1	Adjustment to annual leave provision	0	0	61,795			61,795		(61,795)	61,795
Total		**$0**	**$0**	**$61,795**	**$0**	**$0**	**$61,795**	**$0**	**($61,795)**	**$61,795**
		0%	**0%**	**0.25%**	**0%**	**0%**	**0.02%**	**0%**	**0.12%**	**0.68%**

2.3 Disclosure deficiencies

No disclosure deficiencies that would result in a qualified audit opinion were noted in our review of the financial statements.

2.4 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.

3 Specific reporting requirements

Reporting requirement	Description
3.1 Fraud	• 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 Chairman of the audit committee Greg Stocks, 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.
3.2 Errors, irregularities and illegal acts	• we have noted no errors or irregularities that would cause the financial report to contain a material misstatement.
3.3 Books & records and conduct of review	• 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 take this opportunity to thank Duncan Olde, Sophie Beech and the finance staff of City of Albany for their assistance and courtesy during our audit.
3.4 Compliance with laws & regulations	• in performing out 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 those charged with governance confirming the Council is in compliance with all laws and regulations that impact the organisation.
3.5 Going concern	• as part of our audit, we have assessed and agreed with the conclusions reached management concerning the application of the going concern concept.
3.6 Fair Value Measurements	• During the prior year amendments were made to the Local Government Act whereby the value of an asset shown in the Local Government's financial reports must be the fair value of the asset. These transition requirements are as follows- • For the year ended 30 June 2014, the fair value of all of the assets of Local Government that are Plant and Equipment and that are Land and Buildings. . • For the year ended 30 June 2015, the fair value of all of the assets of Local Government. We recommend a written plan is implemented to ensure these assets are fair valued by the reporting timeline and the method by which the assets will be valued.
3.7 Disagreements with management	• there have been no significant disagreements with management during the course of the audit.

Reporting requirement	Description
3.8 Independence	• 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. • during the year ended 30 June 2013, Grant Thornton has not provided any non-audit services to City of Albany

4 Appendix A – Internal control observations

We have ranked the issues raised in order of their importance and risk to City of Albany, (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 City of Albany 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 City of Albany 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 City of Albany which is a deficiency, i.e. a control gap that is assessed to result in inconsequential misstatements.

4.1 Current year issues

Importance	Observation	Recommendation	Management response
Significant deficiency	During our audit procedures we noted the annual leave provision was incorrectly calculated. The error was due to a formula error within the worksheet.	As part of the review process all worksheets should be reviewed in detail, this includes for example checking formulas, checking the integrity of the data and ensuring the opening balances are correct.	• The error noted in the audit management report has been acknowledged, and the adjustment made in the current year (2013/14). The Manager of Finance and the Financial Accountant have reviewed the process and implemented a calculation verification control point.

5.3 Update on prior year issues

Resolved issues

Observation	Recommendation	Status update
Based on discussions with management it was noted that purchase invoice approval limits were not being monitored and limits may have been being avoided by ensuring purchase invoices received are below the authorised limit.	It was recommended that a process was to be established to regularly review and monitor expenditure approved by each member of staff.	This has been noted by management, and steps have been taken to address this. Firstly, an internal auditor has been appointed. Second, management is reviewing the current authorisation limits and protocols to address this concern, as well as a more general review of financial procedures and controls.