
City of Karratha

Report to the Audit Committee for the year ended
30 June 2014

September 2014





The Audit Committee
City of Karratha
Lot 1083 Welcome Road
PO Box 219
Karratha WA 6714

30 September 2014

Dear Committee Members,

CITY OF KARRATHA
REPORT TO THE AUDIT COMMITTEE FOR THE YEAR ENDED 30 JUNE 2014

Please find attached our Report to the Audit Committee for the audit of the financial report of the City of Karratha ("the City") for the year ended 30 June 2014. Some minor outstanding matters have been noted in section 1 of this report and we confirm, subject to the satisfactory resolution of these matters, we will 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 Simon Franich or myself.

Yours faithfully
GRANT THORNTON AUDIT PTY LTD

A handwritten signature in black ink, appearing to read "Mark Petricevic", written over the printed name.

Mark Petricevic
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1 Executive summary

Status of the audit

Some minor matters remaining outstanding including the following:

- Receipt of latest management accounts of Council.
- Standard subsequent events queries.
- Receipt of signed CEO declaration on financial statements
- Receipt of final signed accounts and management representation letter.

1.1 Scope of the audit

We conducted an independent audit of the financial statements in order to express an opinion on it to the members of City of Karratha.

Our audit was 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 2% of the total expenditure. 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

We have considered the internal control environment as part of our audit. For further details on our findings, please refer to Appendix A.

1.4 Summary of unadjusted differences

We did not identify any uncorrected audit differences that, in our judgement, either individually or in aggregate, have a significant effect on the financial report of the City for the year ended 30 June 2014.

1.5 Developments in financial reporting

The changes in Australian Accounting Standards which have an impact on City of Karratha are outlined in the current and future reporting requirements section. Management needs to assess the impact of these on the City of Karratha and the adoption of appropriate accounting policies.

1.6 Current year areas of focus

Our audit procedures were focused on those areas of the City's activities that were considered to represent the key audit risks identified at the planning stage of the engagement and through our 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 Karratha's financial report.

Focus area	Response
Capital Assets and Infrastructure	<p>At the planning stage we identified the infrastructure and capital assets as key risk areas of the City. At balance sheet date the total figure for Capital Assets and Infrastructure was \$309 million. This represented an increase of \$48 million from 2013.</p> <p>Audit procedures performed aimed to assess the appropriateness of the useful lives of infrastructure and capital assets, the accuracy of depreciation charges and assess assets for possible impairment.</p> <p>At final visit, sample tests were performed on capital and infrastructure asset additions. 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.</p> <p>Please refer to Section 2 of this report for the Key findings on this focus area.</p>

Focus area	Response
Rates, Grants and Subsidies Revenue	<p>A key risk area identified at the planning stage was rates, grants and subsidies revenue recognition. For the year ended 30 June 2014, \$35 million was recognised as rates revenue and \$7.4 million was recognised as grants and subsidies revenue. These balances represented an increase of 21% to rates revenue and decrease of 26% of grant and subsidies revenues from the 2013 financial year.</p> <p>Audit procedures performed aimed 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.</p> <p>The substantive procedures did not uncover any material misstatement of rates and grant and subsidies revenue balances. At balance date these amounts were reasonably accounted for and recognised appropriately.</p> <p>Please refer to Section 2 of this report for the Key findings on this focus area.</p>
Capital Assets and Infrastructure Revaluations	<p>Pursuant with the Local Government Regulations the City of Karratha measured its Land and Buildings to fair value for the year ended 30 June 2014. A competent external party was contracted to perform the valuation services. The result was an increase in the fair value of the Land and Building assets of \$33 million for the year. This adjustment was correctly taken to the revaluation reserve and other comprehensive income.</p> <p>The regulations allowed for a phasing in of the fair value in relation to the fixed assets. The City only has infrastructure assets remaining to be valued, which we understand will occur next year.</p>

1.7 Disclaimer

This report has been prepared for the Audit Committee and Management of City of Karratha 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 City of Karratha.

1.8 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

As identified in Section 1.6, we identified a number of focus areas for the 2014 audit. In addition, during the course of the fieldwork, other accounting and audit issues were noted. Our consideration of these matters is set out below.

2.1 Key findings

Focus area	Key findings	Resolution/Recommendation
3.1.1 Capital Assets and Infrastructure	<ul style="list-style-type: none"> During the year management discovered that in the 2012/2013 period certain amounts were expensed to Materials and Contracts but relates to Artworks assets and therefore should be capitalized. As a result, prior period adjustment has been recorded to increase Artwork assets by \$511,984 (net of depreciation) and decrease expense. 	<ul style="list-style-type: none"> Management has made the necessary prior period adjustment and correctly presented on the financial statement in accordance with AASB 101. Refer to Section 6.
3.1.2 Capital Assets and Infrastructure	<ul style="list-style-type: none"> During the year as part of the buildings and land revaluation process, certain buildings and lands which were previously capitalized but not belonging to the City were identified. <p>As a result, \$408K and \$1,121K of buildings and land, respectively, was removed as of 30 June 2014 for nil proceeds.</p> <p>With regards to the external valuation of land and buildings conducted during the period audit examined the valuation, methodology adopted and information provided to the value for reasonableness. The adjustment to the revaluation reserve was also scrutinised. We also held discussions with the valuers to gain an understanding of the methods used to value the land and buildings and understand the model inputs used.</p>	<p>With regards to the land and buildings valuation during the period we noted from discussion with Management that declines in value since 1 July 2013 (date of valuation) were considered as part of the financial statement process. It was determined by management that no impairment of land and buildings had occurred and as such, no impairment loss (or decrease in the asset revaluation reserve) was recognised in relation to any declines in values over land and buildings as at 30 June 2014.</p> <p>Given the fluctuations in the market, based on economic factors not within the control of the Council, we would recommend that the Council undertake an exercise at each reporting date to determine whether any material decline in value may need to be recorded. This exercise can be undertaken during those periods outside the normal valuation cycle (triennially) to ensure assets are not being carried in excess of their recoverable amount.</p>

Focus area	Key findings	Resolution/Recommendation
3.1.3 Trade Debtors	<ul style="list-style-type: none"> Audit noted amounts totalling \$4.25m receivable from a significant debtor at year end. From discussions with management we noted that whilst the debtor was paying the rates based on old rates, the balance based on new rates struck was not being paid and was subject to a dispute. We note the disputed amount was immaterial to the financial statements. Given managements experience in dealing with this debtor in the past and the history of eventual settlement of the outstanding amounts, no provision for impairment of the balance was deemed to be necessary. 	<ul style="list-style-type: none"> Audit concurs with this view. No material misstatements noted in relation to trade debtors.

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. 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.

3.1 Unadjusted audit differences

In performing our audit for the year ended 30 June 2014, we did not identify any unrecorded adjustments.

3.2 Materiality

Management has determined and they have represented to us in writing that unadjusted audit differences (if any) are immaterial to the financial statements either individually or in aggregate. We concur with this view.

Further, Management represented 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 Audit Committee, 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 take this opportunity to thank Ray McDermott and Sarah Jessop as well as the rest of the finance department for their assistance and courtesy afforded to us during our audit.
4.4 Compliance with laws and 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 confirming that the City 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. The City of Karratha have adopted all of the new and revised Australian Accounting Standards and Interpretations which became mandatory and which were applicable to its operations during the year. These include: <ul style="list-style-type: none"> AASB 13: Fair Value Measurement (effective from 30 June 2014).
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 Directors 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.• the following is a list of other services provided in addition to the statutory audit engagement for the year ended 30 June 2014:<ul style="list-style-type: none">– audit of specific Grant Acquittals <p>We confirm that these services do not affect our independence.</p>

5 Current and future financial reporting requirements

The following new and revised accounting standards were applicable for the first time in the 30 June 2014 financial statements. The impact on the City's financial statements is provided below:

Relevant standard reference	Overview	Reporting impact
7.0.1 AASB 11 Joint Arrangements	<p>AASB 11 replaces AASB 131 <i>Interests in Joint Ventures</i> and AASB Interpretation 113 <i>Jointly-controlled Entities – Non-monetary Contributions by Ventures</i>. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition, AASB 11 removes the option to account for Jointly Controlled Entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations for liabilities are accounted for by recognising the share of those assets and liabilities. Joint ventures that give the venturers a right to the net assets are accounted for using the equity method.</p> <p>AASB 11 was mandatory to annual reporting periods beginning on or after 1 January 2013. However, not-for-profit entities in Australia are not required to apply these standards for annual periods beginning before 1 January 2014.</p>	<ul style="list-style-type: none"> As the City of Karratha has no joint ventures, there was no impact.
7.0.2 AASB 13 Fair Value Measurement	<p>AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted by other Standards.</p> <p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p> <p>AASB 13 was mandatory to annual reporting periods beginning on or after 1 January 2013.</p>	<ul style="list-style-type: none"> City of Karratha had already early adopted this standard in the previous year. The impact has been the revaluation of land and buildings to fair value in the current year.

Relevant standard reference	Overview	Reporting impact
7.0.3 AASB 119 Employee Benefits (September 2011)	<p>Main changes include:</p> <ul style="list-style-type: none"> • Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans; • Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in the Comprehensive Income (OCI) rather than in profit or loss, and cannot be reclassified in subsequent periods; • Subtle amendments to timing for recognition of liabilities for termination benefits; and • Employee benefits 'expected to be settled wholly' (as opposed to 'due to be settled' under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Unless all annual leave for all employees is expected to be used wholly within 12 months of the end of reporting period, annual leave is included in 'other long-term benefits' and discounted when calculating the leave liability. This has no impact on the presentation of annual leave as a current liability in accordance with AASB 101 <i>Presentation of Financial Statements</i>. <p>AASB 119 was mandatory to annual reporting periods beginning on or after 1 January 2013.</p>	<ul style="list-style-type: none"> • We noted the City's assessment of any potential impact of this standard was immaterial. Audit concurred with this view based on information supplied.

5.1 Keeping up to date with the changes

We understand the task of keeping up with changes can be daunting, particularly given the length of some of the new standards; to assist you with this Grant Thornton Australia Limited publishes Technical Accounting Alerts (TA Alerts) and Emerging Issues Alerts (EI Alerts) on our website. (www.grantthornton.com.au).

The TA/EI Alerts are not a substitute for reading the accounting standard / interpretation/ exposure drafts and are not specific to your organisation; however they do provide a summary of key points of the new standards / interpretations/ exposure drafts to allow you to quickly assess any potential impact on your entity and determine the need for further probing into the detailed requirements of the standard.

The TA/EI Alerts also cover some contentious / difficult accounting concepts which the technical teams of both Grant Thornton International and Grant Thornton Australia have received a number of queries requiring guidance / clarification; available on our website as per the following link:

http://www.grantthornton.com.au/Publications/Tools-and-resources/Technical-publications/Local_Alerts.asp

In addition; there are guides produced by Grant Thornton International included on the website covering areas such as:

- [IFRS Top 20 Tracker](#)
- [Under control? A Practical guide to applying IFRS 10 consolidated Financial Statements](#)
- [Navigating the accounting for business combinations: Applying IFRS 3 in practice](#)
- [Navigating the Changes to International Financial Reporting Standards: A Briefing for Chief Financial Officers](#)
- [Deferred tax: A Chief Financial Officer's guide to avoiding the pitfalls](#)
- [AASB 7/IAS 7: Statement of Cash Flows – a guide to avoiding common pitfalls and application issues](#)
- [Example financial statements](#)

Grant Thornton also has dedicated technical resources / National Audit Support division which can either be contacted via your audit contact or directly on nationalaudit.support@au.gt.com.

6 Appendix A – Internal control observations

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

6.1 Current year issues

Importance	Observation	Recommendation	Management response
Material weakness	No material weaknesses identified	Nil	Nil
Significant deficiency	No significant deficiencies noted	Nil	Nil
Deficiency	<p>During the year management discovered that in the 2012/2013 period certain amounts were expensed to Materials and Contracts that actually related to Artworks Assets which therefore should of been capitalised.</p> <p>As a result, prior period adjustment has been recorded to increase Artwork assets by \$511,984 (net of depreciation) and decrease expense.</p>	<p>We recommend management to carefully review project close out reports to ensure all capital expenditure items are correctly recorded in accordance with the City's policies.</p>	<p>'The Artworks' referred to relate to Public Art works on Dampier Road roundabouts. The items were initially expensed as a contribution towards a State Government asset and subsequently not capitalised. Upon review, ownership of the assets has been determined as being with the City of Karratha and the 'the artworks' capitalised accordingly as referenced in Note 34 to the Financial Statements.</p>

Deficiency

During the year as part of the buildings and land revaluation process, certain buildings and lands which were previously capitalised but not belonging to the City were identified.

As a result, \$408K and \$1,121K of buildings and land, respectively, was removed as of 30 June 2014 for nil proceeds.

We recommend that the City undertakes further work on all of their assets contained in the ledgers to ensure that all assets actually exist and are under the control of the City. We understand that the City is actively undergoing work on assets to ensure that they are always correctly stated.

We noted from discussions with Management that this will be part of the ongoing asset management strategies.

Management reviews its Asset base annually as part of sound asset management practise, the 2013/14 review resulted in the following asset adjustments:

Land Valuations for two parcels (\$1,121k) of 'Reserves' vested in Council valuations reduced to 'Nil':

Lot 1083 Welcome Road
Lot 1128 Hedland Place

Management review of Building Assets identified 3 Assets (\$408k) determined to be under the control of other entities and subsequently disposed of from the asset register:

Waste Water Treatment Plant 1
Wickham Pavilion
Club House – Roebourne Golf Course

6.2 Update on prior year issues

Unresolved issues/Resolved issues

Importance	Observation	Recommendation	Management response
Deficiency	<ul style="list-style-type: none"> From our discussions it was noted that there is no anonymous submission process to receive and evaluate concerns or suggestions by employees. Create Effective Oversight Functions. There is no process to receive, evaluate and retain stakeholder complaints regarding accounting and financial reporting or other matters. 	<ul style="list-style-type: none"> We understand that there is an informal process whereby staffs are encouraged to discuss issues or suggestions with appropriate management; however, we would suggest implementing a more formalised whistle blowing policy so that management can demonstrate a fair and equitable environment for all employees. To include appropriate reporting protocols. There is no process for receiving or evaluating stakeholders' (e.g. creditors, rate payers, stakeholders, etc.) complaints regarding accounting and financial reporting or other matters. We recommend the audit committee consider establishing a process to receive, evaluate and record any such complaints. To include appropriate reporting protocols to relevant parties. 	<ul style="list-style-type: none"> City undertakes an anonymous staff survey each year with action plans developed around issues raised Complaints register/ Confidential Items maintained by Corporate Compliance and Records Management