

**Internal Audit Follow-Up Report**  
**Aluminium**  
**Rio Tinto Alcan - B&A**

Weipa Town Authority - Selected Financial Processes

B&A (M) 0819

9 October 2008

# Key Performance Indicators

Key Event	Expected Date	Actual Date	Comments on Variations
Engagement Planning Meeting	8 August 2008	8 August 2008	
Scope Sign Off	15 August 2008	15 August 2008	
Fieldwork Commencement	8 September 2008	8 September 2008	
Fieldwork Completion	12 September 2008	12 September 2008	
Fieldwork Closing Meeting	12 September 2008	12 September 2008	
Draft Report Issued	18 September 2008	22 September 2008	
Date Preliminary Notified of Rating to Corporate Assurance	18 September 2008	22 September 2008	
Management Comments Received	25 September 2008	7 October 2008	Management were waiting for information from their bank before finalising their comments.
Report Closing Meeting	26 September 2008	9 October 2008	
Final Report Issued	30 September 2008	9 October 2008	
Date Report Issued	9 October 2008		
Period Covered	1 July 2006 to 30 June 2008		
Issued To:	Joanne Jacobson, Weipa Town Authority-Director Corporate & Finance		
Copies To:	<p>Phillip Strachan, Chief Financial Officer, Rio Tinto Alcan            Cesidio Ricci, VP and Controller, Rio Tinto Alcan</p> <p>John Catford, Chief Financial Officer, Bauxite &amp; Alumina            Steeve Thibeault, General Manager &amp; Controller Finance, Bauxite &amp; Alumina            Hugo Bergeron, Bauxite &amp; Alumina Compliance</p> <p>Jo-anne Scarini, Weipa Site General Manager            Ian Pressley, Weipa Town Authority-CEO</p> <p>Andrea Lester, Global Practice Leader, Internal Audit            Vincent DeFelice, Regional Internal Audit Manager-Americas            Leo de Lange, Regional Internal Audit Manager-Asia Pacific  <a href="mailto:RTSInternalaudit@riotinto.com">RTSInternalaudit@riotinto.com</a></p> <p>Michael Trudeau, PricewaterhouseCoopers, Montreal            Monica Bulter, PricewaterhouseCoopers, Montreal            Rob Hubbard, PricewaterhouseCoopers, Brisbane            Cameron Henry, PricewaterhouseCoopers, Brisbane</p>		

**Private and Confidential**

Joanne Jacobson  
Director Corporate & Finance  
Weipa Town Authority  
Rio Tinto Alcan  
Weipa  
Queensland

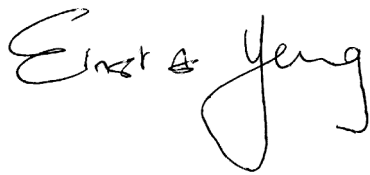
Dear Ms Jacobson

**Weipa Town Authority - Selected Financial Processes**

We are pleased to advise you of the completion of the procedures at Weipa Town Authority with respect to the Selected Financial Processes engagement, as agreed with you and documented in the Statement of Work dated 15 September 2008. The procedures covered the period from 1 July 2006 to 30 June 2008 and the findings are presented to you in this report. The report describes the objectives, scope and approach of the work, the overall findings and rating, and the recommendations on any extreme, high, medium or low risk issues as well as any improvement ideas identified during the course of this internal audit project.

If you have any questions regarding our report, please contact Mike Meintjes on (07) 3011 3389 or Mark Rhodes on (07) 3011 3197.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ernst & Young' in a cursive style.

Ernst & Young  
Brisbane

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### **Inherent limitations**

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to internal audit, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. An internal audit is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed on the control procedures are on a sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Rio Tinto management and personnel. We have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted with the report. We are under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form unless specifically agreed with Rio Tinto. The internal audit findings expressed in this report have been formed on the above basis.

### **Third party reliance**

This report was prepared solely for the purpose set out in this report and for the internal use of the management of Rio Tinto. This report and related working papers may be shared with Rio Tinto's External Auditor provided that we have first received appropriate written limitations from the External Auditor to both our responsibilities and their reliance on the report, in accordance with relevant national generally accepted auditing standards. Otherwise, this report is solely for the purpose set out in the 'Scope' of this report and for Rio Tinto information, and is not to be used for any other purpose or distributed to any other party without Ernst & Young's prior written consent. This internal audit report has been prepared at the request of Rio Tinto's Audit Committee or its delegate in connection with our engagement to perform internal audit services as detailed in the engagement letter, dated December 2002. Other than our responsibility to the Board and Management of Rio Tinto, neither Ernst & Young nor any member or employee of Ernst & Young undertakes responsibility arising in any way from reliance placed by a third party, including but not limited to Rio Tinto external auditor, on this internal audit report. Any reliance placed is that party's sole responsibility.

# 1. Executive Summary

## 1.1 Background and Objectives

The Weipa Town Authority-Selected Financial Processes engagement was requested by the management of Rio Tinto Alcan-B&A, and is an addition to the annual 2008 Internal Audit Plan for the business unit.

The Weipa Town Authority, although largely operating with the level of autonomy of a typical local authority, is effectively an operational unit of Rio Tinto Alcan Limited (formerly Rio Tinto Aluminium Ltd). It provides a range of local government services to the Weipa township, including:-

- ▶ Water
- ▶ Sewerage
- ▶ Hibberd Library
- ▶ Swimming Pool
- ▶ Roads
- ▶ Town Planning
- ▶ Waste Management
- ▶ Health & Hygiene Services
- ▶ Collection of Gymnasium fees
- ▶ Building Approvals (non Rio Tinto Aluminium)
- ▶ Dog Licensing

The Weipa Town Authority (WTA) operates as a pseudo Council, with elections held every 4 years. The WTA's role is to manage the Town budget, set policy and represent the Weipa residents. The Weipa Town Office implements the WTA's decisions.

The Weipa Ratepayers' Association is an independent group of ratepayers who pursue issues on behalf of member ratepayers.

### Town Funding and Administration

Funding for the services referred to above is provided by a combination of Rio Tinto Alcan capital and operational support, and revenue from charging rates and providing other services.

Capital expenditure on Town Infrastructure is managed and funded via the Rio Tinto Alcan capital expenditure processes. Rio Tinto Alcan also provides operational funding via reimbursement of salaries for the Town CEO and 50% of one of the Directors, recurrent budget support for the implementation of the capital projects, and payment of some general expenses, all of which is incurred and charged against a Rio Tinto Alcan cost centre.

The Weipa Town Authority charges rates to property owners. Revenue from rates is required to fund Town "maintenance" services of waste management, water supply, sewerage treatment, upkeep of parks and gardens and administration of the Town Authority.

A separate Weipa Town Authority bank account has been maintained with the Qld Country Credit Union (QCCU) with five signatories being the Town CEO, the two Town Directors, Rio Tinto Alcan site GM and Rio Tinto Alcan site Business Services Manager. Any combination of two signatories can authorise a payment.

The Weipa Town Authority uses Practical Accounting System, a Toowoomba based software provider that specialises in Local Government systems. Practical currently services 96 local councils in Queensland as well as councils in other states.

## Town Reporting

The Weipa Town Office supplies a monthly report tabled at monthly Weipa Town Authority's meetings. The Administration and Finance section of the report includes:-

- ▶ Revenue and expenditure for month and year to date compared to year to date budget;
- ▶ Listing of outstanding debts i.e. Unpaid rates (3 monthly);
- ▶ Balance sheet;
- ▶ Written report on matters of significance; and
- ▶ Draft or final town budget - where applicable.

## 1.2 Scope and Approach

Our scope of work included the following processes:

- ▶ Contact to Cash
  - ▶ Invoicing of rates and fees including credit notes;
  - ▶ Receive and process payments;
  - ▶ Management of debtors;
  - ▶ Management of treasury; and
  - ▶ GST compliance (tax invoices).
- ▶ Purchase to Pay
  - ▶ Create and maintain vendor;
  - ▶ Raise requisition and purchase order;
  - ▶ Process receipt of goods;
  - ▶ Disburse payments;
  - ▶ Manage accounts payable; and
  - ▶ GST compliance (input tax credits)
- ▶ Plan and Manage
  - ▶ Management Account Reporting to the WTA.

We also followed up on the recommendations included in a previous report on the Weipa Town Authority that was prepared and issued by staff within RTSS (issued April 2007). A summary of the number of recommendations was as follows:

Process	High	Medium	Low
Contact to Cash	-	4	4
Purchase to Pay	2	3	2
Plan & Manage	-	1	-
Total	2	8	6

In order to meet the objectives of this project, we undertook the following activities:

Process/Sub process/controls	Approach
Contact to Cash	<ul style="list-style-type: none"> <li>▶ Discuss with key stakeholders and review documentation provided (including process flowcharts and SOX documentation) to understand the basic process and key controls in existence, including the basis for fees and rates charged;</li> <li>▶ Examine the process for raising of invoices to customers for the Rates; Dog Registration; Town Planning Fees; and Venue Hire specifically addressing completeness and accuracy. Sample test a selection of the invoices to determine if they have been processed appropriately and the procedures have been followed appropriately (including whether GST is being charged as per the procedures);</li> <li>▶ Examine the process for the processing of receipts from customers for the Rates; Dog Registration; Town Planning Fees; and Venue Hire. Sample test a selection of the receipts to determine if they have been processed appropriately and the procedures have been followed appropriately;</li> <li>▶ Examine the controls in existence for the management of Town Authority debtors, including the Aged Debtor reports (examine whether management are monitoring bad and/or doubtful debts, including writing off bad debts in a timely manner) and monthly general ledger reconciliations;</li> <li>▶ Sample test a selection of bank reconciliations to determine if appropriate procedures are in existence and being followed; and</li> <li>▶ Examine the segregation of duties within the Contact to Cash process.</li> </ul>
Purchase to Pay	<ul style="list-style-type: none"> <li>▶ Discuss with key stakeholders and review documentation provided (including process flowcharts and SOX documentation) to understand the basic process and key controls in existence;</li> <li>▶ Examine the supplier selection process for contracts or preferred supplier lists entered into by the Weipa Town Authority and determine if it is consistent with the Financial Delegations Policy (consider the extent to which RTP has, or should have been involved in this process);</li> <li>▶ Examine the process for the updating of supplier master vendor files;</li> <li>▶ Sample test a selection of paid invoices to determine if it is consistent with the Purchase Order and Requisition, and has been authorised for payment as per the Financial Delegations Policy, and that it has been correctly processed into the accounting system (including account allocation);</li> <li>▶ GST - examine whether tax invoices received from suppliers are being claimed as GST input tax credits (Invoice must be a tax invoice that quotes ABN Number, Suppliers must be GST Register, and the GST amount must be quoted); and</li> <li>▶ Examine the EFT and manual cheque payment processes to determine whether appropriate segregation of duties are in place and evidence of approval is apparent.</li> </ul>
Plan and Manage	<ul style="list-style-type: none"> <li>▶ Examine and compare the monthly Town Authority Administration and Finance Reports issued to Weipa Town Authority to supporting documentation. Consider the extent to which budget to actual variances are investigated and explained; and</li> <li>▶ Examine the cut off and reconciliation process for the preparation of the monthly reports.</li> </ul>

### 1.2.1 Scope Limitation

The following business processes have been considered to be out of scope:

- ▶ **Manage People**-Process is performed by Rio Tinto Shared Services and assurance is provided by internal oversight and compliance monitoring.
- ▶ **Manage Physical Assets**-Process is performed by Rio Tinto Alcan and assurance is provided by internal oversight.

## 1.3 Rio Tinto Internal Audit Rating

### Satisfactory

The overall report rating for this engagement is based on the application of the Rio Tinto Internal Audit Ratings Matrix, designed by Rio Tinto Corporate Assurance. The definitions of the ratings are attached in Appendix A.

The satisfactory rating has been applied to this internal audit report on the basis that even though the Basic and Supervisory controls were considered to be only partly adequate, the Monitoring controls that are now in place were considered to be strong. These monitoring controls have only recently been introduced by the new accounting team that has been in place since March 2008. Steps are also in place to further strengthen and improve the basic and supervisory controls.

Overall, there were nine issues identified during our engagement; one of which was a recurring issue rated as high. Three issues were rated as medium [two recurring], and five were rated as low [four recurring].

The report rating does not represent a conclusion on the adequacy or effectiveness of the internal controls.

## 1.4 Summary of Findings

As noted above the entire accounting team turned over in March 2008. We were informed that the previous accounting team did not have the requisite accounting experience and therefore were not focused on implementing financial controls that you would normally expect in an environment such as WTA. The new accounting team have the necessary skills and expertise and have already identified and implemented improvements in many areas of the financial processes. They recognise that there are still improvements to be made to the processes going forward.

Of the sixteen issues identified in the previous report, nine have been implemented. In relation to many of the remaining recurring issues noted below, we noted improvement to the processes subsequent to 30 June 2008.

The one area that requires immediate focus is around the EFT payment process, which due to the constraints of the QCCU's online system, allows staff with access to the system to process payments with no involvement from someone independent to review and approve the payment prior to release.

The following tables provides a summary of the issues and recommendations raised:

	High Risk	Medium Risk	Low Risk	Improvement Idea
Number of recurring issues from prior report (R)	1	2	4	-
Number of new issues reported (N)	-	1	1	-
<b>Total</b>	<b>1</b>	<b>3</b>	<b>5</b>	<b>-</b>

Ref	Issues
-----	--------

High Risk

**2.2.1 (R) Access to EFT package and Practical System**

The previous internal audit finding identified that the EFT package required manual input of all payments creating an exposure regarding incorrect input or unauthorized alteration. The lack of controls surrounding the EFT package effectively allowed circumvention of all controls exercised up to that point of the process. It also created duplicate handling of the authorisation process and put more pressure on the authoriser to find potential errors in the payment. It was also noted that the Finance & Community Development Officer had access to raise and process payment of invoices within the EFT Package and Practical System. This officer was the only staff member with the ability to authorise an EFT payment. The Officer's tasks were also not segregated from the preparation of bank reconciliations.

The accounting team has recently changed and the access to the EFT Package is now shared between the Director Corporate and Finance and the Finance Officer. However, this access still enables each individual to process payment transactions with no independent authorisation or approval of the payment prior to release. We understand from management that there is an external daily transfer limit via internet banking of \$100,000. As at 30 June 2008 the cash held in the QCCU bank account amounted to approximately \$1.6million.

Medium Risk

**2.1.1 (N) Planning application invoices**

During our fieldwork we identified that not all invoices for Planning Applications are prepared using the WTA Practical System. Manual invoices are being prepared that are not being processed until payment is received.

**2.1.2 (R) Debtors management**

In the previous report there was a finding regarding the management of the debtor days which identified that there were a number of large outstanding balances that were more than 90 days overdue. The current debtors list as at 30 June 2008 still has 22 accounts (totalling \$33,565) that had been outstanding for more than 90 days.

**2.1.3 (R) Credit notes**

The previous finding identified that WTA staff members all had access to raise credit notes, and combined with the ability to process invoices and handle cash assets this prevented appropriate segregation of duties. One of the agreed actions was that all credit notes would be approved by the Director Corporate & Finance (DC&F).

Our testing identified that not all credit notes issued have been approved by the DF&C. The example in our sample was Credit Note #327, dated 14 September 2007 for \$1,200.

Low Risk

**2.1.4 (N) Garbage collection rates**

**2.1.5 (R) Dog register**

**2.1.6 (R) Old outstanding findings**

**2.2.2 (R) Purchase orders**

**2.3.1 (R) Financial reporting**

*For details on the risk ranking criteria, please refer to Appendix B.*

(N)=New; (R)=Recurring

## **1.5 Overall Root Cause(s)**

We have been informed that the previous accounting team did not have the requisite accounting experience resulting in the absence or breakdown of many of the basic and supervisory financial controls. As noted above, the new accounting team have started to make progress in strengthening the control environment.

## **1.6 Overall Management Comment**

We have included our detailed comments in Section 2.

Joanne Jacobson  
Director Corporate & Finance  
Weipa Town Authority

## 2. Detailed findings and recommendations

### 2.1 Contact to Cash

#### Medium Risk Findings

Finding	Related to Prior Recommendation	Root Cause	Risk	Recommendation	Management Comments
<b>2.1.1 Planning application invoices</b>					
<p>During our fieldwork and through discussions with WTA staff we identified that not all invoices for Planning Applications are prepared using the WTA Practical System.</p> <p>We identified that manual invoices/receipts have been used in the past for Planning Applications, which are not processed in the WTA Practical System until the receivable in the bank account. We have not been able to identify how many manual invoices have been prepared, nor how many have been paid and processed in the WTA Practical System. We understand that there were approximately 98 Planning Applications in the 2006/07 year, and 138 in the 2007/08 year. There is no set Planning Application amount as it is dependent on the extent of works proposed.</p>	No	We understand that the previous accounting staff within WTA did not have an accounting background, and therefore did not require the Planning Application invoicing to be processed through the WTA Practical System.	Financial loss due to revenue not being recorded and recovered from applicants.	<p>WTA management need to ensure that all future Planning Application invoices are processed using the Practical system.</p> <p>WTA management should also identify how many Planning Applications have not been processed through the Practical System, and:</p> <ul style="list-style-type: none"> <li>Ensure these are recorded correctly in the Practical System;</li> <li>The amounts have been paid by the applicants.</li> </ul>	<p><b>Management Comment</b> All building and planning charges are now invoiced through the Practical system (PCS).</p> <p>Regarding past charges - work did not commence until receipt of money so there was no loss of income.</p> <p><b>Person Responsible:</b> Finance Officer &amp; Director Corporate and Finance</p> <p><b>Timing:</b> Invoicing through PCS implemented October 2008</p>

## Medium Risk Findings

Finding	Related to Prior Recommendation	Root Cause	Risk	Recommendation	Management Comments																		
<b>2.1.2 Debtors management</b>																							
<p>In the previous report there was a finding on the management of debtors regarding the number of large balances that were more than 90 days overdue.</p> <p>Our review of the latest Aged Debtor Report, as at 30 June 2008, identified that there are still a large number of accounts that are overdue. A summary of these amounts are included below:</p> <table border="1"> <thead> <tr> <th>Overdue</th> <th>\$Amount</th> <th>#</th> </tr> </thead> <tbody> <tr> <td>&gt;90 days</td> <td>33,565</td> <td>22</td> </tr> <tr> <td>&gt;60 Days</td> <td>16,587</td> <td>10</td> </tr> <tr> <td>&gt;30 Days</td> <td>3,180</td> <td>8</td> </tr> <tr> <td>Current</td> <td>20,324</td> <td>17</td> </tr> <tr> <td><b>Total</b></td> <td><b>73,656</b></td> <td><b>57</b></td> </tr> </tbody> </table> <p>The large number of debtors that are overdue more than 90 days indicates the need to improve collection and follow up processes.</p>	Overdue	\$Amount	#	>90 days	33,565	22	>60 Days	16,587	10	>30 Days	3,180	8	Current	20,324	17	<b>Total</b>	<b>73,656</b>	<b>57</b>	<p>Yes</p> <p>Risk Rank: Medium</p> <p>Reference 2.6</p> <p>Recommendation: Carry out standard debtor recovery procedures.</p> <p>Status: Not Implemented in period covered by testing, however there is a new accounting team in place now who have subsequently reviewed the debtors and raised a bad debt provision for those amounts that are considered to be irrecoverable.</p>	<p>The previous accounting staff within the WTA did not have a financial background and as such did not understand the need for key financial controls. The new accounting team have found that the old outstanding invoices are difficult to follow up and get collect payment.</p>	<p>Debts owed to WTA may not be collected in full.</p>	<p>WTA management need to improve the collection processes, which should include the following:</p> <ul style="list-style-type: none"> <li>Regular follow up on outstanding amounts;</li> <li>Regular reporting and monitoring of outstanding amounts, particularly those that are more than 60 and 90 days overdue.</li> <li>Agreed actions should be established for those accounts that are more than 90 days overdue.</li> </ul>	<p><b>Management Comment:</b> As noted, old outstanding debtors were identified and a provision raised at 30 June 2008. These debts have been passed on to a debt collector and will be collected or written off in the 2008/09 financial year.</p> <p>Follow-up on outstanding amounts now occurs on a monthly basis.</p> <p>Debtors are reported quarterly to the WTA meeting in a closed session.</p> <p><b>Person Responsible:</b> Finance Officer &amp; Director Corporate &amp; Finance</p> <p><b>Timing:</b> Implemented</p>
Overdue	\$Amount	#																					
>90 days	33,565	22																					
>60 Days	16,587	10																					
>30 Days	3,180	8																					
Current	20,324	17																					
<b>Total</b>	<b>73,656</b>	<b>57</b>																					

## Medium Risk Findings

Finding	Related to Prior Recommendation	Root Cause	Risk	Recommendation	Management Comments
<b>2.1.3 Credit Notes</b>					
<p>The previous finding identified that WTA staff members all had access to raise credit notes, and combined with the ability to process invoices and handle cash assets this prevented appropriate segregation of duties. One of the agreed actions was that all credit notes would be approved by the Director Corporate &amp; Finance (DC&amp;F).</p> <p>Our testing identified that not all credit notes issued have been approved by the DF&amp;C. The example in our sample was Credit Note #327, dated 14 September 2007 for \$1,200.</p>	<p>Yes</p> <p>Risk Rank: Medium</p> <p>Reference 2.8</p> <p>Recommendation: The CEO should perform a review of all credit notes raised to ensure that they are valid.</p> <p>Status: Not Implemented</p>	<p>The previous staff within the WTA did not have a financial background and as such did not understand the need for key financial controls.</p>	<p>Invalid credit notes are raised enabling cash assets to be misappropriated.</p>	<p>WTA management need to ensure that credit notes are approved by the DC&amp;F as agreed.</p> <p>Procedures should be updated to stipulate that a credit note cannot be processed unless there is evidence of DC&amp;F approval.</p>	<p><b>Management Comment:</b> All Debtor Credit Notes are prepared by the Finance Officer and approved by the Director of Corporate &amp; Finance. The procedures have also been updated.</p> <p><b>Person Responsible:</b> Finance Officer &amp; Director Corporate &amp; Finance</p> <p><b>Timing:</b> Already implemented</p>

## Low Risk Findings

Finding	Related to Prior Recommendation	Root Cause	Risk	Recommendation	Management Comments
<b>2.1.4 Garbage collection rates</b>					
<p>Within the Weipa Town there are essentially two different types of dwellings, those owned by RTA and those owned by private individuals. We understand that as WTA uses the same GST registration as RTA, there is no requirement to charge GST on transactions between the two parties. GST is however, required to be charged for rates on the houses owned by private individuals. The bi-annual Garbage Rate for RTA dwellings is \$61.80, whereas the same rate for private dwellings needs to be 10% higher, being the GST element.</p> <p>When for GST inclusive Garbage Rates were input into the Data Table used for the invoicing, the rate for the privately owned dwelling was input as \$68.80, which is 11.3% higher than the RTA rate. The GST amount noted in the invoice is still correctly calculated and reported. There are approximately 511 private owned dwellings that are impacted.</p>	No	The GST inclusive Garbage Rates were incorrectly calculated and entered into the Practical System.	Privately owned dwellings have been over-charged for the rates on garbage.	<p>The rates table needs to be updated to reflect the correct rate amounts for privately owned dwellings.</p> <p>WTA should investigate how long this over-charging has been occurring and consider refunding the over-charge back to the owners of the houses.</p>	<p><b>Management Comment:</b> This error occurred in the 06/07 financial year only. The garbage charge for private properties was overstated by \$0.82 per unit (charged \$68.80 but should have been charged \$67.98) - an annual overcharge of \$3.28 per domestic property.</p> <p>No claims have been received to date for this error.</p> <p>Garbage rates were charged correctly in the 07/08, year being \$62.55 for RTA properties and \$68.80 for private properties.</p> <p><b>Person Responsible:</b> No action</p> <p><b>Timing:</b> No action</p>

## Low Risk Findings

Finding	Related to Prior Recommendation	Root Cause	Risk	Recommendation	Management Comments
<b>2.1.5 Dog register</b>					
The previous finding identified that WTA did not maintain a register for dog registrations. A register was developed and is now maintained, however it does not appear to be used to pursue individuals that have not paid their dog registration fees.	<p>Yes</p> <p>Risk Rank: Medium</p> <p>Reference 2.3</p> <p>Recommendation: Maintain a dog register</p> <p>Status: Implemented</p>	The focus had been on getting the register in place, which had been done. Staff had not yet had an opportunity to use the register in a pro-active manner.	Financial loss due to dog registration fees not being paid.	The dog registration fee register should be used in a more pro-active manner to identify people who may have not paid for the renewal of their dog registration fee.	<p><b>Management Comment:</b> In September 2008 the WTA employed a Local Laws Officer whose primary function is animal control. As this person also reads the electricity meters, the officer is able to check and follow-up on dog registrations on a regular basis.</p> <p><b>Person Responsible:</b> Local Laws Officer</p> <p><b>Timing:</b> Implemented September 2008</p>

## Low Risk Findings

Finding	Related to Prior Recommendation	Root Cause	Risk	Recommendation	Management Comments
<b>2.1.6 Old outstanding audit findings</b>					
<p>In the previous audit report there was also a section that followed up on previous findings at that time. In this section there were 3 findings that were not yet fully implemented, which are as follows:</p> <p><i>-5.2.4-Commercial Infrastructure Office</i> WTA were to consider and agree whether rent and/or electricity were to be charged to the CIO for the space they were using in WTA offices (Due June 08).</p> <p><i>-5.2.6-Leasing Town Assets</i> WTA committed to updating the various leases that they have by 30 June 2008.</p> <p><i>-5.2.9-Water Meters</i> WTA committed to putting in place a Water Meter Policy, which was expected to be done in 2008.</p>	<p>Yes</p> <p>Risk Rank: All low</p> <p>Reference: see finding</p> <p>Recommendation: see finding</p> <p>Status: Not Implemented</p>	<p>There has been a change in accounting team within WTA, who have been focused on implementing/strengthening the basic financial controls that should be in place.</p>	<p>Audit findings are not implemented within the agreed timeframe.</p>	<p>WTA management need to ensure the agreed actions are put in place.</p>	<p><b>Management Comment</b></p> <p><b>5.2.4</b> Commercial Infrastructure (a RTA team) are not charged rent as they pay the WTA share of the Hibberd Building Rental to Malaruch.</p> <p><b>5.2.6</b> The WTA Members approved the new lease structure at the WTA Meeting 23 May 2008. These leases are currently being implemented.</p> <p><b>5.2.9</b> Water Rates are charged on an unmetered basis as outlined in the WTA Policy WTA-P-F02 - WTA Revenue Policy</p> <p><b>Person Responsible:</b> Director Corporate &amp; Finance</p> <p><b>Timing:</b> <b>5.2.4 &amp; 5.2.9</b> No action / <b>5.2.6</b> 31/12/08 for implementation of all community leases.</p>

## 2.2 Purchase To Pay

### High Risk Findings

Finding	Related to Prior Recommendation	Root Cause	Risk	Recommendation	Management Comments
<b>2.2.1 Access to EFT package and Practical System</b>					
<p>The previous finding identified that the EFT package required manual input of all payments which meant that any detail could be altered or entered erroneously. The lack of control in this package effectively circumvented all controls exercised up to that point of the process. It also created duplicate handling of the authorisation process and additional pressure on the authoriser to find potential errors in the payment. It was also noted that the Finance &amp; Community Development Officer had access to raise and process payment of invoices within the EFT Package and Practical System. This officer was the only staff member with the ability to authorise an EFT payment. The Officer's tasks were also not segregated from the preparation of bank reconciliations.</p> <p>The accounting team has recently</p>	<p>Yes</p> <p>Risk Rank: High</p> <p>Reference: 3.2</p> <p>Recommendation: Bank transaction report for each EFT batch should be checked and signed by DC&amp;F.</p> <p>Status: Not implemented fully during the period in the scope.</p>	<p>The previous staff within the WTA did not have a financial background and as such did not understand the need for key financial controls.</p>	<p>Incorrect, inappropriate or fraudulent payments are processed.</p>	<p>A) WTA management need to implement the original agreed action of reviewing the bank transaction report as this will assist in the detection of errors in processing.</p> <p>B) Management should also implement a sufficiently frequent bank reconciliation process, e.g. that is prepared by the Finance Officer and reviewed and approved by the DC&amp;F.</p> <p>C) The signatory list at the bank needs to be updated for changes, e.g. the change in the</p>	<p><b>Management Comment:</b></p> <p>A) All EFT transfers are checked and signed by two cheque signatories (this includes signing off on transaction report of actual bank transfer). This process was implemented March 2008.</p> <p>Automatic upload of data file to bank software, and the requirement for two passwords for actual transfers would be the ideal, but at the moment the bank software doesn't accommodate this.</p> <p>B) The bank reconciliation is currently processed by the Finance Officer and checked by the Director Corporate &amp; Finance on a monthly basis. This process will be changed to</p>

## High Risk Findings

Finding	Related to Prior Recommendation	Root Cause	Risk	Recommendation	Management Comments
<p>changed and the access to the EFT Package is now shared between the Director Corporate and Finance and the Finance Officer. Although the access is now shared, this shared access still enables each individual to process payment transactions with no independent authorisation or approval of the payment prior to release. We understand from management that there is a daily external transfer limit of \$100,000. As at 30 June 2008 the cash held in the QCCU bank account amounted to approximately \$1.6million.</p> <p>In addition, we also identified that Robert Atkinson, the previous Weipa Mine General Manager, was still a bank signatory.</p>				Weipa Mine General Manager.	<p>weekly from October 2008.</p> <p>C) The position of Business Services Manager is currently being filled. The signatories on the account will be changed when this is finalised.</p> <p><b>Person Responsible:</b> Finance Officer &amp; Director Corporate &amp; Finance</p> <p><b>Timing:</b> October 2008</p>

## Low Risk Findings

Finding	Related to Prior Recommendation	Root Cause	Risk	Recommendation	Management Comments
<b>2.2.2 Purchase orders</b>					
<p>The previous finding identified that anyone with access to the Practical System had the ability to create or modify purchase orders. It was also noted in the finding that the majority of purchase orders reviewed in testing, rarely had a quoted amount entered in to the purchase order.</p> <p>Our testing identified that this was still the case in the period under review, however, the new accounting team has implemented procedures recently that now requires estimates/quoted amounts to be input into the purchase orders. Changes have also been made to processing of supplier invoices; where these are now input into the system when received and then approval for payment is obtained, as opposed to the invoices only being entered once approved.</p>	<p>Yes</p> <p>Risk Rank: Low</p> <p>Reference: 3.7</p> <p>Recommendation: All new purchase orders should record an expected amount.</p> <p>Status: Not implemented fully during the period in the scope, however, has recently been implemented.</p>	<p>The previous staff within the WTA did not have a financial background and as such did not understand the need for key financial controls.</p>	<p>Unauthorised costs are incurred.</p>	<p>WTA need to reinforce the need to obtain quotes or estimates and then ensure these amounts are input into each purchase order.</p> <p>The DC&amp;F should, as part of the monthly review for accruals, ensure that quotes and estimates are being used in purchase orders.</p>	<p><b>Management Comment:</b> Quotes / estimates are recorded whenever possible on purchase orders.</p> <p><b>Person Responsible:</b> Director Corporate &amp; Finance</p> <p><b>Timing:</b> Implemented</p>

## 2.3 Plan and Manage - WTA Meetings

### Low Risk Findings

Finding	Related to Prior Recommendation	Root Cause	Risk	Recommendation	Management Comments												
<b>2.3.1 Financial Reporting</b>																	
<p>During our fieldwork we identified inconsistencies between the financial data reported in the Summary Revenue &amp; Expense Report (which is presented to the WTA) and the Trial Balance. An example of this is in the March 2007 Report that was presented at the April meeting. The Year-to-Date amounts were:</p> <table border="1"> <thead> <tr> <th>Source</th> <th>Income (\$)</th> <th>Expenses (\$)</th> </tr> </thead> <tbody> <tr> <td>Report</td> <td>3,268,573</td> <td>2,352,049</td> </tr> <tr> <td>TB</td> <td>3,277,700</td> <td>2,355,989</td> </tr> <tr> <td>Variance</td> <td>(9,127)</td> <td>(3,940)</td> </tr> </tbody> </table>	Source	Income (\$)	Expenses (\$)	Report	3,268,573	2,352,049	TB	3,277,700	2,355,989	Variance	(9,127)	(3,940)	<p>Yes</p> <p>Risk Rank: Medium Reference: 3.8</p> <p>Recommendation: WTA agreed to introduce procedures to ensure that Reports reflects the GL.</p> <p>Status: Not implemented during the period in the scope, however the new accounting team are fully aware of the report inconsistencies problem in the past, and believe that it was due transactions being posted in the incorrect period.</p>	<p>The previous staff within the WTA did not have a financial background and as such did not understand the need for key financial controls.</p>	<p>Incorrect balances and representations are disclosed to the stakeholders.</p>	<p>WTA management must ensure that a reconciliation is carried out between the monthly Report and the GL prior to the report being presented. Any large discrepancy should be investigated and corrected on a timely basis.</p>	<p><b>Management Comment:</b> The variance was due to lack of end of month procedures. A procedure has been developed, documented, and implemented.</p> <p><b>Person Responsible:</b> Director Corporate &amp; Finance</p> <p><b>Timing:</b> Implemented April 2008</p>
Source	Income (\$)	Expenses (\$)															
Report	3,268,573	2,352,049															
TB	3,277,700	2,355,989															
Variance	(9,127)	(3,940)															

### 3. Engagement participants

<b>NAME</b>	<b>TITLE</b>
<b>Ernst &amp; Young</b>	
Mike Meintjes	Partner, Advisory
Mark Rhodes	Director, Advisory
John Pearson	Senior, Advisory
Anthony Banush	Consultant, Advisory
<b>Rio Tinto</b>	
Joanne Jacobson	Director Corporate & Finance, Weipa Town Authority
Andrea Cardenzana	Finance Officer, Weipa Town Authority

## Appendix A Internal Audit rating Criteria

The following table details the Internal Audit Rating Criteria used to assign a rating to this report.

Control Type	Rating				
	Good	Satisfactory		Marginal	Weak
<b>Basic Controls</b>					
Design and operation	Adequate	Adequate	Partly adequate	Partly adequate	Inadequate
Recommendations:	No recommendations				
▶ Significance		Minor	Important	Important	Significant
▶ Timeframe for management action		Management discretion	Prompt	Prompt	Urgent
	<i>and</i>	<i>and/or</i>	<i>and</i>	<i>and/or</i>	<i>and</i>
<b>Supervisory Controls</b>					
Design and operation	Adequate	Partly adequate	Partly adequate	Partly adequate	Inadequate
Recommendations					
▶ Significance	Minor	Minor	Important	Important	Significant
▶ Timeframe for management action	Management discretion	Management discretion	Prompt	Prompt	Urgent
	<i>and</i>	<i>and/or</i>	<i>and</i>	<i>and/or</i>	<i>and</i>
<b>Monitoring Controls</b>					
Design and operation	Adequate	Partly adequate	Strong	Partly adequate	Inadequate
Recommendations:					
▶ Significance	Minor	Minor	Minor	Important	Significant
▶ Timeframe for management action	Management discretion	Management discretion	Management discretion	Prompt	Urgent

**Basic controls** are those controls that safeguard assets against material loss; prevent or, detect and correct, material misstatements; support the achievement of key business unit goals; ensure compliance with laws, regulations, policies and procedures; and support effective and efficient operations. Examples include basic control procedures such as reconciliation of balances with third parties or physical quantities, segregation of duties, limiting access to assets and data.

**Supervisory controls** are those controls that ensure that basic controls are operating effectively throughout the year. Examples include independent review and approval of basic controls such as approval of reconciliations.

**Monitoring controls** are those controls that ensure that unexpected results are identified, investigated and corrected. Examples include high level controls to monitor and investigate variations from expected results. Examples include comparing actual figures against budgets; and review of exception reports.

Controls are classified in terms of the functionality and importance to maintenance of an effective internal control environment and management of identified business risks. Each issue identified through performing our procedures will also be rated in terms of the assessed priority, which should be given to corrective or remedial action by management.

The number and ranking of internal audit issues will directly impact on the assessment of the adequacy of identified controls and the individual control rating and overall audit rating. Those internal audit assignments rating marginal or lower or having high priority audit issues will be subject to more extensive reporting to the Audit Committee than those rating medium or low priority.

## Appendix B Risk Ranking Criteria

Audit issues within internal audit reports are classified in terms of priority in accordance with management's following guidelines:

Risk Ranking	Guidance
High	Matters and/or issues considered to be fundamental to maintenance of internal control, good corporate governance or best practice for processes. These matters and/or issues should be subject to agreed remedial action either immediately or within three (3) months from date of issue of final report to management.
Medium	Matters and/or issues considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. These matters and/or issues should be subject to agreed remedial action either within six (6) months from date of issue of final report to management.
Low	Matter and/or issues considered to be of minor importance to maintenance of internal control, good corporate governance or best practice for processes. Issues raised under this classification may also relate to matters warranting consideration for improving the efficiency of existing processes subject to availability of specified resources or technology. These matters and/or issues should be subject to agreed remedial action and further evaluation within twelve (12) months from date of issue of final report to Management.

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