



**ESSENTIAL SERVICES COMMISSION
OF SOUTH AUSTRALIA**
Review of Ports Regulatory Accounts

August 2013



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1. INTRODUCTION

The Essential Services Commission of South Australia (“ESCOSA”) is an independent regulator established under the *Essential Services Commission Act 2002* (“*The Act*”)

ESCOSA’s objective, as outlined in *The Act*, is the “protection of the long term interests of South Australian consumers with respect to the price, quality and reliability of essential services”.

BDO were engaged to perform a review of the Regulatory Accounts of Viterra and Flinders Ports, to express an opinion as to whether anything has come to our attention that causes us to believe that the financial information in these accounts is not prepared, in all material respects, in accordance with the Ports Industry Guideline No. 2 - Regulatory Accounts (“*The Guideline*”) issued by ESCOSA, to report any areas of non-compliance that came to our attention during the review, and to provide advice on any changes that should be made by the regulated businesses.

2. SCOPE AND SCOPE LIMITATIONS

The assignment is a review engagement conducted in accordance with Australian Standard on Review Engagement ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*. The nature and scope of work has been determined by agreement between BDO and ESCOSA.

Our report is prepared solely for the internal use of ESCOSA. No responsibility to any third party shall be accepted, as our report has not been prepared, and is not intended, for any other purpose. The responsibility for determining the adequacy or otherwise of the procedures performed by BDO is that of ESCOSA.

3. APPROACH

The primary objective of our engagement was to undertake a review of the preparation and compliance of the Regulatory Accounts by Viterra and Flinders Ports for the 2011 and 2012 regulatory years.

BDO were engaged to provide a report to ESCOSA incorporating the following items in relation to the review:

- ñ An assessment of the extent to which Viterra Ltd and Flinders Ports Pty Ltd are complying with the Regulatory Accounts Guideline, focusing on the Regulatory Accounts submitted by both businesses for 2010/11 and 2011/12, including an assessment of the veracity of the information submitted to the commission.
- ñ Advice on changes that should be made by the regulated businesses to address any areas of non-compliance identified through the review.
- ñ Identify areas where any non-compliance may be caused by ambiguity in the Guidelines including any inconsistency between the specific provisions of the Guideline and the broader guiding principles stated in the Guideline.
- ñ Include a limited assurance opinion on whether anything has come to our attention that makes us believe the Regulatory Accounts have not been prepared, in all material respects, in accordance with the Ports Industry Guideline No. 2 as issued by ESCOSA.

The following procedures were undertaken in order to meet the objectives set out above:

- ñ Review the accuracy of the preparation of the Regulatory Accounts from the audited accounts.
- ñ Agree the basis of preparation to the requirements set out in the Guideline.
- ñ Agree any adjustments to amounts from audited accounts in the Regulatory Accounts.
- ñ Recalculate and agree split of revenue and costs between regulated and unregulated services.
- ñ Recalculate and agree analysis of regulated services by type and port.
- ñ Review and agree allocation of directly attributable revenues and costs to regulated business segments.
- ñ Recalculate and agree causal allocations of base account records to regulated business segments and particularly consider the appropriateness of the key drivers used for the casual allocation.
- ñ Agree accuracy of data inputs to workings used to prepare the Regulatory Accounts or to data underlying the basis for any causal allocations in the Regulatory Accounts.
- ñ Agree the inclusion of any specific disclosures required by the Guideline in the Regulatory Accounts.
- ñ Perform detailed substantive analytical procedures on figures reported in the 2010, 2011 and 2012 Regulatory Accounts to identify any trends or anomalies present within the figures.

4. REVIEW OPINION

Independent Auditor's Review Report

To the Essential Services Commission of South Australia ("ESCOSA")

Report on the Regulatory Accounts of Flinders Ports Pty Ltd ("Flinders Ports") and A.C.N. 137 191 023 Pty Ltd ("Viterra")

We have reviewed the Regulatory Accounts of Flinders Ports and Viterra for the years ending 30 June 2011 and 30 June 2012 (for Flinders Ports) and 31 October 2011 and 31 October 2012 (for Viterra) as provided to us by ESCOSA.

Management of Flinders Ports and Viterra's Responsibility for the Regulatory Accounts

Management of Flinders Ports and Viterra are responsible for the preparation and fair presentation of the Regulatory Accounts in accordance with the requirements of the Ports Industry Guideline No.2 - Regulatory Accounts issued by ESCOSA and for such internal control as they determine is necessary to enable the preparation and fair presentation of the Regulatory Accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the Regulatory Accounts based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Regulatory Accounts are not presented fairly, in all material respects, in accordance with requirements of the Ports Industry Guideline No.2 - Regulatory Accounts issued by ESCOSA.

A review of historical financial information other than a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Australian professional accounting bodies.



Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Regulatory Reports are not prepared, in all material respects, in accordance with the requirements of the Ports Industry Guideline No.2 - Regulatory Accounts issued by ESCOSA.

A handwritten signature in blue ink that reads 'BDO'.

BDO Audit (SA) Pty Ltd

A handwritten signature in blue ink that reads 'G K Edwards'.

G K Edwards
Director

Adelaide, 5 August 2013

5. RESULTS AND OBSERVATIONS

The results and observations arising from the detailed procedures undertaken by BDO are as follows:

5.1 ASSESSMENT OF COMPLIANCE OF REGULATORY ACCOUNTS WITH THE GUIDELINE

5.1.1 Disaggregation of audited financial information and preparation of Regulatory Accounts

We were provided with Regulatory Accounts for Viterra Ltd and Flinders Ports Pty Ltd for the 2011 and 2012 regulatory years. We also obtained detailed workings supporting the preparation of the Regulatory Accounts. Flinders Ports Pty Ltd provided a detailed spreadsheet that contained information and workings that disaggregated the audited financial statements and workings that justified the underlying allocations. Viterra Pty Ltd made their audit folder accessible which contained the final Regulatory Accounts and referenced supporting schedules and any further information to support these workings were made available to us by Viterra staff upon request.

We have reviewed the information contained in the Regulatory Accounts for Viterra Ltd and Flinders Ports Pty Ltd for the 2011 and 2012 regulatory years, and considered the accuracy of their compilation, and of the data that is used in the workings underlying them, as follows:

- Agreed the audited figures reported in the Regulatory Accounts to the equivalent figures in the companies' audited financial statements.
- Recalculated and agreed the allocation of directly attributable revenue and costs between regulated and non-regulated services based on the underlying financial information.
- Recalculated and agreed the allocation of non-directly attributable revenue and costs between regulated and non-regulated revenue, and costs between regulated and non-regulated services, based on the proportions determined under the causal allocations considered below.
- Where appropriate, recalculated and agreed the allocation of regulated services revenues and costs by service type based on the underlying financial information.
- Recalculated and agreed the allocation of regulated services revenues and costs by port, based on the underlying financial information.
- Agreed statistical information included in the Regulatory Accounts to underlying reports and systems used to aggregate the relevant data.

Allocations considered above have been further agreed to system reports and other source documents to confirm the veracity of inputs into Viterra Ltd's and Flinders Ports Pty Ltd's workings supporting the preparation of the Regulatory Accounts.

No matters to report were noted as a result of the procedures performed above.

5.1.2 Causal Allocations

We have considered and reviewed causal allocations used in the preparation of the Regulatory Accounts as follows:

- Reviewed the appropriateness of the bases used for determining causal allocations in light of the underlying revenue or expense item the casual allocation applies to.
- Recalculated and agreed the percentages used to drive the casual allocations.
- Recalculated and agreed the application of the casual allocations to the split of revenues and costs between regulated and unregulated services.

No matters to report were noted in the calculation or application of causal allocations in the Regulatory Accounts.

5.1.3 Compliance with other requirements under the Guideline

In addition to the procedures performed above, we have reviewed the presentation and accuracy of the Regulatory Accounts against the additional requirements of the Guideline not previously tested, as follows:

- Reviewed the appropriateness of the use of mandatory and discretionary account headings.
- Reviewed and agreed the treatment of any inter-segmental revenues and costs in the Regulatory Accounts, where they exist.
- Agreed the calculation of adjusted depreciation under DORC in the Flinders Ports Regulatory Accounts.
- Agreed the treatment of items required not to be allocated by the Guideline.
- Agreed the disaggregation of the movements in provisions and the opening and closing balances of provisions to the underlying financial records.
- Agreed, if applicable, the inclusion and treatment of any related party transactions and/or third party benefits in the Regulatory Accounts.

Our procedures did not identify any areas of non-compliance with the Guideline.

5.1.4 Analytical Review

In addition to the 2011 and 2012 Regulatory Accounts, BDO obtained a copy of the 2010 Regulatory Accounts for Viterra Ltd and Flinders Ports Pty Ltd. We have performed detailed analytical procedures across the three years in order to identify and agree trends amongst service types and locations. Our objective was to identify and investigate any inconsistencies and obtain explanations for these.

Our main analytical procedures involved considering the following over the three regulatory reporting periods:

- Review the movements to overall revenues and costs as allocated between regulated and non-regulated services in the Regulatory Accounts.
- Review the movements in regulated revenues and costs where further split out in the Regulatory Accounts.
- Review movements in regulated revenues and costs by port location.
- Review movements in causal allocations of revenue and expenses by proportion and total amounts.

Our discussions and investigations arising from the above procedures indicated that any variances in identified trends appeared to be due to market and other external factors, and were not suggestive of any errors in the preparation of the Regulatory Accounts for each of the companies.

5.2 CHANGES REQUIRED BY THE REGULATED BUSINESSES TO ADDRESS ANY AREAS OF NON-COMPLIANCE WITH THE GUIDELINE

As noted above, BDO has not identified any areas of non-compliance with the Guideline that suggests any changes are required by the regulated businesses.

Our review procedures and discussions with management and other staff at Viterra Ltd and Flinders Ports Pty Ltd did not indicate that the processes and procedures utilised by the companies were insufficient to allow the accurate preparation of Regulatory Accounts for submission to ESCOSA.

5.3 AMBIGUITY IN THE GUIDELINE LEADING TO NON-COMPLIANCE

Our review procedures did not identify any ambiguity in the Guideline that lead to non-compliance.

Notwithstanding this we have reviewed the Guideline to consider whether there are any potential areas of ambiguity, or other matters where the Guideline could be improved.

Whilst noting that our review did not encounter any areas where the principles and objectives underlying the guideline were not being implemented or followed, we do note the following:

5.3.1 Disaggregation of base account records

The disaggregation of base account records is a significant component in the preparation and reporting of the Regulatory Accounts. This is especially so where the disaggregation of revenues and costs is done on a causation basis, however the body of the Guideline deals with this specifically only at section B1.5.7 and in the glossary.

There would be the potential to provide further commentary and guidance in the Guideline to assist regulated entities to select the most appropriate drivers and allocation methods of base account records.

5.3.2 Reporting of disaggregation of movements in provisions

There is some ambiguity in the requirements for reporting on the disaggregation of movements in provisions under section B2.14 of the Guideline. This section refers the disaggregation process to the principles within section B.1.3 and the proformas contained in appendices B1A and B2.

Consistent with the requirements of other sections of the Guideline, we would expect there to a requirement for some commentary on the manner in which each provision has been disaggregated for the purposes of reporting under section B2.14. However, the Guidelines do not require this, and it was not included in the Regulatory Accounts of Viterra Ltd and Flinders Ports Pty Ltd.

The footnotes to the appendices to the Guidelines that deal with the summary of provisions and material provisions contained in B1A and B2 respectively, detail that is mandatory for supporting workpapers addressing allocations to be included for each cost or revenue item. Given that these appendices are dealing with balance sheet items and not cost or revenue, the footnote is not relevant or appropriate.

We recommend that ESCOSA consider amending the footnote to refer to provisions, rather than costs or revenue items.