



RSM Bird Cameron

Queensland Competition Authority

**Cost Review of Aurizon Network's
2012-2013 Capital Expenditure Claim**

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EXECUTIVE SUMMARY

Introduction

The Queensland Competition Authority (the Authority) is responsible for the economic regulation of the below-rail infrastructure owned by Aurizon Network Pty Ltd (Aurizon Network). Aurizon Network is subject to an access undertaking (the 2010 Undertaking) approved by the Authority that sets out the detailed terms and conditions under which Aurizon Network will provide access to declared services. Schedule A of the 2010 Undertaking includes processes and criteria for the Authority's annual assessment of prudence of capital expenditure to determine whether it should be included in the Regulatory Asset Base (RAB).

Aurizon Network is responsible for providing, maintaining and managing access to, and operations on, its rail network and associated rail infrastructure. Aurizon Network's rail network totals 2,670 kilometres and consists of coal export heavy haul tracks in central Queensland.

Aurizon Network developed the 2010 Undertaking in accordance with section 136 of the Queensland Competition Authority Act 1997 (Qld). In accordance with that Act, the 2010 Undertaking was endorsed by the Queensland Competition Authority in 1 October 2010.

The 2010 Undertaking provides a framework for access to Aurizon Network's rail network for the purposes of operating train services, and sets out Aurizon Network's obligations in relation to:

- (a) ringfencing;
- (b) the framework for negotiating access;
- (c) the development of access agreements;
- (d) pricing principles;
- (e) the utilisation of network capacity;
- (f) interface arrangements between Aurizon Network and train operators; and
- (g) reporting.

According to the 2010 Undertaking, Aurizon Network will, unless otherwise agreed between Aurizon Network and the Authority, provide details of the capital expenditure for that year that Aurizon Network considers should be included in its RAB.

RSM Bird Cameron was engaged by the Authority as an Independent Auditor to conduct three specific tasks relating to Aurizon Network's 2012-13 capital expenditure claim. These tasks included:

- **Task a) Reconciliation of the total capital costs** included in the 2012-13 Capital Expenditure Claim for each of 108 projects, to Aurizon Network's accounting system (SAP). This was performed as an Agreed Upon Procedures Engagement in accordance with the Australian Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*.
- **Task b) Limited assurance review of costs capitalised** within a sample of projects included in the 2012-13 Capital Expenditure Claim. This was performed as a Limited Assurance Engagement in accordance with ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. Our procedures were designed to provide limited assurance, as defined by ASAE 3000.
- **Task c) Investigation of the reasonableness of the 8% margin** used to recover the non-directly attributable costs of Aurizon Network charged by the Network Construction Services Division¹. This was performed as an Agreed Upon Procedures Engagement in accordance with Australian Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*.

¹ Network Construction Services is an internal division of Aurizon Network that undertakes specific track works for Aurizon Network Projects, where required. These costs are allocated to each project directly and predominantly includes labour and consumables. In addition to the direct costs, an 8% 'internal margin' is added to underlying Network Construction Services project costs to capture corporate overhead which could reasonably be allocated to the project that includes: corporate overhead; network overhead and return on asset of non-regulated construction service assets.

EXECUTIVE SUMMARY (CONT.)

Conclusions and Summary of Factual Findings

Task a) Reconciliation of the total capital costs - Factual Findings

We have performed procedures agreed with the Authority to report factual findings in relation to Aurizon Network's 2012-13 capital expenditure claim. These procedures were conducted for the purpose of assisting you in assessing the accuracy of the 2012-13 Capital Expenditure Claim:

Based on the agreed upon procedures performed, we identified two exceptions:

- **Project A.03803 – Newlands** – 53 to 60kg Rail Renewal, did not reconcile to SAP. The 2012-2013 Capital Expenditure Claim amount was \$986,031 higher than the SAP amount; and
- **Project A.04023 Level Crossing Protection System**, did not reconcile to SAP. The 2012-2013 Capital Expenditure Claim amount was \$1,226 higher than the SAP amount.

Task b) – Limited Assurance Conclusion

We agreed with the Authority to select a sample of six projects to perform limited assurance procedures in respect of whether costs included within the 2012-2013 capital expenditure claim were accurately accounted for.

The projects selected were based on dollar value and discussion with the Authority, and included:

A03365 – Wotonga Angle;
 A03931 – Train Control Disaster Recovery Project;
 A04154 – Concrete Sleeper Upgrade GN Phase 1;
 A03473 – Goonyella to Abbot Point Expansion (GAPE);
 A04145 – Newlands Culvert Upgrade Project; and
 A04313 – Gauge Face Lubrication Asset Renewal.

During our review, other than the matters noted below, nothing has come to our attention to indicate that the projects listed above did not include costs within 2012-2013 Capital Expenditure Claim that were not accurately accounted for in all material respects.

The table below summarises the exceptions identified:

Project	Transaction Description	over-claim/ (under-claim)
A04154 – Concrete Sleeper Upgrade GN Phase 1	Accrual without supporting documentation as expenditure was not incurred.	\$735,000
A03473 – GAPE	Accrual for costs that were agreed to be recovered from Alliance.	\$75,000
A04313 – Gauge Face Lubrication Asset Renewal	Accrual did not match to actual invoice (Airlube Australasia).	\$41,421
A03931 – Train Control Disaster Recovery Project	Accrual did not match to actual invoice Beat Architects.	\$7,354
Total over-claim (under-claim)		\$858,775

EXECUTIVE SUMMARY (CONT.)

Task c) - Investigation of reasonableness of 8% Margin – Factual Findings

We have performed procedures agreed with the Authority to report factual findings in relation to Aurizon Network’s 2012-13 capital expenditure claim. These procedures were conducted for the purpose of assisting the Authority in assessing the reasonableness of the 8% Margin charged to projects by the Network Construction Services Division of Aurizon Network.

Based on the agreed upon procedures performed, we identified one exception:

- Project A.03931** – Train Control Disaster Recovery Project, the 8% margin allocated exceeded the cost allocated by Network Construction Services, resulting in actual margin of 195% being applied. We noted a significant amount of Network Construction Services costs were reversed from this project throughout the project life, as they were incorrectly allocated, however the 8% margin was not reversed. The 8% Margin Charge amounted to \$39,295. Through further investigation it was noted that this margin allocated related to project costs of the Asset Maintenance Division of Aurizon Network, not the Network Construction Services Costs. We were advised that similar to the Network Constructions Division, an 8% margin is also added to cost directly allocated by the Asset Maintenance Division for works performed specifically on the Project. We were also advised that works performed by the Asset Maintenance Division related to telecommunications, SCADA (Supervisory Control & Data Acquisition) & Wayside works.

Aggregate Summary of Errors for all Tasks

The table below summarise the aggregate impact of our findings on the 2012-2013 Capital Expenditure Claim. Note the amounts do not include the Interest During Construction (IDC) component.

Task	Description	over-claim/ (under-claim)
Task A (factual findings)	Aggregate of errors due to two project amounts within the 2012 – 2013 Capital Expenditure Claim being high than the amount per SAP.	\$987,257
Task B (limited assurance)	Aggregate of errors due to unsubstantiated or inaccurate costs included within the 2012-2013 Capital Expenditure Claim.	\$858,775
Task C (factual findings)	No exception identified that may impact the 2012-2013 Capital Expenditure Claim	-
Total over-claim (under-claim) excluding IDC		\$1,846,032

It must be noted that the over claim above may not represent the total over claim that may have been identified had we conducted a reasonable assurance engagement. Agreed Upon Procedures and Limited Assurance engagements are restricted engagements by nature and therefore there is a possibility that additional over claim instances may not be detected by our review.



RSM Bird Cameron

AGREED UPON PROCEDURES

FACTUAL FINDINGS REPORT

TASK A and TASK C

FACTUAL FINDINGS REPORT – TASK A and TASK C

REPORT OF FACTUAL FINDINGS

To the management of the Queensland Competition Authority (“the Authority”)

Scope of work and statement of responsibility

We have performed the procedures agreed with you to report factual findings for the purpose of assisting you in assessing capital projects submitted within the 2012-13 Capital Expenditure Submission by Aurizon Network Pty Ltd (“Aurizon Network”). The procedures performed are described below with respect to the agreed capital expenditure projects included within the 2012-13 Capital Expenditure Claim.

In reference to the Terms of Reference dated 1 October 2013, the RSM Bird Cameron Proposal dated October 2013 and the Consultancy agreement dated 19 November 2013, we were requested to:

- Task a) reconcile capitalised costs of selected projects as reported in the 2012-2013 Capital Expenditure claim against the expenditure reported in Aurizon Network’s Accounting Management System (SAP); and
- Task c) investigate the methodology of the 8% margin allocated to Aurizon Network Projects by Construction Network Services included within the 2012-2013 Capital Expenditure Claim.

The Authority’s Responsibility for the Procedures Agreed

The Authority is responsible for the adequacy, or otherwise, of the procedures agreed to be performed by us. The Authority is responsible for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you or other intended users wish to draw on the subject matter.

Assurance Practitioner’s Responsibility

Our responsibility is to report factual findings obtained from conducting the procedures agreed. We conducted this engagement in accordance with Standard on Related Services *ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings*. We have complied with ethical requirements equivalent to those applicable to *Other Assurance Engagements*, including independence.

Because the agreed-upon procedures do not constitute either a reasonable or limited assurance engagement in accordance with AUASB standards, we do not express any conclusion and provide no assurance on the capital expenditure of the selected projects. Had we performed additional procedures, or had we performed an audit or a review of the selected projects in accordance with AUASB standards, other matters might have come to our attention that would have been reported to you.

Factual Findings

The procedures were performed solely to assist you in assessing the capital expenditure detailed. The procedures performed and the factual findings obtained are as follows:

Description of Procedure	Factual Finding	Exception or Exceptions Identified
TASK A: Reconciliation of the total capital costs		
Procedure 1		
Reconcile each project code’s capital expenditure obtained from the 2012-2013 Capital Expenditure Claim, with the corresponding project capital expenditure balance within SAP	<p>We observed Aurizon Network generate a SAP transactional report (CJ13 report) for each project included within the 2012-2013.</p> <p>We reconciled the total project cost for each SAP transactional report against the total cost of each project included within the 2012-2013 Capital expenditure claim, excluding IDC.</p>	<p>We noted a \$986,031 variance in project A.03803 Newlands - 53 to 60kg Rail Renewal.</p> <p>We also noted a \$1,226 variance in project A.04023 Level Crossing Protection System.</p>

FACTUAL FINDINGS REPORT – TASK A and TASK C (CONT.)

Description of Procedure	Factual Finding	Exception or Exceptions Identified
TASK C: Investigation of 8% Margin Allocated by Network Construction Services		
Procedure 1		
For one project selected in Task (b), quantify the value of transferred charges from Network Construction Services.	<p>We selected project A.03931 – Train Control Disaster Recovery Project.</p> <p>We quantified the value of the 8% Margin and compared this to the total Network Construction Services cost allocated to the Project.</p> <p>We noted that the total value of the 8% margin charged to this Project exceeded the cost allocated by Network Construction Services.</p> <p>The total value of the margin allocated was \$39,295, however the total Network Construction Services costs was \$20,194, resulting in an actual margin of 195% applied.</p> <p>Through further investigation it was noted that this margin allocated related to project costs of the Asset Maintenance Division of Aurizon Network, not the Network Construction Services Costs. It was advised, that similar to the Network Constructions Division, an 8% margin is also added to cost directly allocated by the Asset Maintenance Division for works performed specifically on the Project. It was advised that works performed by the Asset Maintenance Division related to telecommunications, SCADA (Supervisory Control & Data Acquisitions) & Wayside works.</p>	No errors or exceptions were identified.
Procedure 2		
Where an 8% margin has been charged we obtained the methodology / basis for this margin from Aurizon Network.	We obtained the methodology/basis for the 8% margin allocated to Projects included within the 2012-2013 Capital Expenditure Claim.	No errors or exceptions were identified.
Procedure 3		
For overhead costs included within the methodology/basis for the 8% we verified to SAP balances.	For overhead costs included within Aurizon Network's 8% Margin Methodology we verified to SAP balances and Management Reports.	No errors or exceptions were identified.

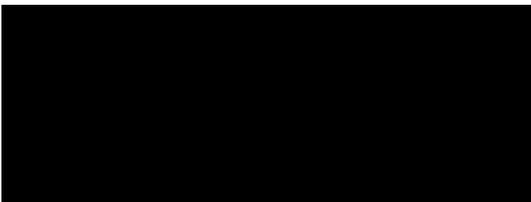
FACTUAL FINDINGS REPORT – TASK A and TASK C (CONT.)

Description of Procedure	Factual Finding	Exception or Exceptions Identified
Procedure 4		
For cost drivers, such as number of employees and revenue, we verified payroll information and SAP balances respectively.	<p>We noted the following cost drivers for allocation:</p> <ul style="list-style-type: none"> • Business Unit revenue; and • Business Unit Labour. <p>We verified revenue to audited Annual Reported for the year ended 30 June 2013.</p> <p>We verified Business Unit labour costs to SAP.</p>	No errors or exceptions were identified.
Procedure 5		
Obtain explanations from Aurizon Network where cost drivers and costs included in the methodology cannot be verified.	As cost drivers and costs included were verified, explanations were not necessary.	No errors or exceptions were identified.

Restriction on Distribution and Use of Report

This report is intended solely for the use of the Authority for the purpose set out above. As the intended user of our report, it is for you to assess both the procedures and our factual findings to determine whether they provide, in combination with any other information you have obtained, a reasonable basis for any conclusions which you wish to draw on the subject matter. As required by ASRS 4400, distribution of this report is restricted to those parties that have agreed the procedures to be performed with us (since others, unaware of the reasons for the procedures, may misinterpret the results). Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than the Authority for any consequences of reliance on this report for any purpose.

RSM BIRD CAMERON



J M IMBERT
Director

Melbourne
15 May 2014



RSM Bird Cameron

LIMITED ASSURANCE REPORT

TASK B - REVIEW OF A SAMPLE OF PROJECTS INCLUDED WITHIN THE 2012-2013 CAPITAL EXPENDITURE CLAIM

LIMITED ASSURANCE REPORT - TASK B - REVIEW OF A SAMPLE OF PROJECTS

LIMITED ASSURANCE REPORT

To the management of the Queensland Competition Authority (“the Authority”)

We have conducted a limited assurance engagement to review a sample of projects from Aurizon Network’s 2012-2013 Capital Expenditure Claim. The primary objective of this engagement was to form a limited assurance conclusion as to whether the sample of projects selected presents the actual costs incurred by Aurizon Network are accurately substantiated.

The total of the 2012-2013 Capital Expenditure Claim was \$218,658,928 (excluding IDC). However, the scope of the audit was limited to capital expenditure claimed for the projects listed in Table 1.1:

Table 1.1: Specific projects that were subject to the audit

Project Number	Project Name	2012/13 Claimable Expenditure	Percentage of Total Claim value
A.03365	Wotonga Angle	\$35,939,795	16.44%
A.03931	Train Control Disaster Recovery Project	\$14,110,629	6.45%
A.04145	Newlands Culvert Upgrade Project	\$10,637,624	4.86%
A.04154	Concrete Sleeper Upgrades - Goonyella System 20122013 - Phase 1	\$8,192,755	3.75%
A.03473	GAPE	\$20,962,429	9.59%
A.04313	Gauge Face Rail Lubrication	\$1,982,504	0.91%

Aurizon Network’s responsibility for the 2012-2013 Capital Expenditure Claim

Aurizon Network is responsible for determining that the basis of accounting is an acceptable basis for the preparation of the Capital Expenditure Claim in the circumstances. Aurizon Network is also responsible for establishing and maintaining such internal control as determined by management to be necessary to enable the preparation of a Capital Expenditure Claim that is free from material misstatement, whether due to fraud or error and for monitoring compliance with the Access Undertaking.

Our independence and quality control

We have complied with the relevant ethical requirements relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with Australian Standard on Quality Control 1, RSM Bird Cameron maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

LIMITED ASSURANCE REPORT - TASK B - REVIEW OF A SAMPLE OF PROJECTS (CONT.)

Our responsibility

Our responsibility is to express a limited assurance conclusion on the projects listed within Table 1.1 selected from the 2012-2013 Capital Expenditure Claim. We conducted our review in accordance with ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. Our procedures were designed to provide limited assurance, as defined by ASAE 3000.

Our review consisted of making enquiries, primarily of persons responsible for ensuring operating effectiveness and applying analytical and other review procedures. Our review was 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.

Inherent limitations

Because of the inherent limitations of any internal control structure, it is possible that fraud or errors may occur and not be detected. We have not reviewed the overall internal control structure and no opinion is expressed as to its effectiveness. A review is not designed to detect all weaknesses in control procedures or all instances of non-compliance as it is not performed continuously throughout the period, and the tests performed are on a sample basis having regard to the nature and size of the entity. The conclusion expressed in this report has been formed on the above basis.

Use of this Report

This limited assurance report has been prepared for the Authority. We disclaim any assumption of responsibility for any reliance on this report to any other persons or users, or for any purpose other than that for which it was prepared.

We disclaim all liability to any party other than the Authority in respect of, or in consequence of, anything done, or omitted to be done, by any party in reliance, whether whole or partial, upon any information contained in this report. Any party, other than the Authority, who chooses to rely in any way on the contents of this report, does so at their own risk.

Summary of Procedures Undertaken

The procedures conducted in performing our limited assurance engagement included:

- Review of Actual vs. Budget monthly project management reports for each project selected;
- Testing a sample of transactions within each project selected to review:
 - accuracy against supporting documentation;
 - whether expenditure was recorded in the correct period;
 - that construction or consultancy progress claim transactions are supported by an original signed contract; and
 - that labour charge transactions supported by authorised timesheets and include a consistent labour build-up methodology.
- Review of material accrual estimates within the transaction listing of each project selected and verify to supporting documentation.

LIMITED ASSURANCE REPORT - TASK B - REVIEW OF A SAMPLE OF PROJECTS (CONT.)

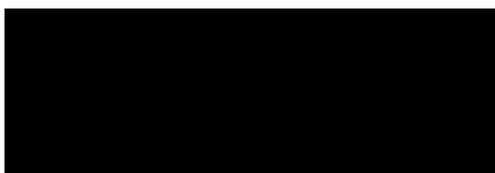
Summary of Review Findings

The table below summarises the exceptions identified. The exceptions have been further detailed within **Appendix 1** of this report.

Project	Transaction Description	over-claim/ (under-claim)
A04154 – Concrete Sleeper Upgrade GN Phase 1	Accrual without supporting documentation as expenditure was not incurred.	\$735,000
A03473 – GAPE	Accrual for costs that were agreed to be recovered from Alliance	\$75,000
A04313 – Gauge Face Lubrication Asset Renewal	Accrual did not match actual invoice (Airlube Australasia)	\$41,421
A03931 – Train Control Disaster Recovery Project	Accrual did not match actual invoice Beat Architects	\$7,354
Total over-claim (under-claim)		\$858,775

Limited Assurance Conclusion

Based on our review, other than the matters reported in summary of findings section above, nothing has come to our attention to indicate that the 2012-2013 Capital Expenditure Claim does not represent actual and accurately substantiated costs incurred by Aurizon Network for projects A.03365, A.03931, A.04145, A.04154, A.03473 and A.04313, in all material respects.



J M IMBERT

Partner
RSM Bird Cameron

Melbourne
15 May 2014

APPENDIX 1 – DETAILED FINDINGS FROM TASK B

We have provided detail of each exception identified in performing Task b). Each exception is assigned a risk rating to indicate our assessment of the degree of exposure of the matter to Aurizon Network, and the urgency of required action. The risk rating definitions are described in **Appendix 2** of this report.

1. Overstatement of accrued costs (Project A.04154 – Concrete Sleeper Upgrades – Goonyella System 2012/2013 – Phase 1)

Risk Rating	
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Observation

In our review of the costs included in project A.04154 - Concrete Sleeper Upgrades - Goonyella System 2012/2013 - Phase 1, we noted that the project included an accrued expense for Sleeper Procurement of \$735,000. No supporting documentation could be provided for this accrual as the expenditure was not actually incurred and accrual was incorrectly raised for this project. As result, the expenditure should not have been included within the 2012-2013 Capital Expenditure Claim.

Implication

Overstatement of total costs included within the 2012-13 Capital Expenditure Claim by \$735,000 for Project A.04154.

Recommendations

We recommend that the total cost of project A.04154 is reduced by \$735,000 and revised to \$7,457,755 excluding IDC within the 2012-2013 Capital Expenditure Claim.

Total cost of the Project per 2012-13 Capital Expenditure Claim	\$ 8,192,755
Less Accrued expense not incurred	\$ 735,000
Total recommended adjusted project cost excluding IDC	\$ 7,457,755

Aurizon Network comments

Aurizon Network note this adjustment and have reduced its 2012/13 claim by the prescribed amount.

The accrual was made for the purchase of concrete sleepers; however the order was cancelled and no subsequent cost was assigned. Thus the accrual was incorrectly not reversed on receipt of actual costs.

Aurizon Network reviewed all accruals made against projects in the 2012/13 claim and identified two other instances that accruals were made and no actual costs realised. As such, Aurizon Network, in its 2012/13 Capital Claim Adjustment submission to the Authority, reduced its 2012/13 claim by an additional \$363,000 (excluding IDC).

APPENDIX 1 – DETAILED FINDINGS FROM TASK B (CONT.)

2. Overstatement of accrued costs (Project A.03473 – GAPE)

Risk Rating	
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Observation

In our review of the costs included in project A.03473 – GAPE, we noted that the Project included an accrued expense for Coal Connect Defect Rectification of \$75,000 (SAP document number 134129854). Through investigations into this transaction, we noted that these costs were agreed to be reimbursed by an Alliance, Coal Connect, as it related to works that were required to be performed by Coal Connect. As a result, the expenditure should not be included within the 2012-2013 Capital Expenditure Claim.

Implication

Overstatement of total costs included within the 2012-13 Capital Expenditure Claim by \$75,000 for Project A.03473 – GAPE.

Recommendations

We recommend that the total cost of project A.03473 is reduced by \$75,000 and revised to \$20,887,429 excluding IDC within the 2012-2013 Capital Expenditure Claim.

Total cost of the Project per 2012-13 Capital Expenditure Claim	\$ 20,962,429
Less Accrued expense not incurred	\$ 75,000
Total recommended adjusted project cost excluding IDC	\$ 20,887,429

Aurizon Network comments

These costs were related to works in the defect period subcontracted by the Coal Connect alliance to a construction vendor for completion, as the alliance had physically disbanded.

An accrual was made at 30 June 2013 and subsequently reversed in the 2013/14 year with payment made to the construction vendor on receipt of the invoice and an allocation to Protection Officer labour.

Aurizon Network had a discussion with RSM Bird Cameron and the Authority with regard to the use of accruals. It was agreed between the Authority and Aurizon, that accruals are standard accounting treatment and adjustments would not be required to a capital claim unless an accrued amount was not reversed on receipt of actual costs.

Given this, Authority and Aurizon Network agreed a position that Aurizon Network will not seek to adjust its 2012/13 claim.

Aurizon Network do note that RSM Bird Cameron were tasked by the Authority to look at costs at a point in time, being 30 June 2013, and as such under their engagement, the RSM Bird Cameron statement that the costs should not be included is technically sound.

APPENDIX 1 – DETAILED FINDINGS FROM TASK B (CONT.)

3. Overstatement of accrued costs (Project A.04313 – Gauge Face Rail Lubrication)

Risk Rating	
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Observation

In our review of the costs included in Project A.04313 – Gauge Face Rail Lubrication, we noted that an accrual transaction (SAP document Number 134129854) did not agree to the actual invoice received from the vendor. The accrued expense transaction amount was \$1,719,725, which was \$41,421 higher than the actual vendor invoice.

Implication

Overstatement of total costs included within the 2012-13 Capital Expenditure Claim by \$42,421 for Project A.04313 – Gauge Face Rail Lubrication.

Recommendations

We recommend that the total cost of project A.04313 is decreased by \$41,421 and revised to \$1,941,083 excluding IDC within the 2012-2013 Capital Expenditure Claim.

Total cost of the Project per 2012-13 Capital Expenditure Claim	\$ 1,982,504
Less Accrued expense over estimation	\$ 41,421
Total recommended adjusted project cost excluding IDC	\$ 1,941,083

Aurizon Network comments

An accrual was made against this project at 30 June 2013 of \$1,719,725. This accrual was reversed in January 2014 with the receipt of actual costs of \$1,678,304 and the actual costs recorded against the project, as well as a negative amount of \$41,421, being the difference between the accrued amount and the actual cost.

Aurizon Network had a discussion with RSM Bird Cameron and the Authority with regard to the use of accruals. It was agreed between the Authority and Aurizon Network, that accruals are standard accounting treatment and adjustments would not be required to a capital claim unless an accrued amount was not reversed on receipt of actual costs.

Given this, the Authority and Aurizon Network agreed a position that Aurizon Network will not seek to adjust its 2012/13 claim.

Aurizon Network do note that RSM Bird Cameron were tasked by the Authority to look at costs at a point in time, being 30 June 2013, and as such under their engagement, the RSM Bird Cameron statement that the costs should not be included is technically sound.

APPENDIX 1 – DETAILED FINDINGS FROM TASK B (CONT.)

4. Overstatement of accrued costs (Project A.03931 –Train Control Disaster Recovery Project)

Risk Rating	
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Observation

In our review of the costs included in Project A.03931 - DR Train Control Disaster Recovery Project, we noted that an accrual transaction (SAP document Number133880741) did not agree to the actual invoice received from the vendor. The accrued expense transaction amount was \$20,000, which was \$7,354 higher than the actual vendor invoice.

Implication

Overstatement of total costs included within the 2012-13 Capital Expenditure Claim by \$7,354 for Project A.03931 – Train Control Disaster Recovery Project.

Recommendations

We recommend that the total cost of project A.03931 is reduced by \$7,354 and revised to \$14,103,275 excluding IDC within the 2012-2013 Capital Expenditure Claim.

Total cost of the Project per 2012-13 Capital Expenditure Claim	\$ 14,110,629
Less Accrued expense overestimation	\$ 7,354
Total recommended adjusted project cost excluding IDC	\$ 14,103,275

Aurizon Network comments

An accrual was made against this project at 30 June 2013 and reversed with the receipt of actual costs. The actual costs were recorded against the project as well as a negative amount being the difference between the accrued amount and the actual cost.

Aurizon Network had a discussion with RSM Bird Cameron and the Authority with regard to the use of accruals. It was agreed between the Authority and Aurizon Network, that accruals are standard accounting treatment and adjustments would not be required to a capital claim unless an accrued amount was not reversed on receipt of actual costs.

Given this the Authority and Aurizon Network agreed a position that Aurizon Network will not seek to adjust its 2012/13 claim.

Aurizon do note that RSM Bird Cameron were tasked by the Authority to look at costs at a point in time being, 30 June 2013, and as such, under their engagement, the RSM Bird Cameron statement that the costs should not be included is technically sound.

APPENDIX 2 – RISK RATINGS

Risk Ratings

The risk ratings applied to assess the issues identified are as follows:

Risk Ratings		
Extreme		Issues which may have a catastrophic impact upon the accuracy and/or prudence of the capital expenditure that has been claimed by Aurizon Network if they are not addressed immediately.
High		Issues which may have a major impact upon the accuracy and or prudence of the capital expenditure that has been claimed by Aurizon Network if they are not addressed as a matter of priority.
Medium		Issues which may have a moderate impact upon the accuracy and/or prudence of the capital expenditure that has been claimed by Aurizon Network if they are not addressed within a reasonable timeframe.
Low		Issues which have a minor impact upon the accuracy and/or prudence of the capital expenditure that has been claimed by Aurizon Network if they are not addressed within a reasonable timeframe.
Improvement		Standalone suggestion for improvement.
Implemented		Issue resolved as recommendation has been implemented during the review.

APPENDIX 3 – ACRONYMS AND ABBREVIATIONS

The table below lists acronyms and abbreviations referred to in this report.

Acronym or Abbreviation	Meaning
AASB	Australian Accounting Standards Board
Aurizon Network	Aurizon Network Pty Ltd
Authority	Queensland Competition Authority
CQCR	Central Queensland Coal Region
GAPE	Goonyella to Abbot Point Expansion
RAB	Regulatory Asset Base
SAP	Accounting System

“Our one-firm structure enables us to provide strong connections and a focus on client relationships. Clients can readily connect to our national and international expertise and networks, our extensive understanding of Australian business and to our senior advisors. With RSM Bird Cameron you really are...**Connected for Success**”

**Assurance - Business Advisory - Corporate Finance
Financial Services - Risk Advisory - Tax - Turnaround & Insolvency**

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