



RSM Bird Cameron



Queensland Competition Authority

Cost Review of Aurizon Network's
2013-2014 Capital Expenditure Claim

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1. EXECUTIVE SUMMARY

1.1 Introduction

The Queensland Competition Authority (the QCA) 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 QCA 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 QCA'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 QCA Act 1997 (Qld). In accordance with that Act, the 2010 Undertaking was endorsed by the QCA on 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 QCA, after the end of each year of the regulatory term, provide to the QCA details of the capital expenditure in the subject year that Aurizon Network considers should be included in its RAB.

The initial capital expenditure claim for 2013-2014 amounted to **\$321,681,594** excluding interest during construction (IDC). Inclusive of IDC the claim amounts to **\$339,078,716**.

The 2013-2014 claim includes:

- Asset renewal expenditure;
- System expansion capital expenditure and post commissioning costs; and
- Feasibility Studies relating to discontinued projects.

1. EXECUTIVE SUMMARY (CONT.)

1.2 Scope and Objectives

The QCA required our assistance in assessing the prudence of costs of Aurizon Network's 2013-14 capital expenditure claim. We were engaged by the QCA to provide limited assurance in relation to the following tasks:

- task a):** reconciliation of all projects within the capital expenditure claim to the SAP balances; and
- task b):** review that costs included within projects listed in the table below, represent actual and substantiated costs incurred by Aurizon Network.

Project Number	Project Name	2013/14 Claimable Expenditure	Percentage of Total Claim value
A.02974	WIRP 2: Moura Link	\$15,034,695	4.67%
A.03353	GSE X140 - DBCT to HPSCT 2nd Road	\$74,570,022	23.18%
A.03473	GAPE 50	\$16,364,372	5.09%
A.03896	Overheads Renewal Rocklands to Callemondah	- \$95,035	-0.03%
A.04345	Sleeper Renewal Program 2013 14	\$22,635,014	7.04%

1.3 Limited Assurance Engagement

Our review has been conducted as a limited assurance engagement. In providing limited assurance, we conducted our review in accordance with Auditing Standard ASAE 3000 - Assurance Engagements Other than Audits or Reviews of Historical Financial Information. A review consists of making enquiries, primarily of persons responsible for ensuring operating effectiveness 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.

1.4 Conclusion






We have completed our review procedures, and have identified four “**low**” risk issues and one “**standalone suggestion of improvement**”. These are summarised in **section 1.5** and discussed in further detail in **Appendix 1** of this report. Our limited assurance conclusion has been formed on the above basis.

1.5 Summary of Review Findings

We have summarised our review findings in this section of our report. Each issue raised is assigned a risk rating to indicate our assessment of the degree of exposure to Aurizon Network in respect to the accuracy and/or prudence of the capital expenditure, and the urgency of required action. All issues identified have been rated as low risk given the value of each issue relative to the total capital expenditure claim, and the root cause of the issue. The risk rating definitions are described in **Appendix 2** of this report.

1. EXECUTIVE SUMMARY (CONT.)

1.5 Summary of Review Findings

Finding	Risk Rating	Issue
1. Incorrect inclusion of project costs that were excluded in previous capital expenditure claims		The 2013-14 Capital Expenditure Claim included expenditure rejected or excluded from previous capital expenditure claims. This amounted to a total of \$1,230,437 and was attributable to manual error in the preparation of the Claim.
2. Incorrect inclusion of project costs claimed in prior year's expenditure claims		The 2013-14 Capital Expenditure claim included costs that had been previously claimed in the 2012-2013 Capital Expenditure Claim. This amounted to a total of \$1,326,359 and was attributable to manual error in the preparation of Claim.
3. Inclusion of "sponsorship" costs		Sponsorship costs were included within the 2013-2014 Capital Expenditure Claim amounting to \$21,417. These costs were found to relate to local community sponsorship and advertising in areas of construction. These costs are not deemed to be capital in accordance with Australian Accounting Standards, AASB 116, and should be excluded. Sponsorship costs were identified in the testing conducted for task b). We requested Aurizon Network to generate a report detailing all sponsorship costs incurred across all projects included within the 2013-14 Capital Expenditure Claim and this amounted to \$21,417.
4. Inclusion of GST paid within 2013-2014 Capital Expenditure Claim		In our review of the costs included in project A.02974 - WIRP 2: Moura Link - 2013/2014, we noted one instance where a transaction included GST paid. The amount of GST incorrectly included was \$34,736.
5. Treatment of land acquired in discontinued feasibility projects		A separate fixed asset register is not maintained for land acquired for projects claimed within the RAB. A central register containing all properties acquired is maintained by Aurizon Network which includes RAB properties and non-RAB properties. There is a risk that the RAB may not be adjusted for properties disposed of as result of the discontinuation of projects.

The above issues, in aggregate, indicate an over-claim of **\$2,612,949** that we recommend as an adjustment to the 2013-2014 Capital Expenditure Claim.



RSM Bird Cameron

LIMITED ASSURANCE REPORT

LIMITED ASSURANCE REPORT

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

We have conducted a limited assurance engagement to assist the QCA in assessing the prudence of costs of Aurizon Network’s 2013-14 capital expenditure claim. We have conducted two specific tasks required by the QCA for this engagement:

- task a): reconciliation of all projects within the capital expenditure claim to the balances recorded in Aurizon network’s accounting system (SAP); and**
- task b): review that costs included within projects A.02974, A.03353, A.03473, A.03896 and A.04345 represent actual and substantiated costs incurred by Aurizon Network.**

Aurizon Network’s responsibility for the 2013-2014 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.

Our responsibility

Our responsibility is to express a limited assurance conclusion. 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.

LIMITED ASSURANCE REPORT (CONT.)

Use of this Report

This limited assurance report has been prepared for the QCA. 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 QCA 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 QCA, 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 in respect to the tasks a) and b) included:

- Reconciliation of each total project capital expenditure balance stated within the 2013-14 capital expenditure to SAP, Aurizon Network's accounting system used for recording and reporting capital project expenditure;
- For the projects detailed in table 1.1 below we:
 - obtained copies of Actual vs. Budget monthly project management reports;
 - vouched details of the capital expenditure to approved invoices, timesheets or other supporting documentation where applicable;
 - tested claim expenditure was recorded in the correct period;
 - for construction or consultancy progress claims selected obtained the original signed contracts to test that the objective of the work conducted was for the applicable project;
 - for labour charges selected within our sample, we tested compliance with Aurizon Network labour build-up methodology and consistency of application;
 - selected material accruals within the transaction listing of each project;
 - examined supporting documentation to verify the accuracy of the accrual raised, and, where required, verify reversals.

As agreed with the QCA, we selected the four largest projects within the 2013-14 Capital Expenditure Claim and the project that totalled to a negative capital expenditure value.

- Testing the clerical accuracy and consistency of the IDC calculation for the sample of projects detailed below.

Table 1.1: Specific projects selected for task b)

Project Number	Project Name	2013-14 Claimable Expenditure (Excluding IDC)	Percentage of Total Claim value
A.02974	WIRP 2: Moura Link	\$15,034,695	4.67%
A.03353	GSE X140 - DBCT to HPSCT 2nd Road	\$74,570,022	23.18%
A.03473	GAPE 50	\$16,364,372	5.09%
A.03896	Overheads Renewal Rocklands to Callemondah	- \$95,035	-0.03%
A.04345	Sleeper Renewal Program 2013 14	\$22,635,014	7.04%

LIMITED ASSURANCE REPORT (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	Exceptions identified	over-claim/ (under-claim) Excluding IDC
A.01048 - LED Signal Replacement	Incorrect inclusion of expenditure that was rejected in the 2005-2006 Capital Expenditure Claim.	\$131,211
A.04023 - Level Crossing Protection System	Incorrect inclusion of expenditure that was excluded from the 2012-2013 Capital Expenditure Claim following assessment by the QCA.	\$1,226
A.04112 - Callemondah Yard Turnout Upgrade Project	Incorrect inclusion of expenditure that was excluded from the 2012-2013 Capital Expenditure Claim following assessment by the QCA.	\$298,000
A.04154 - Concrete Sleeper Upgrade GN Phase 1	Incorrect inclusion of expenditure that was excluded from the 2012-2013 Capital Expenditure Claim following assessment by the QCA.	\$735,000
A.04155 - Concrete Sleeper Upgrade GN Phase 2	Incorrect inclusion of expenditure that was excluded in the 2012- 13 Capital Expenditure Claim.	\$65,000
A.03364 - Coppabella Angle and grade Easing	Incorrect inclusion of expenditure that had already been claimed in the 2012 – 13 Capital Expenditure Claim and approved.	\$552,187
A.02503 - Dunsmure Passing Loop	Incorrect inclusion of expenditure that had already been claimed in the 2012 – 13 Capital Expenditure Claim and approved.	\$774,172
A.03353 - GSE X140 – DBCT to JPSCT 2 nd Road	Payment of sponsorships relating local community events not deemed to be capital in accordance with the Australian Accounting Standards.	\$14,545
A.02974 - WIRP2: Moura Link	Payment of sponsorships not deemed to be capital in accordance with Australian Accounting Standards.	\$823
A.03473 - GAP50	Payment of sponsorships not deemed to be capital in accordance with the Australian Accounting Standards.	\$3,785
A.03932 - DPCT Balloon Loops and Rail Spur	Payment of sponsorships not deemed to be capital in accordance with the Australian Accounting Standards.	\$2,264
A.02974 - WIRP 2: Moura Link	Incorrect inclusion of GST paid in relation to a land purchase	34,736
Total over-claim (under-claim)		\$2,612,949

LIMITED ASSURANCE REPORT (CONT.)

Limited Assurance Conclusion

Based on our review, other than the matters reported in the Summary of Review Findings section above, nothing has come to our attention to indicate that the 2013-2014 Capital Expenditure Claim submitted by Aurizon Network:

- includes projects that do not reconcile to Aurizon Network's accounting system, SAP; and
- does not represent actual and accurately substantiated costs incurred by Aurizon Network for projects A.02974, A.03353, A.03473, A.03896 and A.04345, in all material respects.



J M IMBERT


Director
RSM Bird Cameron

Melbourne
28 April 2015

APPENDIX 1 – DETAILED FINDINGS

We have provided detail of each exception identified in performing our limited assurance review. Each exception is assigned a risk rating to indicate our assessment of the degree of exposure to Aurizon Network in respect to the accuracy and/or prudence of the capital expenditure, and the urgency of required action. The risk rating definitions are described in **Appendix 2** of this report.

1. Incorrect inclusion of project costs that were excluded in previous capital expenditure claims

<i>Risk Rating</i>	
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Observation

Through our review of the 2013-2014 Capital Expenditure Claim it was evident that excluded costs from prior year capital expenditure claims following an assessment by the QCA, were incorrectly included. This amounted to a total of \$1,230,437 and was attributable to manual error in the preparation of the expenditure claim report.

This error was identified during testing performed under task a) covering all projects within the 2013-14 Capital Expenditure Claim and was applicable to the following projects:

Project number	Project name	Exceptions Identified	Amount to be excluded
A.01048	LED Signal Replacement	Excluded by the QCA from the 2005-2006 claim.	\$131,211
A.04023	Level Crossing Protection System	Excluded by the QCA from the 2012-2013 claim.	\$1,226
A.04112	Callemondah Yard Turnout Upgrade Project	Excluded by the QCA from the 2012-2013 claim.	\$298,000
A.04154	Concrete Sleeper Upgrade GN Phase 1	Excluded by the QCA from the 2012-2013 claim.	\$735,000
A.04155	Concrete Sleeper Upgrade GN Phase 2	Excluded by the QCA from the 2012-2013 claim.	\$65,000
Total:			\$1,230,437

Implication

Overstatement of total costs included within the 2013-14 Capital Expenditure Claim by \$1,230,437.

Recommendations

We recommend that the total 2013-2014 Capital Expenditure Claim is reduced by \$1,230,437 for the incorrect inclusion of previously excluded expenditure.

APPENDIX 1 – DETAILED FINDINGS (CONT.)


Aurizon Network comments

Aurizon Network notes this adjustment and has reduced its 2013/14 claim by the prescribed amount.

Aurizon Network reviewed all projects and can confirm that no other prior exclusions have been included in the 2013/14 claim. Aurizon Network will also update process documentation for future claims to ensure this doesn't occur again.

APPENDIX 1 – DETAILED FINDINGS (CONT.)

2. Incorrect inclusion of project costs claimed in prior year’s expenditure claim

<i>Risk Rating</i>	
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Observation

We noted Aurizon Network included project costs within the 2013-14 Capital Expenditure Claim that had been previously claimed within the 2012-2013 Capital Expenditure Claim. This amounted to a total of \$1,326,359 and was also attributable to manual error in the preparation of the expenditure claim report.

This error was identified during testing performed under task a) covering all projects within the 2013-14 Capital Expenditure Claim and was applicable to the following projects:

Project number	Project name	Exceptions Identified	Amount to be excluded
A.03364	Coppabella Angle and grade Easing	Inclusion of costs which were claimed and approved in the 2012-13 capital expenditure claim.	\$552,187
A.02503	Dunsmure Passing Loop	Inclusion of costs which were claimed and approved in the 2012-13 capital expenditure claim.	\$774,172
Total:			\$1,326,359

Implication

Overstatement of total costs included within the 2013-14 Capital Expenditure Claim by \$1,326,359.


Recommendations

We recommend that the total 2013-2014 Capital Expenditure Claim is reduced by \$1,326,359.

Aurizon Network comments
Aurizon Network notes this adjustment and has reduced its 2013/14 claim by the prescribed amount.
Aurizon Network reviewed all projects and reduced the 2013/14 claim for three other projects for prior approvals of \$967,416, from the 2010/11 and 2011/12 capital expenditure claims.
Aurizon Network will also update process documentation for future claims to ensure this doesn’t occur again.

APPENDIX 1 – DETAILED FINDINGS (CONT.)

3. Inclusion of “sponsorship” costs in the 2013-2014 Capital Expenditure Claim

<i>Risk Rating</i>	
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Observation

We noted Aurizon Network included sponsorship costs within the 2013-2014 Capital Expenditure Claim amounting to \$21,417. Through discussions with Aurizon Network these costs related to local community sponsorship and advertising in areas of construction. This cost is not deemed to be capital in accordance with Australian Accounting Standards AASB 116, which lists cost of promotional activities not being a directly attributable capital cost. Therefore, whilst the expense relates to the areas of where construction was occurring, the expenditure ultimately leads to branding and building Aurizon Network’s corporate social profile. Sponsorship costs were identified in the testing conducted for task b). We requested Aurizon Network to generate a report detailing all sponsorship costs incurred across all projects included within the 2013-14 Capital Expenditure Claim and this amounted to \$21,417.

The total sponsorship costs included in the 2013-14 Capital Expenditure Claim are as follow:

Project	Project name	Sponsorship costs included in the claim
A.02974	WIRP2: Moura Link	\$823
A.03353	GSE X140 - DBCT to HPSCT 2nd Road	\$14,545
A.03473	GAPE 50	\$3,785
A.03932	DPCT Balloon Loops and Rail Spur	\$2,264
Total:		\$21,417

Implication

Overstatement of total costs included within the 2013-14 Capital Expenditure Claim by \$21,417.


Recommendations

We recommend the total 2013-14 Capital Expenditure Claim being reduced by \$21,417.

Aurizon Network comments
<p>Aurizon Network notes this adjustment and has reduced its 2013/14 claim by the prescribed amount.</p> <p>Aurizon Network considers sponsorship to be a necessary part of community engagement to deliver major projects that affect various communities. Aurizon Network is accepting the RSMBC’s recommendation in this claim on the basis of immateriality, as Aurizon Network would otherwise need to demonstrate for each sponsorship cost why they should be included.</p> <p>Aurizon Network would like to review these programs and their treatment for major infrastructure works for future claims.</p>

APPENDIX 1 – DETAILED FINDINGS (CONT.)

4. Inclusion of GST paid in the 2013-2014 Capital Expenditure Claim

Risk Rating	
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Observation

In our review of the costs included in project A.02974 - WIRP 2: Moura Link - 2013/2014, we noted one instance where the amount claimed included GST. This was observed for the transaction with the SAP document number: 133275487 - Land Acquisition that was a total value of \$382,100 inclusive of GST.

The actual expenditure amount exclusive of GST was \$347,364. GST is not capital expenditure and offset by GST collected when remitted to the Australian Tax Office.

Implication

Overstatement of total costs included within the 2013-14 Capital Expenditure Claim by \$34,736.

Recommendations

We recommend the total 2013-14 Capital Expenditure Claim being reduced by \$34,736.

Aurizon Network comments


Aurizon Network notes this adjustment and has reduced the 2013-14 claim by the prescribed amount.

This was a manual error due to land acquisition being multiple part payments and which was also a relatively old transaction. Recent system enhancements and structural changes to the Procurement department should minimise the human error of this nature occurring again.

Aurizon Network will also update process documentation for future claims to ensure this doesn't occur again.

APPENDIX 1 – DETAILED FINDINGS (CONT.)

5. Treatment of land acquired in discontinued feasibility projects

Risk Rating	
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Observation

Our review of the costs included in the 2013-14 Capital Expenditure Claim highlighted the inclusion of land acquisition costs within discontinued projects that had not progressed past feasibility. Land acquisitions across six feasibility projects amounted to \$6,420,235. As these projects were “formally discontinued” in accordance with the 2010 Undertaking, it is the expectation that this land will not be used as it was initially intended and for the benefit of the customers. Through discussions with Aurizon Network it was advised the land is still currently held, however if sold, the RAB will be adjusted. We noted a separate fixed asset register is not maintained for land acquired for projects claimed for inclusion in the RAB, but a central register of all properties acquired is maintained, which includes non-RAB properties.

The table below lists the land acquisitions costs for applicable feasibility projects as advised by Aurizon Network.

Project	Project name	Land Acquisition costs
A.02689	Connors Range: Additional crossing	\$2,562,880
A.02974	WIRP2: Moura Link	\$2,210,441
A.03366	Teviot Brook Passing Loop	\$50,755
A.03530	DBCT to Yukon: track upgrades	\$300,000
A.03531	Hatfield to Copaabella: track upgrades	\$996,159
A.03932	DPCT Balloon Loops and Rail Spur	\$300,000
Total:		\$6,420,235

Implication

Without a separate fixed asset register maintained for property purchased under the RAB, there is a risk that the RAB may not be adjusted for properties disposed of from discontinued projects when they arise.

Recommendations

We recommend a separate fixed asset register is maintained for property acquired that is included within the RAB. This would enable tracking of disposals, so that the RAB can be adjusted accordingly.

Aurizon Network comments







Aurizon Network notes the comments and confirms that out of the \$6.42m land acquisition, \$1.58m related to freehold land we can dispose of. The remainder of the land costs (\$4.84m) related to rail corridor land under a sub-lease from the State of Queensland. Therefore, Aurizon Network have reduced the 2013/14 claim by \$1.58m.

As noted, a central register of all properties acquired is maintained. With the reduced RAB claim, Aurizon Network do not expect to dispose of any RAB land. However, Aurizon Network is happy to accept RSMBC’s recommendation and will work with Aurizon’s Fixed Asset Unit to create a register to capture RAB related land purchases and disposals.

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.

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For more information, please contact

Mr Jean-Marc Imbert

Director

Level 21, Collins Place

55 Collins Street

Melbourne Victoria 3000

Tel: +61 3 9286 8186

Email: jean-marc.imbert@rsmi.com.au

rsmi.com.au

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