

**APNIC Pty Ltd  
Executive Council Members Report  
for the year ended 31 December 2007**



The Executive Council Members  
APNIC Pty Ltd  
P O Box 2131  
MILTON, BRISBANE QLD 4064  
AUSTRALIA

20 February 2008

**Subject: Executive Council Members Report 2007**

Dear Sirs

It is my pleasure to present this report to the Executive Council Members which summarises the significant audit and business issues identified during our audit.

I am pleased to report that our audit is now complete and we have issued an unqualified opinion on the financial report of APNIC Pty Ltd for the year ended 31 December 2007

May we take this opportunity to thank the management and staff of APNIC Pty Ltd for their co-operation and assistance extended to us during the audit. We found management and staff's work of a high quality I look forward to the opportunity to discuss with you any aspects of this report or any other issues arising from our work.

Yours faithfully



P J Clarke  
Partner

This report is solely for APNIC Pty Ltd and is not to be distributed to any other party without our prior consent. No parties other than APNIC Pty Ltd may rely on the contents of this report.

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The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from, or relevant to, our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

# Executive summary

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- We have issued an unqualified audit opinion on the financial statements of APNIC Pty Ltd.
- For the financial year ending 31 December 2007, the entity incurred a loss after income tax of \$236,111. Refer section on "Analysis of Results" for further details.
- As part of audit we reviewed the internal controls in place of APNIC Pty Ltd and believe that the controls are appropriate given the nature and size of the organisation. We are pleased to say that our testing reflected that the controls laid down were actually being implemented.
- We proposed one audit adjustment which was in relation to long service leave provision. Refer section on "Summary of adjusted difference" for further details. That there was only one adjustment proposed and adjusted is a reflection of the high quality work performed by the Finance personnel led by Irene Chan.
- All term deposits kept in US bank accounts were transferred to AU bank accounts close to the end of the financial year. This action has been taken to minimise the risk of exchange loss arising from continuous decline in US currency.
- We note that from January 2008 the plan is to invoice all members in Australian dollar. Once again the reason is to minimise the foreign currency risk as most of APNIC's expenses are incurred in Australian dollars.
- PricewaterhouseCoopers confirm to the best of our knowledge and belief our independence from APNIC Pty Ltd.

# Analysis of results

## Results for the year – income statement

	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue from ordinary activities</b>	8,336	7,537
Other income	751	714
Communication and meeting expense	(308)	(207)
Computer expenses	(145)	(152)
Contribution to ICANN	(244)	(245)
Depreciation	(565)	(522)
Employee benefit expense	(4,974)	(4,353)
Foreign Exchange loss	(328)	(125)
Insurance	(116)	(86)
Loss on disposal of fixed asset	(4)	-
Membership fees	(53)	(77)
Occupancy	(450)	(419)
Other expenses	(449)	(404)
Professional fees	(391)	(423)
Travel	<u>(1,187)</u>	<u>(953)</u>
<b>Profit/(Loss) before income tax</b>	(127)	285
Income tax expense	<u>(109)</u>	<u>(107)</u>
<b>Profit/(Loss) attributable to members of APNIC Pty Ltd</b>	<u>(236)</u>	<u>178</u>

Overall revenue has gone up by 10.6% despite weakening of the US dollar. This increase is mainly attributable to increase in the number of members. As at 31 December 2007 the total number of members were 1,584 (2006: 1,362), an increase of 16.3%

Expenses has gone up due to the following:

- Wages & salaries- attributable to increase in pay rate of 10% for all staff following a salary survey carried out by KPMG late last year. The other increase is due to 2-3 new position created during this financial year.
- Foreign exchange loss- mainly due to weakening of US dollar
- Travelling- more conferences attended by management and additional training during the year.

# Significant audit and accounting issues

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## Accumulated Leave Balances

### Observation

PwC noted that the provisions for employee leave are accumulating due to staff not taking adequate leave throughout the year.

### Implication

The following two implications relate to accumulating leave balances:

1. Where large leave balances continue to accumulate APNIC's liability increases in line with increases in individual staff remuneration.

The leave, if carried forward into subsequent years, then accrues at a higher rate than when it was first recognised.

2. In order to maintain a strong internal control environment and to minimize fraud risk it is necessary that all employees take adequate

leave and do not accrue large leave balances. By staff taking leave reduces APNIC's exposure to fraud risk which increases with

the level of familiarity employees have within their day-to-day duties.

### Recommendation

We recommend management perform an annual review of employee leave balances. Where leave accruals for particular staff are quite large, these staff should be encouraged to take leave. An incentive program could be considered which will assist in encouraging staff to take leave.

# Significant audit and accounting issues

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## **Foreign Exchange Losses – Income Tax Considerations**

### **Observation**

Consideration should be given to whether a better tax result may result from a split out between the following:

- Realised FX losses relating to investments (Taxable income)
- Realised FX losses relating to subscription fees (Exempt Income)

as opposed to the current treatment.

### **Implication**

By splitting the FX losses between investments and subscription fees APNIC may be able to claim a larger deduction for realised FX losses attributable to investment income, which is fully taxable. For the financial year ending 31 December 2007, APNIC only claimed a deduction for 1.9102% of the total FX losses, possibly overstating its taxable income.

### **Recommendation**

PwC recommend that APNIC review the realised FX loss accounts and split out the losses attributable to investments and losses attributable to subscription fee revenue. Doing so may entitle APNIC to claim a larger deduction related to the realised losses for tax purposes.

# Summary of adjusted differences

Description	Balance Sheet				Comments	Income Statement
	Assets		Liabilities			
	Current	Non-current	Current	Non-current		
Employee benefits expense Provision for LSL – Non-current <b>(Audit adjustment to recognise LSL liability for all staff with more than 5 years service)</b>				(86,320)		86,320
<b>Totals</b>	-	-	103,056	(189,376)		86,320

# Summary of unadjusted differences

Description	Balance Sheet				Comments	Income Statement
	Assets		Liabilities			
	Current	Non-current	Current	Non-current		
Other Debtors Accounts Payable – DELL Computers <b>(Computer purchased as part of salary sacrifice)</b>	4,019		(4,019)			
<b>Totals</b>	<b>4,019</b>	<b>-</b>	<b>(4,019)</b>	<b>-</b>		<b>-</b>

# Independence

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## PricewaterhouseCoopers independence

Following enquiries of management and checks through the PricewaterhouseCoopers internal procedures I confirm to the best of my knowledge and belief that there have been:

no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and no contraventions of any applicable code of professional conduct in relation to the audit.

As Lead Auditor I signed a declaration to that effect that is attached to the Directors Report.

# Audit procedures with regard to fraud

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Under ASA 240 the auditor must consider the risk of material misstatement in the financial report as a result of fraud and error when planning and performing audit procedures and evaluating the results.

Management have a responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

In considering fraud or error we have considered:

- likelihood of misstatements arising from fraudulent financial reporting or omissions of amounts or disclosures designed to deceive financial statement users
- likelihood of misstatements arising from misappropriation of assets involving theft and embezzlement of assets

We have also reflected on reasons why frauds or errors are committed. These may include:

- management or other employees have an incentive or are under pressure
- culture or environment enables management to rationalise committing fraud or pressure enables them to rationalise committing a dishonest act
- circumstances exist such as ineffective controls
- the ability to override controls

# Audit procedures with regard to fraud

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Following our high level assessment of the risk of fraud or error, we considered areas within the APNIC Pty Ltd we believed material misstatements resulting from fraud or error (intentional or unintentional) would be more likely to occur, due to either control weaknesses or inherent susceptibilities and performed the following procedures:

- conducted enquiries of management and others within Plasvacc
- considered conditions generally present that may lead to fraud
- evaluated the risk of fraud and assessed the likelihood and potential for material impact on Plasvacc
- evaluated the impact of systems controls in relation to fraud
- discussed fraudulent activity with management

The risk, in general, of material fraud occurring is considered to be low. We are not aware of any matters which are currently being investigated by management.