APNIC Pty Ltd

Management Letter
Audit year ended 31 December 2008

PricewaterhouseCoopers

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Mr Richard Brown
APNIC Pty Ltd
Level 1 33 Park Road
MILTON QLD 4064

6 February 2009

Subject: Report to management for the audit year ended 31 December 2008

Dear Richard

It is my pleasure to present this report to management which summarises the significant audit and business issues, along with our internal control recommendations identified during our statutory 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 2008.

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.

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. In particular Irene Chan and her team who again made every effort to ensure the audit ran smoothly and efficiently. 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

Table of contents

APNIC Pty Ltd

Audit procedures with regard to fraud

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 included:

- 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

Following our high level assessment of the risk of fraud or error, we considered areas within APNIC Pty Ltd where 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 around the entity
- considered conditions generally present that may lead to fraud
- evaluated the risk of fraud and assessed the likelihood and potential for material impact on the entity's result
- evaluated the impact of systems controls in relation to fraud
- performed data analyses to highlight potentially fraudulent activities or bypassing of controls
- discussed fraudulent activity with management

In light of the matters raised we considered the nature and extent of our audit procedures and, where required, we extended the scope of our work.

Overall Audit Approach:

In line with regulatory guidance and professional standards, we have selected a combined audit approach including both test of controls and test of details.

We have tested controls around 3 key areas:

•Revenue and Receivables

•Purchases and Payables

•Payroll

For other material balances and where further work on above balances were appropriate; we have performed substantive testing to gain the necessary audit evidence in forming our opinion.

Significant audit and accounting issues

Impairment of ‘Available for Sale Assets’

Observation

APNIC holds several listed securities that have fallen significantly below their cost base. As diversified Australian securities, APNIC’s investments have followed the ASX decline closely. The investment has been classified as “Available for sale”.

Implication

AASB 139 stipulates that Impairment of ‘Available-for-Sale’ financial assets must be recognised in the P&L if the fair value is below cost and the decline of fair value below cost is **significant** or **prolonged**..

Significant or prolonged is open to interpretation; PricewaterhouseCoopers has deemed prolonged to be greater than12 months and significant to be greater than 20%. In respect of APNIC investment, the value of investment started to decline from 2007 and as at 30 June 2008 the % decline in value for the year alone was 27%. Therefore decline in fair value below cost meets the definition of both significant and prolonged..

Recommendation

The matter was discussed on the 15 January 2009 and adjustment taken up. Refer slide 10 for the adjustment

Significant audit and accounting issues - (Continued)

Disaster Recovery Plan

Observation

The Company has an IT infrastructure in place that could mitigate risks in the event of system failure. However, without a formal disaster recovery plan, the Company may not be able to recover its system and continue its operations should a disaster occur. The Company does have processes that they complete to ensure that the systems are appropriately backed up, and that tapes are stored securely. However, this is only one small step in an overall disaster recovery planning activity. Currently, there is no formally documented plan that would co-ordinate the back up/recovery activities.

Implication

Without a disaster recovery plan (DRP) the risk of continuity problems if there are system failures greatly increases.

Recommendation

To mitigate this risk, we recommend that an enterprise-wide disaster recovery plan be developed. As we understand APNIC is currently developing a documented DRP that will become operational in this financial year. We further recommend that a comprehensive enterprise-wide business impact risk assessment be an integral part of its DRP initiatives. A risk assessment will provide the basis for developing a sound business recovery plan. Additionally, the Company should plan on conducting a test to ensure that the planned activities would actually work in the event of an actual emergency. Specifically, a disaster recovery plan is a document that defines how security and disaster recovery are implemented in your Company. It identifies:

How the business is going to continue after a disaster;

Where everything is located;

Who the people assigned to support a disaster are and how they can be contacted;

How equipment is going to be repaired or replaced in case of a disaster and how data is going to be restored or recovered in case of a disaster;

The alternate location if the Company's facilities are not accessible.

This DRP should serve as a procedural guideline for a smooth and orderly recovery of data, and to facilitate a continuity of operations. This plan shall specify various roles and responsibilities of staff, making them better equipped to have data sent to a "hot site", installed, and ready for access at minimal cost, and within the shortest amount of time possible.

Significant audit and accounting issues (Continued)

Payroll Authorisation (Controls)

Observation

The current procedure for payroll is that Irene Chan prepares the pay run and also authorises the payment, no second signatory is required.

Implication

The following two implications relate to the above process:

1. Whilst APNIC does maintain a relatively small accounts team there is a lack of segregation of duties between the person preparing the payroll report and the person authorising the payment. It is good practice to have a secondary signatory on the payroll ensuring a four eye review of the process.

2. There is also a key person risk, in that if Irene is away, there needs to be someone with relevant knowledge that can approve the pay-run.

Recommendation

We recommend a second signatory be added to the authorisation process of Payroll. This with give greater segregation of duties and comfort over the process also enabling review to occur when key people are away.

Significant audit and accounting issues

Fraud Policy

Observation:

We understand that there is no policy concerning fraud in place. A fraud policy should at least cover the following areas:

- assessment of potential fraud risk;

- specific measurements to prevent and detect fraud;

- standard procedure in case fraudulent activity has been detected.

Implication

The implication is that there will be no formal way of dealing with fraud if it is detected. This may result in adverse and continuing consequences to the organisation.

Recommendation

We recommend that a formal fraud policy is developed.

Summary of adjusted differences (SAD)

	Balance Sheet				Comments	Income Statement
	Assets		Liabilities			
Description	Current	Non-current	Current	Non-current		
Dr Profit & Loss (Impairment) Cr Equity (Impairment Adjustment) **(To adjust for AASB 139 Impairment Revaluation)**						334,821 (334,821)
Totals	**-**	**-**	**-**	-		**-**

Summary of unadjusted differences (SUD)

	Balance Sheet				Comments	Income Statement
	Assets		Liabilities			
Dr Provision for LSL - Current **Cr** LSL Expense **(Adjustment to recognises the difference between Aurion and the GL)**			7,970			(7,970)
Dr Legal Fees (Phillips Cr Accrued Legal Expenses **(Audit adjustment for the accrual not taken up 31 December 2008)**				5,121		5,121
Total	**-**	**-**	**7,970**	**(5,121)**		**(2,849)**

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