



Audit and Risk Committee

AGENDA & REPORTS

for the meeting

Wednesday, 14 June 2023
at 8.30 am

in the Colonel Light Room, Adelaide Town Hall

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Membership	The Lord Mayor 1 Council Member 4 External Independent Members 2 Proxy Council Members
Quorum	4
Presiding Member	David Powell
Committee Members	The Right Honourable the Lord Mayor, Dr Jane Lomax-Smith Paula Davies John Oliver Simon Rodger Councillor Jing Li

1 Acknowledgement of Country

‘Council acknowledges that we are meeting on traditional Country of the Kurna people of the Adelaide Plains and pays respect to Elders past and present. We recognize and respect their cultural heritage, beliefs and relationship with the land. We acknowledge that they are of continuing importance to the Kurna people living today.

And we also extend that respect to other Aboriginal Language Groups and other First Nations who are present today.’

2 Apologies and Leave of Absence

Apology:

Paula Davies

3 Confirmation of Minutes

That the Minutes of the meeting of the Audit and Risk Committee held on 10 May 2023, be taken as read and be confirmed as an accurate record of proceedings.

View public 10 May 2023 Minutes [here](#).

4 Presiding Member Reports

5 Reports

5.1	Strategic Internal Audit Plan 23/24	3 – 18
5.2	Interim Report on the 2023 External Audit	19 – 24

6 Emerging Key Risks

7 Independent Member Discussion

8 Other Business

9 Closure

Strategic Internal Audit Plan 23/24

Wednesday, 14 June 2023

Audit and Risk Committee

Strategic Alignment - Enabling Priorities

Program Contact:

Alana Martin, Manager
Governance

Public

Approving Officer:

Michael Sedgman, Chief
Operating Officer

EXECUTIVE SUMMARY

This report contains the proposed one-year Internal Audit Plan (the Plan) for the City of Adelaide (CoA). The Plan has been drafted in consultation with the Executive Team, members of the Executive Strategic Risk and Internal Audit Group (SRIA) and CoA's internal audit provider in consideration of CoA's strategic risks and key priorities.

RECOMMENDATION

THAT THE AUDIT AND RISK COMMITTEE RECOMMENDS TO COUNCIL

That Council

1. Approves the City of Adelaide one-year Internal Audit Plan, contained in Attachment A to Item 5.1 on the Agenda for the meeting of the Audit and Risk Committee held on 14 June 2023.
-

IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	Strategic Alignment – Enabling Priorities The role of the City of Adelaide is to uphold the values of integrity and accountability. To ensure that the Council delivers services to the community as a leader, advocate and facilitator by maintaining a transparent decision-making process.
Policy	Alignment with the City of Adelaide Risk Management Operating Guideline
Consultation	Not as a result of this report
Resource	Not as a result of this report
Risk / Legal / Legislative	Sound risk and opportunity management enables well informed decision making and supports the delivery of the Strategic Plan
Opportunities	Sound risk and opportunity management enables well informed decision making and supports the delivery of the Strategic Plan
22/23 Budget Allocation	Not as a result of this report
Proposed 23/24 Budget Allocation	\$70,000
Life of Project, Service, Initiative or (Expectancy of) Asset	Not as a result of this report
22/23 Budget Reconsideration (if applicable)	Not as a result of this report
Ongoing Costs (eg maintenance cost)	Not as a result of this report
Other Funding Sources	Not as a result of this report

DISCUSSION

1. The one-year (2023/24) Internal Audit Plan (the Plan) for the City of Adelaide (CoA) has been drafted in consultation with the Executive Team, the members of the Strategic Risk and Internal Audit Group (SRIA) and CoA's internal audit provider in consideration of the CoA's strategic risks and key priorities within the Strategic Plan.
2. The Plan for 2023/24 includes a number of internal audits that can be facilitated using existing CoA resources. External providers will be used for strategic and compliance audits, where specialised skills and expertise are required. The intent of this approach is to ensure that appropriate assurance is provided to the Council in a way that achieves the best value for money, leveraging our in-house capability.
3. Each internal audit has been identified as a risk mitigation to the City of Adelaide's Strategic Risks and corresponding risk rating.
4. The following items are recommended in the Plan for 2023/24:
 - 4.1. Grants Management
 - 4.2. Community Safety
 - 4.3. Penetration Testing (Cyber Security)
 - 4.4. Legislative Compliance Framework
 - 4.5. Project Health Check
 - 4.6. Mercer Review
 - 4.7. PCI Compliance
 - 4.8. Post Implementation Review
 - 4.9. Lease Management
 - 4.10. Data Protection and Privacy
 - 4.11. Contract Management
 - 4.12. Record Keeping Audits
5. A brief draft scope for each review is included in **Attachment A**. A more comprehensive scope will be developed and presented to SRIA for approval prior to the internal audit being undertaken.
6. At the SRIA meeting on 2 June 2023, a request was made for the inclusion of two additional audits in the Strategic Internal Audit Plan 2023/24. The additional audits will be performed by Council's internal audit provider who will be invited to the July SRIA meeting to discuss options for these audits in consideration of the CoA's strategic risks and key priorities. When the two additional audits have been determined, an updated Strategic Internal Audit Plan 2023/24 will be provided at the following Audit and Risk Committee meeting.

ATTACHMENTS

Attachment A – Internal Audit Plan 2023-24

- END OF REPORT -

INTERNAL AUDIT PLAN

2023-2024

June 2023

ACKNOWLEDGEMENT OF COUNTRY

The City of Adelaide acknowledges that we are located on the traditional Country of the Kurna people of the Adelaide Plains and pays respect to Elders past, present and emerging.

We recognise and respect their cultural heritage, beliefs and relationship with the land. We also extend that respect to visitors of other Aboriginal Language Groups and other First Nations.

DOCUMENT PROPERTIES

Contact for enquiries and proposed changes

If you have any questions regarding this document or if you have a suggestion for improvements, please contact:

Contact Officer: Janet Crook
Title: Team Leader Corporate Governance
Program: Governance
Phone: (08) 8203 7293
Email: J.Crook@cityofadelaide.com.au

PURPOSE

The purpose of this document is to provide the City of Adelaide’s (CoA) Executive and Strategic Risks and Internal Audit (SRIA) members and subsequently the CoA’s Audit and Risk Committee (ARC) a proposed one-year Internal Audit (IA) Plan (plan). The plan has been presented to SRIA for endorsement prior to being submitted to the ARC for final review prior to implementation. The Internal Audit Plan relates to all areas of CoA including the subsidiaries.

A detailed project scope document will be developed prior to the commencement of individual projects. This is not a static document and the IA plan will be reassessed periodically to recognise CoA’s changing risks, controls and internal audit requirements. Regular risk monitoring and communication with Executive and SRIA will be undertaken to keep key stakeholders informed of any potential changes to organisational risks profiles and facilitate the on-going alignment of Internal Audit activities with organisational objectives. IA is reported monthly to SRIA which includes new scopes, outcomes and a report on current or outstanding actions.

WHY HAVE AUDITS BEEN SELECTED?

The intention of the audits detailed in the IA plan are aligned to deliver value within CoA’s context of its values, culture, customer service objective and Strategic Plan. The internal audits have been selected not to enable disciplinary action but rather as genuine opportunities in these areas to deliver value and internal audit will be a mechanism to help improve the likelihood of success.

It is envisaged that these internal audit projects, which are oriented towards opportunities to enhance Council services and the internal organisations services, will assist to contribute to achievement of strategic objectives, improving the risk culture at CoA and overall, assist CoA to deliver a better experience for the people living and working in the City of Adelaide.

The IA Plan for 22/23 includes a number of audits that can be facilitated utilising existing in-house CoA resources. External providers will be utilised for strategic and compliance audits where specialised skills and expertise are required.

Internal audits have been categorised as:

- Operational
- Strategic
- Compliance

Audits are identified to assist in mitigating CoA strategic risks which are outlined in the table below.

TYPE OF AUDIT

Three types of Audits	
Operational	To review the robustness of systems, policies and processes
Strategic	To provide an independent examination of the strategic objective a program, function, operation or the management systems and procedures of council to assess whether the administration is achieving value for money, efficiency and effectiveness
Compliance	To provide comfort that contractual or legislative / regulatory obligations are being met.

CoA STRATEGIC RISK REGISTER

Strategic risk	Risk description	Opportunity description
Personnel	Failure to attract and retain talented people	Attract and retain great staff that improve the organisational effectiveness of CoA and positively impact the community.
Relationships	Poor relationships with the community, government and private sector	To enhance stakeholder relationships which will assist in better partnerships and outcomes. Continue to build on and enhance relationships with other government bodies to empower partnerships and growth for the state.
Reputation	Negative reputation and public perception of CoA	Becoming an Industry Leader in Local Government. Developing stronger relationships with the community and building trust through proactive messaging and delivery of our customers
Organisational Culture	Poor organisational culture	Continuing to work towards a high performing culture via building strong and inspirational leadership that enables engaged and capable people.
Economic Outlook	Downturn in economic outlook resulting in reduced Council revenue	Increased business attraction to the city. Meeting a number of objectives in Council's Strategic Plan regarding the vibrancy of the city.
Project Delivery	Projects not delivered to quality, time or budget	Effective and efficient projects being undertaken with great community outcomes.
Service Delivery	Poor service delivery to our community	Delivery of Council's services is highly regarded by all customers, internal and external.
Compliance	Non-compliance of Council policies and legislative requirements	Best practice services and processes across all council operations.
Work Health and Safety	Failure to maintain a safe and healthy workplace	A safe and healthy work environment for all workers including staff, volunteers and contractors.
City Emergency	Insufficient emergency management preparation	Council as a community leader in times of crisis and assisting authorities where possible. CoA to continue to be a sector leader and assist with other councils and the LGA in both response and recovery.

Financial Sustainability	Failure to plan for and manage Councils finances.	Long term financial stability which provides an allowance to undertake a number of innovative projects for the community. Meeting the three main measures (1) Operating Surplus, (2) Asset Sustainability Ratio and (3) Net Financial Liabilities. Identifying ways to diversify revenue streams.
Technological	Lack of modern, integrated and secure digital environment.	Enhance City of Adelaide's ability to deliver modern digital services to the organisation and community stakeholders through modern IT technologies that are efficient and safe.
Cyber Security	Exposure or loss resulting from a cyber-attack or data breach.	Enhance City of Adelaide's ability to provide a secure and safe technological environment.
Climate Change	The climate is changing and will continue to change, in ways that will increasingly impact operations, infrastructure, services and the community at large.	That council understands climate risks and integrate climate adaptation and mitigation opportunities across council operations and our partners to create a climate resilient city.

INTERNAL AUDITS PREVIOUSLY UNDERTAKEN

2022 / 2023	2021 / 2022	2020 / 2021	2019 / 2020
Legislative Compliance	Record Keeping	Legislative Compliance	Legislative Compliance
Record Keeping	PCI Compliance	Record Keeping Audits	Section 7 Statements
PCI Compliance	Post Audit Implementation	PCI Compliance	Employee Travel Expenditure
ACMA Financial Processes	Payroll & Remuneration	Post Audit Implementation Review	Fraud Prevention
Workforce Planning & Staff Retention	North Adelaide Golf Course Financial Processes	Management of Leave Entitlements	Events Sponsorship
Cab Charges / Ride Shares & Pool Cars	Planning Development & Infrastructure Act 2016 Implementation	Employee Gifts and Benefits	Social Media
Asset Inspection	Fleet Management & Fuel Cards	Project Management Review	Park Lands Review
Essential Eight Maturity Model		Software Licence Review	Budget Management
Volunteer Management		Training & Development Internal Processes	

PROPOSED INTERNAL AUDITS FOR 2023/24

Name of Audit	Strategic Risk / Residual Risk Rating	Portfolio	Type of Audit	In-house/ provider	Commencement Date
Grants Management	Reputation High	City Shaping AEDA	Strategic	Provider	July 2023

This internal audit project will focus on the fairness, equity and transparency in relation to the Council's management and administration of grants issued. Consideration will consider governance arrangements, including roles & responsibilities, alignment with strategic objectives as well as overall processes (identification, assessment, prioritisation and selection process, approval) and reporting arrangements in respect of grants.

This audit will assist in mitigating the Reputation risks as outcomes will ensure that fairness, equity and transparency applies to all grants that are managed through CoA. Reputation is currently rated as a high residual risk on Council's Strategic Risk & Opportunity Register.

Name of Audit	Strategic Risk / Residual Risk Rating	Portfolio	Type of Audit	In-house/ provider	Commencement Date
Community Safety	Compliance High	City Shaping	Compliance	In-house	August 2023

The scope of this project will include consideration of the overall community safety framework, including:

- Policy and procedures in relation to community safety
- Overall organisation structure, resources, roles & responsibilities in relation to community safety
- Processes for conducting and recording community safety inspections
- Processes for issuing, appeals and waiving of any regulatory fines in relation to community safety

This audit will also consider the conclusion of the 2023 action plan and what is required for the new action plan.

This audit will assist in mitigating the Compliance risk and will determine whether appropriate governance structures, policies and processes are in place to ensure Council is meeting its legislative requirements. Compliance is currently rated as a moderate residual risk on Council's Strategic Risk & Opportunity Register.

Name of Audit	Strategic Risk / Residual Risk Rating	Portfolio	Type of Audit	In-house/ provider	Commencement Date
Penetration Testing	Cyber Security High	Corporate Services	Compliance	Provider	August 2023

The objective of this testing is to identify weaknesses within the CoA internal network on an ongoing basis. This testing is linked with the PCI Compliance review to be performed in November. This audit is required once a year.

This audit will assist in mitigating the Compliance risk as the outcomes of the annual audit will ensure that CoA is adhering to the Visa/Mastercard requirements in relation to customer credit card information. Compliance is currently rated as a moderate residual risk on Council's Strategic Risk & Opportunity Register.

Name of Audit	Strategic Risk / Residual Risk Rating	Portfolio	Type of Audit	In-house/ provider	Commencement Date
Legislative Compliance	Service Delivery Moderate	All	Compliance	In-house	September 2023

On-going assessment of CoA's legislative compliance work plan, auditing one Act at a time with actions monitored and managed in Promapp. This audit will perform a review of legislation and identify any gaps that CoA is not adhering to, to ensure that compliance is maintained at all times.

This audit will assist in mitigating the Service Delivery risks as outcomes will ensure compliance with Council's policies and legislative requirements while delivering CoA services to the community. Service Delivery is currently rated as moderate inherent risk and moderate residual risk on Council's Strategic Risk & Opportunity Register.

Name of Audit	Strategic Risk / Residual Risk Rating	Portfolio	Type of Audit	In-house/ provider	Commencement Date
Project Health Check	Project Delivery High	Corporate Services City Shaping City Services	Strategic	Provider	October 2023

This review will include an assessment of a project's management mechanisms, governance structure, project team roles and responsibilities, and project status reporting mechanisms. This audit will also consider identified metrics in the context of better practice across a range of sectors.

This audit will assist in mitigating the Project Delivery risk as the outcomes will assist in developing appropriate mechanisms to ensure projects are delivered on time, to quality and budget. Project Delivery is currently rated as a high residual risk on Council's Strategic Risk & Opportunity Register.

Name of Audit	Strategic Risk / Residual Risk Rating	Portfolio	Type of Audit	In-house/ provider	Commencement Date
Mercer Review	Organisational Culture High	Corporate Services	Operational	In-house	October 2023

This internal audit will focus on how Mercer reviews are performed to provide confidence and assurance in the process delivered to CoA. This will include assessment panels, review of guidelines and documentation and approvals given.

This audit will assist in mitigating the Organisational Culture risk as the outcomes of the audit will give assurance to management and staff that reviews are performed in accordance with the guidelines implemented and governance structures in place. Organisational Culture is currently rated as a high residual risk on Council's Strategic Risk & Opportunity Register.

Name of Audit	Strategic Risk / Residual Risk Rating	Portfolio	Type of Audit	In-house/ provider	Commencement Date
PCI Compliance	Compliance Moderate	Corporate Services	Compliance	Provider	November 2023

CoA requires a review of its compliance with the Payment Card Industry Data Security Standard (PCI DSS) and to report on compliance by presenting its acquiring bank with a completed Self-Assessment Questionnaire (SAQ). The internal audit will provide CoA with an understanding of the level of PCI DSS compliance associated with the payment processing facilities, and to provide guidance in areas of required remediation following the assessment. The audit is required once a year.

This audit will assist in mitigating the Compliance risk as the outcomes of the annual audit will ensure that CoA is adhering to the Visa/Mastercard requirements in relation to customer credit card information. Compliance is currently rated as a moderate residual risk on Council's Strategic Risk & Opportunity Register.

Name of Audit	Strategic Risk / Residual Risk Rating	Portfolio	Type of Audit	In-house/ provider	Commencement Date
Post Implementation Review	Compliance Moderate	All	Compliance	In-house	December 2023

This internal audit will focus on previous audits and how effectively controls have been managed and implemented. This will provide a level of comfort to Executive and identify any gaps and/or delay in the implementation of controls.

This audit will assist in mitigating the Compliance risks as the outcomes of the review will confirm that previous actions have been implemented and managed effectively. Compliance is currently rated as a moderate residual risk on Council's Strategic Risk & Opportunity Register.

Name of Audit	Strategic Risk / Residual Risk Rating	Portfolio	Type of Audit	In-house/ provider	Commencement Date
Lease Management	Relationships High	City Services City Shaping	Compliance	In-house	February 2024

This internal audit will include assessment of the following:

- Processes in place in relation to lease management including entering into the leases, managing ongoing lease arrangements (annual reviews, site inspections, consideration of any sub-lease arrangements), as well as processes in relation to lease terminations (as applicable)
- Review of transitioning of tenants onto new leases in line with the leasing policy
- Assessment of governance structures to facilitate fair and equitable decision-making for tenants

The audit will cover all aspects of leasing, including community, commercial leases and leases held within subsidiaries.

This audit will assist in mitigating the Relationships risk as outcomes of the review will ensure appropriate practices and processes are in place in the management of leases, governance structures in order to facilitate fair and equitable decision-making for tenants. Relationships is currently rated as a high residual risk on Council’s Strategic Risk & Opportunity Register.

Name of Audit	Strategic Risk / Residual Risk Rating	Portfolio	Type of Audit	In-house/ provider	Commencement Date
Data Protection and Privacy	Cyber Security High	All	Compliance	Provider	February 2024

This review will assess the design of the Council’s process for compliance with relevant privacy legislation and testing the operating effectiveness of key controls such as data management, data storage, privacy breach response and management. This will include an assessment to contemporary best practice. This will include the way sensitive information is stored, retained and deleted if no longer required (including CoA staff and customer information).

This audit will assist in mitigating the Cyber Security risks as outcomes will provide assurance to data protection of sensitive information and how it is stored at CoA. Cyber Security is currently rated as a high residual risk on Council’s Strategic Risk & Opportunity Register.

Name of Audit	Strategic Risk / Residual Risk Rating	Portfolio	Type of Audit	In-house/ provider	Commencement Date
Contract Management	Financial Sustainability High	Corporate Services	Strategic	Provider	April 2024
<p>Assessment of the contract management process currently in place within Council. This will include assessing it against contemporary, yet fit-for-purpose better practices and testing operating effectiveness of key controls across contract management, including:</p> <ul style="list-style-type: none"> • Appointment of contractors • Management of contractors • Management of risks including third party risks and high risks contracts • Compliance checks to be signed contracts and approval of variations • Compliance of contractors with the Council’s policies and procedures <p>This audit will also include a deep dive review for a sample of agreed Council contractors to assess the value of money outcomes of the contract. In selecting a targeted sample, consideration will be given to the overall expenditure of the services provided by the contract, contracts with higher potential for incorrect charges, service levels and performance. It will also review whether there is a consistent approach across all contracts.</p>					
<p><i>This audit will assist in mitigating the Financial Sustainability risk as outcomes will ensure that CoA is providing a consistent approach to all contracts through managing the contract and achieving value of money. Financial Sustainability is currently rated as a high residual risk on Council’s Strategic Risk & Opportunity Register.</i></p>					

Name of Audit	Strategic Risk / Residual Risk Rating	Portfolio	Type of Audit	In-house/ provider	Commencement Date
Record Keeping Audits	Compliance Moderate	Corporate Services	Compliance	In-house	May 2024
<p>This internal audit is a recommendation by the ICAC Commissioner on an annual basis and a random check on recordkeeping by sampling a selection of staff from each portfolio will be performed. This audit will be developed and facilitated in conjunction with Information Management as per requirements in the Record Keeping Operating Guideline.</p>					
<p><i>This audit will assist in mitigating the Compliance risk as outcomes will ensure that CoA employees are adhering to the Records Management Operating Guideline and the State Records Act 1997. Compliance is currently rated as moderate inherent risk and moderate residual risk on Council's Strategic Risk & Opportunity Register.</i></p>					

Interim Report on the 2023 External Audit

Wednesday, 14 June 2023

Audit and Risk Committee

Strategic Alignment - Enabling Priorities

Program Contact:

Anthony Spartalis, Manager
Finance & Procurement

Public

Approving Officer:

Michael Sedgman, Chief
Operating Officer

EXECUTIVE SUMMARY

Under Section 129 of the *Local Government Act 1999 (SA)* the Auditor must provide to Council a report on matters arising from the audit and specifically identify in the report, any irregularity in the Council's accounting practices or the management of the Council's financial affairs identified by the Auditor during the course of the audit.

BDO Chartered Accountants (BDO) completed their interim audit during the period 15 May 2023 through to 2 June 2023. As is normal practice and based on their work to date BDO have provided an "Interim Report on the 2023 External Audit" to the Presiding Member of the Audit and Risk Committee, Mr David Powell per **Attachment A**.

BDO's Interim Report notes they have identified no material deficiencies in internal controls which would impact audit testing or expose the Council to risk of material misstatement of results for the year ended 30 June 2023. A final report on matters arising from the audit will be provided to the Audit and Risk Committee on 6 October 2023.

RECOMMENDATION

THAT THE AUDIT AND RISK COMMITTEE

1. Notes the report and the Interim Report on the 2023 External Audit as per Attachment A to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 14 June 2023.
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IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	Strategic Alignment – Enabling Priorities Financial sustainability is critical to achieving our vision and Council will carefully manage its revenue, costs, debt and assets.
Policy	Not as a result of this report.
Consultation	Not as a result of this report.
Resource	Not as a result of this report.
Risk / Legal / Legislative	Section 126(4)(c) of the <i>Local Government Act 1999 (SA)</i> identifies the functions of an Audit Committee as: “Reviewing the adequacy of the accounting, internal control, reporting and other financial management systems and practices of the council on a regular basis”.
Opportunities	Not as a result of this report.
22/23 Budget Allocation	Not as a result of this report.
Proposed 23/24 Budget Allocation	Not as a result of this report.
Life of Project, Service, Initiative or (Expectancy of) Asset	Not as a result of this report.
22/23 Budget Reconsideration (if applicable)	Not as a result of this report.
Ongoing Costs (eg maintenance cost)	Not as a result of this report.
Other Funding Sources	Not as a result of this report.

DISCUSSION

1. The external auditors for the Council are BDO Chartered Accountants (BDO). The role of the external auditor is to provide an opinion to Council with respect to the audited financial statements. In planning the audit, the auditor considers the internal controls to determine their audit procedures for the purpose of expressing an opinion on the financial statements, and the effectiveness of the financial control environment.
2. Under Section 129 of the *Local Government Act 1999 (SA)* the auditor must provide to Council a report on particular matters arising from the audit and specifically identify in the report, any irregularity in the council's accounting practices or the management of the council's financial affairs identified by the auditor during the course of the audit.
3. At the meeting of the Audit and Risk Committee on 3 February 2023, the Audit and Risk Committee endorsed the proposed 2022-23 End of Year financial reporting process and external audit timetable. The associated report highlighted that BDO had scheduled to carry out their audit in two parts with the interim audits conducted in May 2023 and the final phase of the audit concentrating on the Corporation's draft financial statements to be carried out at the end of August 2023.
4. BDO have provided an "Interim Report on the 2023 External Audit" to the Presiding Member of the Audit and Risk Committee, per **Attachment A**.
5. At the time of the "Interim Report on the 2023 External Audit" BDO had not completed testing of all the core controls because some relate to annual processes and consequently will not occur until the end of the financial year with others more closely aligned to testing normally conducted after year-end.
6. The controls to be tested did not yield exceptions in the prior year nor does current internal reporting indicate significant issues.
7. Based on the work-to-date, BDO's Interim Report notes they have identified no material deficiencies in internal controls that would lead to a qualification to the audit report on internal controls.
8. Key issues identified during the audit planning process included:
 - 8.1. Revaluation, depreciation, useful lives and residual values of Infrastructure, Property Plant and Equipment Assets.
 - 8.2. Accounting treatment of Capital Work in Progress.
 - 8.3. Management override of internal controls – standard compliance check.
 - 8.4. Cut off grant funding and accuracy of any amounts deferred at 30 June 2023.
 - 8.5. Change in IT platform.
 - 8.6. Accounting for Non-Current Assets Held for Sale.
 - 8.7. Accounting for amendments made to the Central Market Arcade development contract.
9. It is appropriate that the Audit and Risk Committee notes the Interim Report on the 2023 External Audit.
10. In accordance with the agreed timetable endorsed by the Audit and Risk Committee at the 3 February 2023 meeting, BDO will present a final report on matters arising from the audit to the Audit and Risk Committee on 6 October 2023 (revised from 29 September 2023).

ATTACHMENTS

Attachment A – Interim Report on the 2023 External Audit

- END OF REPORT -

Mr David Powell
Presiding Member - Audit & Risk Committee
The Corporation of the City of Adelaide
GPO Box 2252
ADELAIDE SA 5001

31 May 2023

Dear Mr Powell

INTERIM REPORT ON THE 2023 EXTERNAL AUDIT

We are pleased to provide the members of the Audit & Risk Committee an update on the 2023 External Audit.

We have conducted our interim audit visits, in line with our annual audit plan dated 25 January 2023. Our work to date has covered:

- Our annual assessment of risk and potential implications for the audit of the financial report.
- Our annual assessment of risk and potential implication for the audit opinion on internal controls.
- A review of internal controls and determination of those that will be relied upon and tested as part of our audit strategy for the audit of the annual financial statements.
- Interim testing of internal controls for the control audit opinion.
- Interim testing of a sample of transactions recorded in revenue, operating expenditure and payroll expenditure.
- Analytical review of interim results to identify any unusual trends or items that may require additional audit attention.
- Review of interim testing to ensure that there are no underlying deficiencies in internal controls or matters that require additional attention as part of our audit on the financial report.
- Review of the IT environment and any IT general controls that are relevant to the financial reporting process and our audit.

We have also updated our understanding in relation to key financial reporting issues that were identified in our audit planning process, as follows:

- Revaluation, depreciation, useful life and residual value of infrastructure property, plant and equipment,
- Accounting treatment of Capital Work In Progress (WIP),
- Management override of internal controls,
- Cut-off of grant funding and accuracy of any amounts deferred at 30 June 2023; and
- Changes in IT platform.

Two additional risks have been identified subsequent to the presentation of our annual audit plan, including:

- Accounting for non-current assets held for sale, and
- Accounting for amendments made to Central Market Arcade development contract.

Status update on key issues

Revaluation, depreciation, useful life and residual value of Infrastructure, Land & Building Assets

Council revalue all material asset classes on a regular basis such that carrying values are not materially different from fair value. Revaluations are carried out on a rotational basis by Council's employees in conjunction with independent valuers. This year, we have been briefed by management that there will be a revaluation of Park Land and Open Space Assets (i.e. sport fields and sport equipment, pumps and water features).

Furthermore, we were advised by management that useful lives of Council's fixed assets continue to be revisited and revised where appropriate.

It is expected that these engagements will be completed as part of the year end reconciliation process, and this will be available to us by our final visit commencing 21 August 2023.

Capital Work In Progress

We have been briefed on the progress in relation to capital work in progress, in particular the capitalisation and/or expensing of items and the handover process of completed capital projects during the year. Similar to prior year, management does not intend to perform any manual capitalisation for assets that have reached practical completion before the reporting date as part of the year-end process and all capitalisation will happen in Assetics. Projects that have reached practical completion but not yet capitalised to Assetics will remain in WIP and management has assessed that any depreciation impact on Council's surplus or deficit would be clearly trivial to the financial statements.

It is expected that the underlying asset records and associated reconciliations will be updated after year end and completed before the commencement of the year-end visit.

Management override of internal controls

Our interim testing has not identified any evidence of management override of internal controls. We will revisit this during our year-end visit, complete our testing and report our findings accordingly.

Cut-off of grant funding and accuracy of any amounts deferred at 30 June 2023

Council continued to be awarded a significant number of grants during the year. However, the ability to effectively spend these grants has been limited due to the shortage of contractors or internal resources. As a result, it is expected that there will be a significant portion of grant funding to be deferred as at 30 June 2023 and carried forward into following reporting period. We have been provided with Council's grant register and been briefed on management's assessment process to determine whether a grant is of capital or operating nature. We have made initial inquiries with management and will revisit this accounting during our year-end visit.

Changes in IT platform

We started undertaking the work around IT general controls and have completed the work on the designing of relevant controls, especially around the change process with no exception noted. Implementation testing for these relevant controls will be finalised as part of the year-end visit.

Accounting for non-current assets held for sale

We have been briefed by management with regard to the changes to Council's non-current assets held for sale from 1 July 2022 to date. We have been advised there might be further changes to the balances up to the reporting dates. We discussed the need to consider adjustment for revaluation of assets immediately prior to the transfer to asset held for sale during the year, including any impairment adjustments and other aspects of the transaction should they be relevant.

We will revisit the matter during our year-end visit to assess the final accounting impact for additional changes, if any and disclosures made in the financial statements.

Accounting for amendments made to Central Market Arcade development contract

We have been briefed on the progress of the Adelaide Central Market Complex development contract including the amendments made to date. We have held discussion with management about their considerations with regard to the accounting for such changes and we will revisit the matter during our year-end visit to assess the final accounting impact and disclosures made in the financial statements.

Update on our audit opinion in relation to internal controls

We have commenced planning and testing of internal controls for the purpose of providing an audit opinion on Council's internal controls. Specifically that controls exercised by the Council in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Council have been conducted properly and in accordance with legislative requirements.

Our assessment of internal controls is based on the criteria in the *Better Practice Model - Financial Internal Control for South Australian Councils* as issued by the Local Government Association of South Australia.

At the time of this report, we have not completed all testing of core controls as some relate to annual processes and consequently will not occur until the end of the financial year, or others are more closely aligned to testing we would normally conduct after year end. The controls to be tested did not yield exceptions in the prior year nor does the current Promapp reporting indicate significant issues.

Based on the work to date, we have not noted any material exceptions that would lead to a qualification to the audit report on internal controls. We will continue our work on internal controls at the year-end visit and will report to Council accordingly.

Please contact me if you have any questions or need any further information.

Yours faithfully

BDO Audit Pty Ltd

Linh Dao
Director