

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