

# Matters arising from External Audit

## Finance audit

Friday, 6 October 2023  
Audit and Risk Committee

Strategic Alignment - Enabling Priorities

**Program Contact:**  
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Finance & Procurement

Public

**Approving Officer:**  
Michael Sedgman - Chief  
Operating Officer

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## EXECUTIVE SUMMARY

Under Section 129 (4) of the *Local Government Act 1999 (SA)* (the Act) the external auditor appointed by Council must provide to the Council a report on particular matters arising from the audit of its financial statements and the controls exercised by Council. The report must specifically identify any irregularity in Council's accounting practices or in the management of the Council's financial affairs identified by the auditor during the course of the audit.

Under Section 129 (3) of the Act, the auditor must provide to Council an audit opinion with respect to the financial statements and the controls associated with financial transactions.

BDO, Council's appointed auditor, has now completed their end of year audit and have provided an 'Annual Completion Report for the year ended 30 June 2023' to the Presiding Member of the Audit and Risk Committee for City of Adelaide and subsidiaries, refer **Attachments A**

BDO's 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.

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## RECOMMENDATION

### THAT THE AUDIT AND RISK COMMITTEE

1. Notes the 'City of Adelaide Annual Completion Report for the year ended 30 June 2023' from Council's external auditors, BDO, contained in Attachment A to Item 7.4 on the Agenda for the meeting of the Audit and Risk Committee held 6 October 2023.
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## IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	<a href="#">Strategic Alignment – Strong Economies</a> Financial sustainability is critical to achieving our vision and Council will carefully manage its revenue, costs, debts, 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 129 of the <i>Local Government Act 1999 (SA)</i>
Opportunities	Not as a result of this report
23/24 Budget Allocation	Not as a result of this report
Proposed 24/25 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
23/24 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. In accordance with Section 128 of the *Local Government Act 1999 (SA)* (the Act), the Council has appointed BDO as Council's auditor.
2. In accordance with Section 129 of the Act, the external auditor is to undertake an annual review and provide an audit opinion on Council's financial statements and the controls exercised by Council in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.
3. The auditor must provide to the Council a report on particular matters arising from the audit, specifically identifying 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.
4. 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 timetable included presenting a report to the Audit and Risk Committee as well as providing the opportunity to discuss the findings of the auditor in confidence, without management being present.
5. At the Audit and Risk Committee Meeting held on 14 June 2023, BDO provided an 'Interim Report' on the 2022/23 external audit. BDO's Interim Report noted that to date they have found no material deficiencies in internal controls which would impact audit testing or expose the Council to any risk of material misstatement or results for the year ended 30 June 2023. In addition, BDO's Interim Report provided a status update on key issues that Council were taking appropriate action on.
6. Combined with the opportunity to discuss the findings of the auditor in confidence, and receipt of the annual financial statements report, the Audit and Risk Committee is considered to have sufficient relevant information to assist its determination that the financial accounts give a true and fair view of the Corporation of the City of Adelaide's state of affairs as at the date.
7. In accordance with the Act this report will be provided by the auditor to the Audit and Risk Committee and Principal Member of the Council (who must then ensure that a copy is provided to the Chief Executive Officer and other members of Council).

### Report on Matters Arising from the Audit

8. The external auditor, Ms Linh Dao of BDO has completed the audit of the financial statements and provided audit clearance for the Audited Financial Statements subject to:
  - 8.1. Review of subsequent events post 30 June 2023
  - 8.2. Receipt of written management representation on various matters
  - 8.3. Receipt of formally adopted financial statements and agreement of these the draft financial statements provided to them to date.
9. These are scheduled to be completed subsequent to the Audit and Risk Committee meeting on 6 October 2023.
10. As part of their audit process BDO have tabled their final Annual Completion Report dealing with matters arising from the audit included as **Attachment A**. This report addresses the following:
  - 10.1. The status of the audit
  - 10.2. Key accounting and audit matters
  - 10.3. Adoption and impacts of new accounting standards
  - 10.4. Summary of any misstatements
  - 10.5. Internal controls.
11. Key areas of focus addressed by the report include:
  - 11.1. Revaluation of Infrastructure, Property, Plant and Equipment.
    - 11.1.1. Park Land and Open Space Assets were revalued in 2023, which resulted in a decrement of \$19.1m due to the removal of garden beds.
    - 11.1.2. Further adjustments were made through the revaluation reserve from the identification of duplicate assets, in addition to a review and adjustment of useful lives of 2 building assets.

- 11.2. Accounting for Treatment of Work In Progress (WIP).
    - 11.2.1. BDO have noted the balance in the WIP account at 30 June 2023 of \$43.8 million. The balance included some capital works that had reached practical completion before 30 June 2023, but had not been recognised to their respective class of assets. The impact on depreciation was immaterial.
    - 11.2.2. The Central Market Arcade Development prepayment for construction work for CoA returnable work under this arrangement based on revised cash flow forecasts and the project timeline has been assessed with no exceptions noted.
  - 11.3. Cut-off of grant funding and accuracy of any amounts deferred at 30 June 2023.
    - 11.3.1. AASB 1058 requires an entity to recognise grants in profit or loss when (or to the extent that) the entity satisfies its performance obligations under the grant agreement. Such performance obligations are satisfied either over time or at a point in time
    - 11.3.2. 5 grants (4 of a capital nature and 1 of an operating nature) were not recognised over time as Council constructed the assets or as it provided the services, but rather, at a point in time in accordance with milestone schedule forming part of the grant agreement.
    - 11.3.3. As the impact of this was not material to the financial statements it was not corrected and has been included in the 'Summary of Uncorrected Misstatements' section of this report.
  - 11.4. Accounting for non-current assets held for sale.
    - 11.4.1. A draft agreement is currently being negotiated between Council and the State Government regarding the development of a new Aquatic Centre. As a result, an impairment of \$18.5mil was recognised through the asset revaluation reserve to reflect the asset's revised remaining service potential at 30 June 2023.
    - 11.4.2. A provision of \$13.8 million was calculated, representing Council's obligation to contribute towards the demolition work of the current facility as part of the contract however the recognition of such liability is determined to be dependent on whether the contract is executed before the financial statements are authorised for issue.
  - 11.5. It should be noted that the uncorrected misstatements noted in the report were agreed improvements and consider the misstatements are immaterial individually and in aggregate to the financial report taken as a whole.
  12. The audit was conducted in accordance with the Australian Auditing Standards as required by the Act and provides Council with reasonable assurance that the Financial Statements are free of material misstatement.
  13. The report identified no material deficiencies existed in the accounting treatment and disclosures of matters previously identified as significant risks.
  14. The audit did not identify any significant deficiencies with internal controls.
  15. The audit has concluded that the consolidated financial reports of the City of Adelaide present fairly, in all material respects, the entities financial position as at 30 June 2023.
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## ATTACHMENTS

**Attachment A** – City of Adelaide Annual Completion Report for year ended 30 June 2023

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