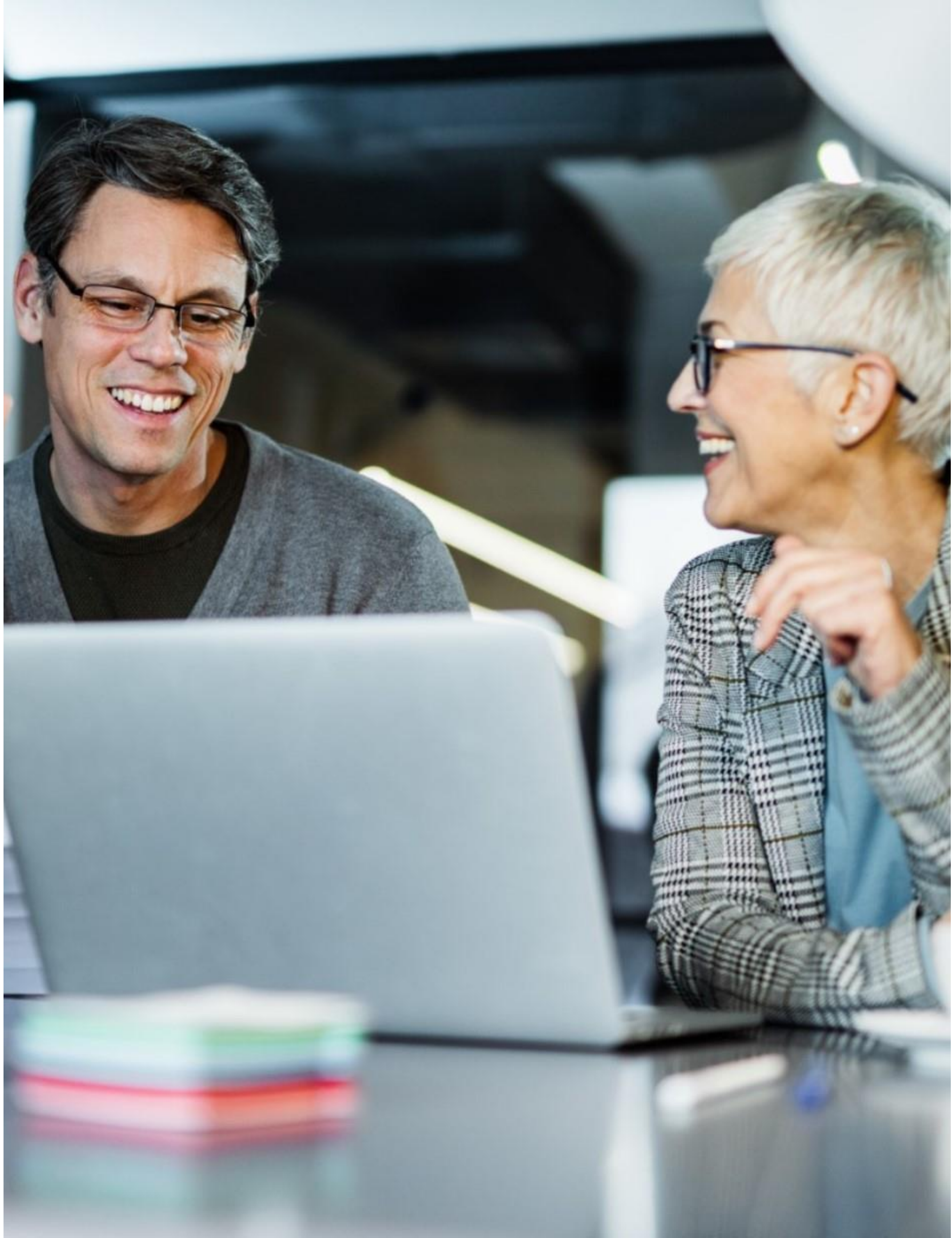
CITY OF ADELAIDE

Annual completion report

YEAR ENDED 30 JUNE 2023

IDEAS | PEOPLE | TRUST

CONTENTS



Dear Audit and Risk Committee Members

We are pleased to present this report to the Audit and Risk Committee of City of Adelaide (the 'Council') in relation to the 30 June 2023 annual audit.

As at the date of this report, we have substantially completed our audit and subject to the satisfactory resolution of the matters outlined in the Executive Summary, we expect to issue an unmodified audit report.

We have set out in this document the significant matters arising from our audit. This summary covers those matters we believe to be material in the context of our work.

We look forward to the Audit and Risk Committee meeting on 6 October 2023 where we will have the opportunity to discuss this report.

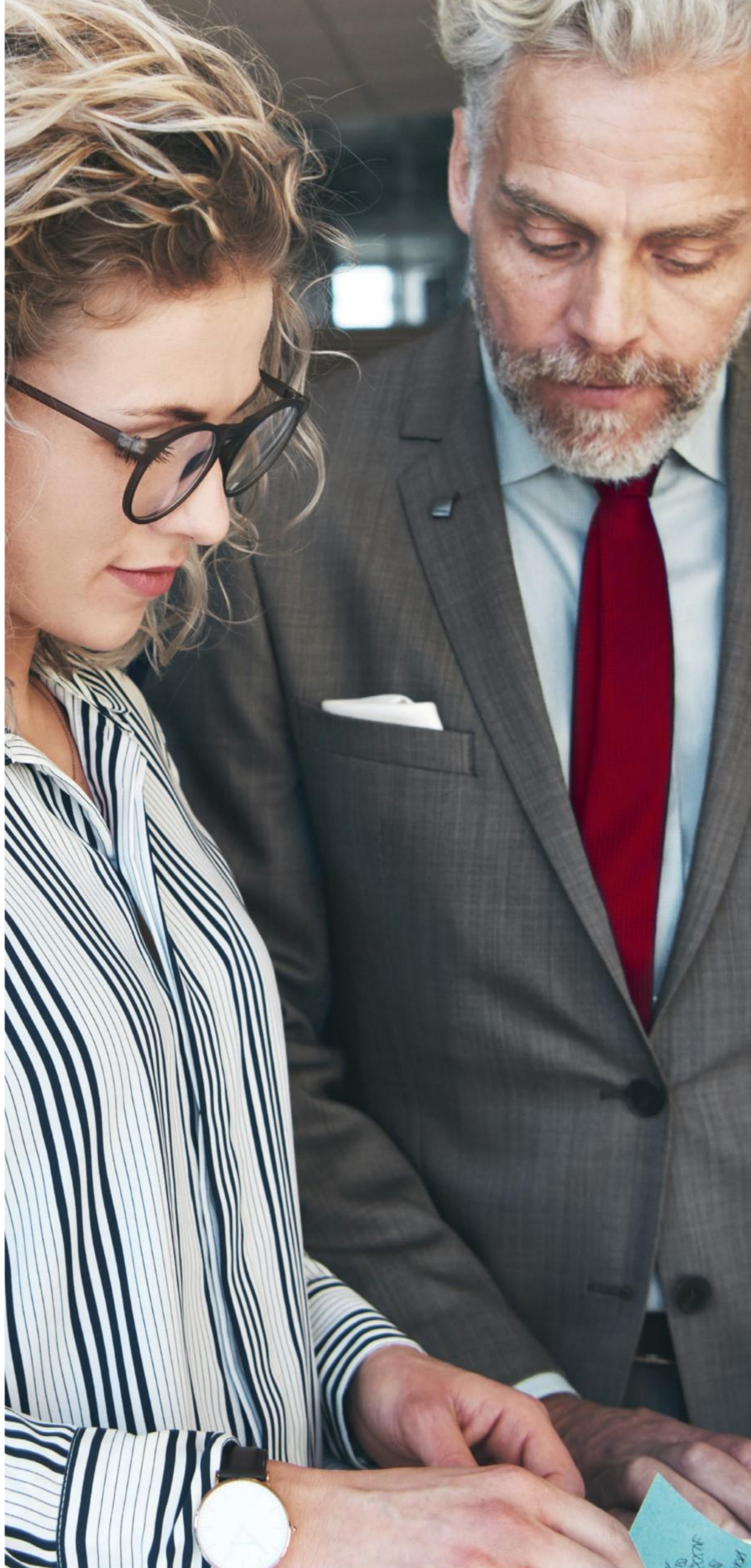
Should you require clarification on any matter in this report before this date, please do not hesitate to contact me on 8 7324 6147.

We would like to take this opportunity to extend our appreciation to management for their assistance and cooperation throughout the course of our audit.

Yours faithfully

Linh Dao
Engagement Partner

Adelaide, 28 September 2023



EXECUTIVE SUMMARY

PURPOSE

The purpose of this report is to communicate significant matters arising from our audit to the Audit and Risk Committee. This report has been discussed with management.

SCOPE

Our audit was conducted in accordance with Australian Auditing Standards, the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011* for the year ended 30 June 2023.

STATUS OF THE AUDIT

Our audit of the financial report is substantially complete. We expect to issue an unmodified audit report, subject to satisfactory completion of the following:

- Review of subsequent events post 30 June 2023
- Receipt of written management representation on various matters; and
- Receipt of formally adopted financial statements and agreement of these to the draft financial statements provided to us to date.

A draft of the proposed audit report is included at Appendix 1.

SUMMARY OF MISSTATEMENTS

We have identified misstatements during our audit. The list of corrected and uncorrected misstatements is included in the respective section of this report.

We have not identified any uncorrected misstatements that, in our judgement, either individually or in aggregate, could have a material effect on the financial report for the year ended 30 June 2023.

AREAS OF AUDIT FOCUS

In performing our audit, we have identified those matters that, in the auditor's judgement, were of the most significance in the audit of the financial report. Our audit procedures also focused on areas that were considered to represent significant and elevated risks of material misstatement. These areas of focus are outlined below:

- Revaluation 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
- Changes in IT platforms
- Accounting for non-current assets held for sale

Refer to the relevant section for details on the significant risk areas and other areas focused on during the audit.

AREAS OF AUDIT FOCUS

In assessing the risks of material misstatement at the planning phase, we used a spectrum of risk based on the likelihood of a misstatement occurring and the magnitude of the misstatement in the context of our materiality. Our audit procedures focused on areas that were considered to represent risks of material misstatement.

We set out the areas that were considered key areas of focus along with an outline of the work performed and a summary of findings.

Revaluation of infrastructure, property, plant and equipment		
Description	**Audit work performed**	**Summary of findings**
Council's infrastructure, property, plant and equipment is carried at valuation. There is a risk that these balances are misstated as a result of the application of inappropriate valuation methodologies, or incorrect underlying assumptions.	We evaluated the competence, capability and objectivity of the independent valuers as well as staff undertaking the work, obtained an understanding of their work and evaluated its appropriateness. We questioned management on reassessment of useful lives for a number of assets, vouched explanations to supporting documents where necessary and evaluated the treatment of any adjustments.	This year, Council revalued Park Land, and Open Space Assets, which resulted in a decrement of $19.1mil, $12.78mil of which was debited against the asset revaluation reserve to the extent of any credit balance existing for this class of assets. The remainder was recognised in profit or loss. A large portion of this related to garden beds which were capitalised prior to Council's accounting policy being put in place, which is to recognise the cost of these through surplus or deficit when incurred. During the year, management identified • some instances of duplicated assets within the asset records; and • changes required as part of the reassessment of remaining useful lives of assets, which resulted in decrements for 2 building assets; which were adjusted through the asset revaluation reserve. Further discussion on the Aquatic Centre impairment has been included in the 'Accounting for non-current assets held for sale' area of focus, please refer below. No other exceptions were noted from our testing.

AREAS OF AUDIT FOCUS *CONTINUED*

Accounting treatment of Capital Work In Progress (WIP)		
Description	**Audit work performed**	**Summary of findings**
There is a risk that the accounting treatment of items captured within Capital WIP may not be in accordance with Australian Accounting Standards.	We obtained the WIP schedule and reviewed in detail a sample of projects outstanding at the end of the year to ensure they are likely to generate capital assets. We reviewed a sample of assets transferred out of Capital WIP to check that the categorisation and value allocated to the relevant fixed asset class is appropriate. We made inquiries on the Central Market Arcade (CMAR) development and assessed the appropriateness of the ongoing accounting treatment for relevant financial statement areas.	We noted the financial statements reported a significant balance of Capital WIP of $43.8mil as at 30 June 2023 (2022: $37.6mil and 2021: $15.9mil). The increase in Capital WIP is mainly due to an increased number of projects being undertaken during the year, and general disruptions in the supply chain with contractors and materials. 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 in Assetics. We reviewed and concurred with management that the impact on the depreciation of the relevant assets on Council's surplus or deficit for the year would be clearly trivial and no adjustments were required. We discussed with management the CMAR development and assessed the accounting for prepayments for construction work for CoA returnable work under this arrangement based on revised cash flow forecasts and project timeline. No exceptions were noted from our work.

AREAS OF AUDIT FOCUS *CONTINUED*

Management override of internal controls

Description	Audit work performed	Summary of findings
Australian Auditing Standards require that we presume there is a risk that management has the ability to manipulate accounting records and override control that otherwise appear to be operating effectively.	Our response included a review of key internal controls at the Council to mitigate the risk of management override. We tested the appropriateness of journal entries and other adjustments made in the preparation of the financial report. We reviewed accounting estimates for bias, and evaluated the business rationale (or lack of) of any significant transactions that are outside of the normal course of business or that otherwise appear to be unusual.	We did not identify any evidence of misstatement due to management override of internal controls.

AREAS OF AUDIT FOCUS *CONTINUED*

Cut-off of grant funding and accuracy of any amounts deferred at 30 June 2023		
Description	**Audit work performed**	**Summary of findings**
There is a risk of error in the calculation of grant income recognised and deferred at the end of the year by reference to grant agreements and Australian Accounting Standards.	We obtained the schedule of grant income recognised and deferred at year end. We selected a sample of grants and obtained the agreements to review in detail and test that they have been recognised in accordance with AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities.*	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, if; • the grant is a transfer to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity (i.e. capital grant); or • the grant creates enforceable rights and obligations, and includes sufficiently specific performance obligations. Such performance obligations are satisfied either over time or at a point in time. From our sample testing, we noted that 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. 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. We recommend management continue to revise the approach around grant income recognition to ensure compliance with accounting standards and provide useful information to relevant stakeholders.

AREAS OF AUDIT FOCUS *CONTINUED*

Changes in IT platforms		
Description	**Audit work performed**	**Summary of findings**
We understand that Council has moved both TechOne and Pathway from onsite application to a cloud-based solution and certain business processes have been updated to fully take advantage of the changes. There is a risk that data may have not been transferred into the cloud-based systems appropriately which could result in material misstatements.	We considered relevant IT general controls around IT system changes during the year especially controls regarding data conversion. We performed substantive procedures to check that balances have been brought across systems appropriately.	No exceptions were noted from the testing performed.

AREAS OF AUDIT FOCUS *CONTINUED*

Accounting for non-current assets held for sale		
Description	**Audit work performed**	**Summary of findings**
Council had several assets held for sale in prior year which were realised in 2023, with additional surplus assets being transferred to held for sale during the year. Furthermore, there are discussions with State Government for the development of a new Adelaide Aquatic Centre ('AAC') that will impact the carrying amount of this asset at reporting date. There is a risk of error in relation to the accounting for these assets.	We audited the accounting treatment by reference to supporting documents including management position papers, relevant agreements, and the requirements of applicable Accounting Standards. We assessed if relevant disclosures made to the financial statements were in accordance with the applicable reporting framework.	Note 19 discloses $26mil non-current assets held for sale relating to the former Franklin Street bus terminal. Immediately prior to the transfer to assets held for sale, the associated land had been revalued in accordance with the requirement of AASB 116 and an increment of $5.1mil was appropriately credited to the asset revaluation reserve. Furthermore, we noted a draft agreement is currently being negotiated between Council and the State Government regarding the development of the new AAC. According to this arrangement, the State Government will take possession of the current AAC from 1 August 2024 for demolition and construction, and upon completion, operations of the new AAC. 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. A provision of $13.8mil 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 (i.e. whether or not there exists an adjusting subsequent event). We will monitor the progress of the agreement and finalise the audit procedures accordingly. No other exceptions were noted from our testing.

SUMMARY OF MISSTATEMENTS

UNCORRECTED MISSTATEMENTS

We detail below the uncorrected misstatements which we have identified during the audit, and that were determined by management to be immaterial, both individually and in aggregate to the financial report taken as a whole.

Misstatements have not been included if they are considered to be clearly trivial which we have set at $200,000. Matters which are clearly trivial are regarded as clearly inconsequential when taken individually or in aggregate.

We will seek representation from management to acknowledge that:

- Uncorrected misstatements have been brought to their attention by us; and
- They have considered the effect of any uncorrected misstatements, aggregated during and pertaining to the latest period, on the financial report and consider the misstatements are immaterial individually and in aggregate to the financial report taken as a whole.

Description	Assets	(Liabilities)	Reserves	(Profit)/Loss
Adjustment to recognise grant income as Council satisfies its performance obligations under relevant agreements	$395,857	$1,163,525	($2,246,610)	$687,228
Net effect of corrected misstatements	$395,857	$1,163,525	($2,246,610)	$687,228

SUMMARY OF MISSTATEMENTS *CONTINUED*

CORRECTED MISSTATEMENTS

We identified the following misstatements during the course of our audit which have been corrected:

Description	Assets	(Liabilities)	Reserves	(Profit)/Loss
Overstatement of prepayment and creditor for deposit invoice with settlement occurred subsequent to the year end.	($483,450) $483,450	-	-	-
Adjustment of rent prepayments as a deduction of lease liabilities in accordance with AASB 16	($433,216) $433,216	-	-	-
Net effect of uncorrected misstatements	-	-	-	-

INTERNAL CONTROL

CURRENT YEAR

In accordance with ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, we are required to communicate in writing, significant deficiencies in internal control identified during our audit to those charged with governance on a timely basis.

The standard defines a deficiency in internal control as:

1. A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial report on a timely basis; or
2. A control necessary to prevent, or detect and correct, misstatements in the financial report on a timely basis is missing.

Significant deficiency in internal control means a deficiency or combination of deficiencies in internal control that, in the auditor’s professional judgement, is of sufficient importance to merit the attention of the Audit and Risk Committee.

Our audit procedures did not identify any significant deficiencies that in our professional judgment are of sufficient importance to merit the attention of the Audit and Risk Committee.

We intend to provide an unqualified audit report in relation to compliance with Section 125 of the *Local Government Act 1999*.

OTHER REPORTING REQUIREMENTS

INDEPENDENCE AND ETHICS

In conducting our audit, we are required to comply with the independence requirements of the *Local Government Act 1999 and the Local Government (Financial Management) Regulations 2011* and Part 4A of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

We have obtained independence declarations from all staff engaged in the audit.

We also have policies and procedures in place to identify any threats to our independence, and to appropriately deal with and if relevant mitigate those risks.

We have not become aware of any issue that would cause any member of the engagement team, BDO or any BDO network firm to contravene any ethical requirement or any regulatory requirement that applies to the audit engagement.

BDO has not provided any other services during the audit to City of Adelaide.

The *Local Government Act 1999* requires the lead auditor to make a declaration to the directors regarding independence. We are in a position to make this declaration, a draft of which has been included at Appendix 2.

NON-COMPLIANCE WITH LAWS AND REGULATIONS

We have made enquiries in relation to any non-compliance with laws and regulations during the course of our audit. We have not identified any instances of non-compliance with laws and regulations as a result of our enquiries.

We have not identified any reportable matters during the course of our audit.

FRAUD

Management have confirmed that there were no matters of fraud identified for the period under audit, or subsequently. It should be noted that our audit is not designed to detect fraud however should instances of fraud come to our attention we will report them to you.

We have not identified any instances of fraud during the course of our audit.

APPENDIX 1 PROPOSED AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT

TO THE PRINCIPAL MEMBER OF CITY OF ADELAIDE

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of City of Adelaide and its subsidiaries (the Council), which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the declaration by those charged with governance.

In our opinion the accompanying financial report presents fairly, in all material respects, the financial position of the Council as at 30 June 2023, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards, the *Local Government Act 1999*, and the *Local Government (Financial Management) Regulations 2011*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Council in accordance with the *Local Government Act 1999 and* the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Those charged with governance are responsible for the other information. The other information obtained at the date of this auditor's report are the general purpose financial reports of City of Adelaide's regional subsidiaries including Adelaide Park Lands Authority, Adelaide Central Market Authority, Adelaide Economic Development Agency and the Annual Report of The Brown Hill and Keswick Creeks Stormwater Board.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

APPENDIX 1 PROPOSED AUDIT REPORT *CONTINUED*

Responsibilities of management and those charged with governance for the Financial Report

Management is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011* and for such internal control as management determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, management is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Council's financial reporting process.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd

Linh Dao
Director

Adelaide, XX September 2023

APPENDIX 1 PROPOSED AUDIT REPORT *CONTINUED*

INDEPENDENT ASSURANCE REPORT

ON THE INTERNAL CONTROLS OF CITY OF ADELAIDE

Opinion

We have undertaken a reasonable assurance engagement on the design and the operating effectiveness of controls established by City of Adelaide ('Council') in relation to financial transactions relating to the receipt, expenditure and investment of money, acquisition and disposal of property and incurring of liabilities, throughout the period 1 July 2022 to 30 June 2023 relevant to ensuring such transactions have been conducted properly and in accordance with law.

In our opinion, in all material respects:

(a) The controls established by Council in relation to financial transactions relating to the receipt, expenditure and investment of money, acquisition and disposal of property and incurring of liabilities were suitably designed to ensure such transactions have been conducted properly and in accordance with law; and

(b) The controls operated effectively as designed throughout the period from 1 July 2022 to 30 June 2023.

Basis for opinion

We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3150 *Assurance Engagements on Controls* issued by the Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The Council's responsibilities for the internal controls

The Council is responsible for:

a) The receipt, expenditure and investment of money, acquisition and disposal of property and incurring of liabilities;

b) Identifying the control objectives

c) Identifying the risks that threaten achievement of the control objectives

d) Designing controls to mitigate those risks, so that those risks will not prevent achievement of the identified control objectives; and

e) Operating effectively the controls as designed throughout the period.

Our independence and quality control

We have complied with the independence and other relevant ethical requirements relating to assurance engagements, and apply Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* in undertaking this assurance engagement.

Assurance practitioner's responsibilities

Our responsibility is to express an opinion, in all material respects, on the suitability of the design to achieve the control objectives and the operating effectiveness of controls established by Council in relation to financial transactions relating to the receipt, expenditure and investment of money, acquisition and disposal of property and incurring of liabilities. ASAE 3150 requires that we plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the controls are suitably designed to achieve the control objectives and the controls operated effectively throughout the period.

APPENDIX 1 PROPOSED AUDIT REPORT *CONTINUED*

An assurance engagement to report on the design and operating effectiveness of controls involves performing procedures to obtain evidence about the suitability of the design of controls to achieve the control objectives and the operating effectiveness of controls throughout the period. The procedures selected depend on our judgement, including the assessment of the risks that the controls are not suitably designed or the controls did not operate effectively. Our procedures included testing the operating effectiveness of those controls that we consider necessary to achieve the control objectives identified. An assurance engagement of this type also includes evaluating the suitability of the control objectives.

Limitations of controls

Because of the inherent limitations of an assurance engagement, together with any internal control structure it is possible that, even if the controls are suitably designed and operating effectively, the control objectives may not be achieved and so fraud, error, or non-compliance with laws and regulations may occur and not be detected.

An assurance engagement on operating effectiveness of controls is not designed to detect all instances of controls operating ineffectively as it is not performed continuously throughout the period and the tests performed are on a sample basis. Any projection of the outcome of the evaluation of controls to future periods is subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

BDO Audit Pty Ltd

Linh Dao
Director

Adelaide, XX Month 2023

APPENDIX 2 AUDITOR INDEPENDENCE DECLARATION

CERTIFICATION OF AUDITOR INDEPENDENCE

I confirm that, for the audit of the financial statements of the City of Adelaide for the year ended 30 June 2023, I have maintained my independence in accordance with the requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code), Part 4A, published by the Accounting Professional and Ethical Standards Board, in accordance with the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011* made under that Act.

This statement is prepared in accordance with the requirements of Regulation 22 (5) *Local Government (Financial Management) Regulations 2011*.

Linh Dao
Director

BDO Audit Pty Ltd

Adelaide, XX September 2023

APPENDIX 3 NEW DEVELOPMENTS

REVISIONS TO THE PROVISION OF NON-ASSURANCE SERVICES

The Accounting Professional and Ethical Standards (APES) Board has reviewed and revised the Non-Assurance Services (NAS) Provisions in APES 110 Code of Ethics for Professional Accountants (including independence standards) and issued an amending standard on 21 December 2022. The revisions strengthen the independence standards by addressing public interest concerns about independence when firms provide NAS to their audit clients.

Amongst the key changes proposed to the non-assurance services provisions are:

- Strengthened provisions regarding auditor communication. There is now a requirement for Those Charged with Governance (TCWG) at a public interest entity (PIE) audit client to concur with BDO’s assessment of the threats associated with the non-assurance services prior to the non-assurance services commencing.
- A new general prohibition in providing non-assurance services to a PIE audit client, if a self-review threat to auditor independence will be created.
- Further tightening of the circumstances in which materiality may be considered in determining the permissibility of a non-assurance service. Materiality is no longer a consideration for PIE audit clients in assessing the self-review threat.

EFFECTIVE DATE

The APES Board has advised that these amendments will take effect from 1 July 2023, with early adoption permitted.

AMENDMENTS TO THE FEE-RELATED PROVISIONS OF APES 110 CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (INCLUDING INDEPENDENCE STANDARDS)

To enhance and strengthen the communication between the auditor and TCWG, and to enable TCWG to have effective oversight over the independence of the auditor, the revised provisions on fees contain new transparency requirements. The APES Board has issued an amending standard in relation to the amendments to the fee-related provisions within the APES 110 Code of Ethics for Professional Accountants (the Code). The key changes include:

- Communication to TCWG at a PIE audit client, the fees and assessment thereof for non-assurance services. The purpose of this communication is to provide the background and context for the client to concur that the fees and levels of fees does not impair BDO’s independence.
- Enhanced guidance on identifying, evaluating and addressing threats to independence in relation to other fee-related matters, including the proportion of fees for services other than audit to the audit fee.
- Communication of information related to the audit fee to the client and to the public to assist them in forming a view that auditor independence is not compromised.
- A prohibition on firms allowing the audit fee to be influenced by the provision of services other than audit to the audit client.
- In the case of PIE audit clients, a requirement to cease to act as auditor if fee dependency on the audit client continues beyond a specified period.

These provisions will be effective for audits and reviews of financial statements for periods beginning on or after 1 January 2023.

APPENDIX 3 NEW DEVELOPMENTS *CONTINUED*

PRACTICAL APPLICATION FOR THOSE CHARGED WITH GOVERNANCE

To facilitate compliance with the above requirements, your BDO Audit Engagement Partner will discuss and agree on a process, including:

- Identifying all entities within a corporate structure to which the revised provisions would apply.
- Establishing how TCWG have determined that authority for approving services is to be allocated.
- Understanding the information that will be communicated to TCWG to assist them in concurring with the assessment of the services and fees.

APPENDIX 4 CLIMATE RISKS AND FINANCIAL REPORTING

CLIMATE RELATED FINANCIAL DISCLOSURES

In December 2022, in anticipation of the release of forthcoming sustainability standards, the Australian Government opened its first round of consultation on 'Climate-related financial disclosures'. The process closed in February 2023, when the Government received nearly 200 responses.

In June 2023, the ISSB issued its first two sustainability standards:

- IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, and
- IFRS S2 Climate-related Disclosures.

According to the ISSB, these standards become effective from 1 January 2024, subject to endorsement in each respective jurisdiction.

The day after the ISSB standards' release, the Australian Government announced its second round of consultation on implementing climate-related financial disclosures in Australia.

WHICH ENTITIES WILL BE IMPACTED?

One of the key changes is a revised approach to the order of entities being introduced to mandatory climate-related reporting. While the previous consultation paper suggested focusing on large listed and large financial service providers, the new approach includes listed and non-listed organisations. The focus is still on the size of the organisation - starting with the 'big end of town' - and organisations that meet the reporting requirements of the National Greenhouse and Energy Reporting (NGER) Scheme.

The introduction of mandatory reporting will still phase in (now across four years) to allow the market to upskill and prepare.

To find out when the climate-related reporting requirements may impact you, and what category you fall into, refer to BDO's IFRS & Corporate Reporting team's ESG and Sustainability insights and the proposed roadmap as set out by Treasury.

WHAT HAPPENS NEXT?

Organisations of all sizes - whether listed or private - should take note of the group they fall into to anticipate what the mandatory reporting implications might be, both now and with consideration of any future growth plans.

Regardless of status, entities should also assess and reflect on the organisations in their supply chain. With Scope 3 emissions - as required to be measured and reported under IFRS S2 - a reflection of the emissions from an organisation's supply chain, organisations of all sizes are likely to be impacted by the introduction of mandatory reporting. As group one entities begin to measure and report emissions, Scope 3 could become a key component of emission reduction strategies. By having accurate, reportable data and a decarbonisation strategy, organisations of all sizes can positively impact their supply chain before mandatory reporting even knocks on their door.

To understand more about what this means for your business, please contact our National Sustainability Team.

APPENDIX 5 ESG AND YOUR BUSINESS

WHAT IS ESG?

ESG is the acronym for Environmental, Social and Governance. It is a holistic concept about an organisation's ability to create and sustain long-term value in a rapidly changing world, and managing the risks and opportunities associated with these changes.

ESG metrics are not part of mandatory financial reporting required by Australian Accounting Standards or International Financial Reporting Standards, but organisations across the world are increasingly making disclosures in their annual report or in a standalone sustainability report.

ESG is used as a framework to assess how an organisation manages risks and opportunities that changing market and non-market conditions create. ESG also puts a heavy emphasis on risk management, because monitoring and mitigating risks across all three dimensions is an important priority for any company that is serious about ESG. The three categories of ESG factors are as follow:

- **Environmental** factors address an organisation's environmental impact and environmental stewardship. It is focused on improving the environmental performance of an organisation.
- **Social** factors refer to how an organisation manages relationships with, and creates value for, stakeholders. The social dimension is focused on an organisation's impact on its employees, customers and the community.
- **Governance** factors refers to an organisation's leadership and management philosophy, practices, policies, internal controls, and shareholder rights. The governance dimension is focused on an organisation's leadership and structure.

WHY IS ESG IMPORTANT FOR YOUR BUSINESS?

Investors across the globe are increasingly demanding organisations to outline their ESG framework and approach in order to assess the organisation's long-term sustainability. ESG has a potential significant impact on the following fundamental business issues relevant to the long-term success of the organisation:

- **Corporate reputation** - ESG can enhance a company's license to operate making it easier to accomplish business objectives and respond to crisis scenarios with key stakeholder groups.
- **Risk reduction** - ESG can assist with the identification of immediate and long-term risks depending on the industry and business model.
- **Opportunity management** - Shifting market and non-market conditions can expose unmet needs for new products and/or services, potential customer bases, and potential strategic relationships for addressing ESG issues.
- **Culture & intrinsic value** - ESG maturity is an indicator of a company's commitment to building a high performing, purpose-driven workforce and inclusive culture.

A robust ESG strategy can help attract the right talent and investors. To achieve a shift in sustainability we need to stop viewing ESG as a 'nice to have', it should be part of business strategy and risk management which can have a direct and positive impact on financial performance.

If you would like to speak with us about implementing an ESG framework in your organisation or providing assurance on your framework, please contact your audit engagement partner initially.

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