

Audited Financial Statements & Report on Financial Results 2022/23

Friday, 6 October 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

As governed by the *Local Government (Financial Management) Regulations 2011 (SA)*, the Annual Financial Statements of Council must include a statement signed by the Chief Executive Officer and the Principal Member of Council.

The Consolidated Financial Statements present an overall surplus result of \$1.692 million, an improvement on the budget approved at Q3 of \$0.87 million.

The purpose of this report is to consider and approve for certification the Audited Financial Statements of Council for the year ended 30 June 2023.

RECOMMENDATION

THAT THE AUDIT AND RISK COMMITTEE RECOMMENDS TO COUNCIL

THAT COUNCIL

1. Considers that the Consolidated Financial Statements present fairly the financial position of the City of Adelaide, having reviewed the Consolidated Financial Statements for 2022/23, contained in Attachment A to Item 7.3 on the Agenda for the meeting of the Audit and Risk Committee held on 6 October 2023.
2. Receives the City of Adelaide's Consolidated Financial Statements for 2022/23, contained in Attachment A to Item 7.3 on the Agenda for the meeting of the Audit and Risk Committee held on 6 October 2023, subject to minor administrative changes and subsequent balance date event adjustments, to be certified by the Chief Executive Officer and the Lord Mayor.
3. Considers it is appropriate that the representation letter requested by the external auditor, contained in Attachment B to Item 7.3 on the Agenda for the meeting of the Audit and Risk Committee held on 6 October 2023, is signed by management.
4. Notes the Certification of Auditor Independence contained in Attachment C to Item 7.3 on the Agenda for the meeting of the Audit and Risk Committee held on 6 October 2023 by the Chief Executive Officer and the Presiding Member of the Audit and Risk Committee.
5. Authorises the Chief Executive Officer and the Lord Mayor to certify the Annual Financial Statements in their final form.
6. Notes the Adelaide Economic Development Agency Financial Statements for 2022/23, contained in Attachment D to Item 7.3 on the Agenda for the meeting of the Audit and Risk Committee held on 6 October 2023, have been reviewed by the Adelaide Economic Development Agency Board at its meeting on 26 September 2023. These financial results are included in the Consolidated Financial Statements of the City of Adelaide, and
 - 6.1. Considers the Financial Statements for 2022/23 present fairly the financial position of the Adelaide Economic Development Agency.

- 6.2. Notes the Certification of Auditor Independence in relation to Adelaide Economic Development Agency, contained in Attachment E to Item 7.3 on the Agenda for the meeting of the Audit and Risk Committee held on 6 October 2023 is signed by the Chief Executive Officer and the Presiding Member of the Audit and Risk Committee.
 - 6.3 Notes the representation letter requested by the external auditor of the Adelaide Economic Development Agency, contained in Attachment F to Item 7.3 on the Agenda for the meeting of the Audit and Risk Committee held on 6 October 2023, is signed by management.
 7. Notes the Adelaide Park Lands Authority Financial Statements for 2022/23, contained in Attachment G to Item 7.3 on the Agenda for the meeting of the Audit and Risk Committee held on 6 October 2023, are included in the Consolidated Financial Statements of the City of Adelaide, and
 - 7.1 Considers the Financial Statements for 2022/23 present fairly the financial position of the Adelaide Park Lands Authority and can be certified by the Lord Mayor as Chair of Adelaide Park Lands Authority.
 - 7.2 Considers it is appropriate that the representation letter requested by the external auditor of the Adelaide Park Lands Authority, contained in Attachment H to Item 7.3 on the Agenda for the meeting of the Audit and Risk Committee held on 6 October 2023, is signed by management.
 - 7.3 Notes the Certification of Auditor Independence in relation to the Adelaide Park Lands Authority, contained in Attachment I to Item 7.3 on the Agenda for the meeting of the Audit and Risk Committee held on 6 October 2023, and considers it is appropriate to be signed by the Chief Executive Officer and the Presiding Member of the Audit and Risk Committee.
 8. Notes the Brown Hill and Keswick Creeks Storm Water Board's Financial Statements for 2022/23 as contained in Attachment J to Item 7.3 on the Agenda for the meeting of the Audit and Risk Committee held on 6 October 2023. Council's equity interest of 8% is included in the Consolidated Financial Statements of the City of Adelaide.
 9. Recommends the 2022/23 Consolidated Financial Statements of the City of Adelaide, and the Financial Statements of the Adelaide Park Lands Authority, Adelaide Central Market Authority and Brown Hill and Keswick Creeks Stormwater Board be presented to Council for noting on 24 October 2023 and included in the adopted Annual Report.
 10. Notes the 2022/23 Report on the financial results for the City of Adelaide and its subsidiaries, contained in Attachments K, L, M and N to Item 7.3 on the Agenda for the meeting of the Audit and Risk Committee held on 6 October 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, borrowings, 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	<i>Local Government Act 1999 (SA) and the Local Government (Financial Management) Regulations 2011 (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. The Consolidated Financial Statements for the year ended 30 June 2023 have been prepared in accordance with the *Local Government Act 1999 (SA)* (the Act) and the *Local Government (Financial Management) Regulations 2011 (SA)* (the Regulations) and all applicable Australian Accounting Standards. The format used in these statements is prescribed by legislation to be in accordance with the Model Financial Statements, approved by the Minister for Local Government in June 2023.
2. As per the Regulations, the Financial Statements of Council must include a statement signed by the Chief Executive Officer and the Principal Member of Council. Subject to Council adopting Recommendation 5 above, the Chief Executive Officer and the Lord Mayor have been authorised by Council to certify the Annual Financial Statements in their final form.
3. The role of the external auditor is to provide an audit opinion to Council with respect to the audited financial statements. The external auditor, BDO, has completed the audit of the financial statements and in their report on matters arising from the audit (Audit Completion Report) has provided audit clearance for the Consolidated Financial Statements as part of a separate report to the Audit and Risk Committee.
4. Audit clearance is subject to BDO conducting a subsequent event review up to the date of signing of the Consolidated Financial Statements of the Corporation together with the required Letter of Representation being signed by the relevant parties, subsequent to the Audit and Risk Committee meeting on 6 October 2023.
5. The Financial Statements of the Adelaide Central Market Authority for the year ended 30 June 2023 have been audited by the appointed auditor BDO. These Statements were presented to Audit and Risk Committee on 1 September 2023 and signed following the meeting.
6. The Financial Statements of the Adelaide Economic Development Agency for the year ended 30 June 2023 have been audited by the appointed auditor BDO and reviewed by the Adelaide Economic Development Agency Board at their meeting on 26 September 2023. The signed Financial Statements are included in **Attachment D** for presentation to Council in accordance with the Act and the Regulations.
7. The Financial Statements of the Adelaide Park Lands Authority (known as Kadaltilla/Adelaide Park Lands Authority) for the year ended 30 June 2023 have been audited by the appointed auditor BDO and will be signed by the Lord Mayor as Chair of Adelaide Park Lands Authority at the Audit and Risk Committee meeting on 6 October 2023. The signed Financial Statements are included in **Attachment G** for presentation in accordance with the Act and the Regulations.
8. The Financial Statements of the Brown Hill and Keswick Creeks Storm Water Board for the year ended 30 June 2023 have been approved by the Brown Hill and Keswick Creeks Storm Water Board and signed by nominated board members. The signed Brown Hill and Keswick Creeks Storm Water Board Financial Statements are included in **Attachment J** for presentation to Council in accordance with the Act and the Regulations.

Consolidated Financial Statements

9. The statutory Consolidated Financial Statements of the Corporation, prepared in accordance with the Regulations and the relevant Australian Accounting Standards (AASB), have been completed for the 2022/23 year (**Attachment A**).
10. The Consolidated Financial Statements comprise the following:
 - 10.1. Council Certification
 - 10.2. Statement of Comprehensive Income
 - 10.3. Statement of Financial Position
 - 10.4. Statement of Changes in Equity
 - 10.5. Statement of Cash Flows
 - 10.6. Notes to and forming part of the Financial Statements
 - 10.7. Independent Audit Report
 - 10.8. In addition, the Financial Statements are required to be accompanied by the Certification Statement of Independence of the City of Adelaide (CoA) Auditor by the Chief Executive Officer and the Presiding Member of the Audit and Risk Committee, as well as the Audit Certificate of Audit Independence.

Statement of Comprehensive Income

11. The major year on year movements in the Statement of Comprehensive Income are as follows:
 - 11.1. Income increased by \$9.5 million (4.8%) over the previous year and includes the following movements:
 - 11.1.1. Rates revenue net increase of \$3.6 million driven by growth in new developments, additions, and alterations of \$2.2 million, in addition to a reduction in discretionary rebates \$0.8m, and penalties for late payment \$0.5 million.
 - 11.1.2. An increase in Statutory Charges of \$2.0 million through an increase in expiation and late payment fees of \$1.4 million as well as Temporary Parking Control Permits \$0.2m as patronage returns to the city.
 - 11.1.3. User Charges increased \$3.8 million due to better performance in UPark \$2.9 million, on-street parking \$1.1 million, Aquatic Centre \$1.0 million, and Adelaide Town Hall \$0.8 million offset by reduced Property Fees (including Recovery) of \$2.3 million, largely due to the closure of the Central Market Arcade during redevelopment.
 - 11.1.4. A decrease in Grant, Subsidies and Contributions of \$1.7 million as a result of receiving Reignite program funding in 2021/22.
 - 11.1.5. An increase in Investment income of \$0.8 million due to the unwinding of the PV discount on major projects \$0.7 million as well as the interest income on positive cash balances throughout the year.
 - 11.1.6. Other income has increased by \$1.0 million and includes an increase to Insurance Recoupments and Commission.
 - 11.2. Operating expenditure increased by \$9.1 million (4.4%) compared to the previous year's and includes the following movements:
 - 11.2.1. Employee costs increased by \$3.4 million and is a result of temporary savings generated through extended periods of COVID leave and vacancy management in 2021/22.
 - 11.2.2. Materials, Contracts and Other Expenses increased by \$10.3 million compared to 2021/22. This increase includes the following:
 - 11.2.2.1.1. Contractors increased \$3.2 million largely due to an increase in temporary labour of \$2.1 million, as well as an increase in outsourced labour within City Operations \$1.3 million.
 - 11.2.2.1.2. Increase in maintenance of \$0.9 million due to an increase in outsourced activity.
 - 11.2.2.1.3. Energy increased \$1.3 million due to the requirement to purchase renewable energy at spot market prices.
 - 11.2.2.1.4. Professional Services increased \$2.8 million and includes additional condition audit spend and consulting work on the Asset Management Plans, Information Management spend on projects \$0.4 million, Park Lands and Sustainability work including the City Plan, Policy and Adelaide Zero of \$0.8 million, and rate valuations outsourced for 2023/24 \$0.2 million.
 - 11.2.2.1.5. \$2.1 million year on year Other Expenses changes that are individually immaterial.
 - 11.2.3. Depreciation, Amortisation, and Impairment decreased \$4.3m due to the review and amendment of Useful Lives of 2 buildings and duplicated assets \$3.4 million, as well as disposed assets within Park Lands and Open Space \$1.3 million
 - 11.2.4. Finance costs decreased by \$0.3m as a result of a lower borrowing levels throughout the financial year.
 - 11.3. Overall the operating position improved from a \$1.0 million surplus to a \$1.7 million surplus in 2022/23.

Statement of Financial Position

12. Total Assets have decreased by \$45.8 million from 2020-21, largely due Infrastructure, Property, Plant and Equipment as a result of the impairment of the Aquatic Centre \$18.5 million, Rundle UPark \$9.8 million, Tennis SA \$10 million, and disposal of duplicated assets.

13. Total Liabilities have increased by \$6.6 million, primarily due an increase to Trade and Other Payables. In 2021/22 due to the implementation of an upgrade to the Finance System, all creditors due were paid by 30 June.

Statement of Changes in Equity

14. Net equity decreased by \$52.4 million against the prior year, a combination of the changes in assets and liabilities above, predominantly due to movements in the Asset Revaluation Reserve through impairments and disposals.

Statement of Cash Flows

15. Council generated \$55.9 million from its Operating Activities during the year compared to \$62.8 million during 2021/22.
16. Council's invested \$51.1 million in its Investment Activities compared with \$29.1 million in 2021/22.

Preliminary End of Year vs End of Year Final Position

17. At the time of reporting, it was noted that there was the potential for changes to the estimated result for proposed adjustments regarding leasehold assets, grant recognition, impairments of major assets and asset revaluations.
18. As a result of the finalisation of the audit, the proposed adjustment items above have been finalised and the impact on the operating result was positive, presenting a favourable position in comparison to the estimate.
19. The preliminary end of year position was estimated to be a \$1.540 million surplus. Compared to a final operating surplus of \$1.692 million, there is a favourable variance of \$0.152 million (9.8%).

Representation letter requested by the External Auditor

20. As per the Audit and Risk Committee's Terms of Reference, it is recommended that the Audit and Risk Committee review any representation letter(s) requested by the external auditor before they are signed by management. The copy of the representation letter required by the external auditors, BDO is included as **Attachment B**.
21. The presentation of this representation letter is standard practice of any audit and provides the auditor confirmation from management, that, amongst other matters, accounting standards have been consistently applied, that all matters that need to be disclosed have been so disclosed and that the valuation of assets has been consistently applied. It is planned that this representation letter be signed by relevant parties, following approval of the Audit and Risk Committee, subsequent to the meeting on 6 October 2023.

Certification Statement of Independence of Council Auditor

22. Section 21(2) of the Regulations requires the Council's Chief Executive Officer and the Presiding Member of the Audit and Risk Committee to provide a statement, on an annual basis, that the council auditor is independent of the Council for the relevant financial year (**Attachment C**).
23. Section 22(5) of the Regulations requires the auditor of a Council to provide a written statement attesting to their independence. Council's Auditor, BDO, have provided a statement of Audit Independence in the Audit Completion Report, as prescribed in the Regulations.

Adelaide Central Market Authority

24. The Adelaide Central Market Authority (ACMA) was formed as a subsidiary of the CoA in May 2012 with CoA holding a 100% equity share. The ACMA charter was updated and approved by Council on 8 June 2021 which took effect from the date of gazettal on 8 July 2021.
25. The Financial Statements for ACMA were presented to the Audit and Risk Committee at its meeting on 1 September 2023 and signed subsequent to the meeting. The net surplus position of \$0.083 million has been accounted for in the Consolidated Financial Statements of the Corporation for 2022/23.

Adelaide Economic Development Agency

26. The Adelaide Economic Development Agency (AEDA) was enacted on 18 January 2021 as a subsidiary of Council with the role of promoting Rundle Mall and the function of economic development and business support for the CoA.
27. The 2022/23 Financial Statements for AEDA (**Attachment D**) reflect a net surplus of \$0.229 million representing the unspent funds from the Rundle Mall Levy. This has been accounted for in the Consolidated Financial Statements of the Corporation for 2022/23.
28. The 2022/23 Financial Statements for AEDA were reviewed by the AEDA Board at their meeting on 26 September 2023.

29. Given the requirements of the Act and the terms of reference of the Audit and Risk Committee, it is considered appropriate for the Audit and Risk Committee to recommend that the Annual Financial Statements of AEDA together with any Letter of Representation be signed by the relevant parties.
30. Section 22(3) of the Regulations requires the Council's Chief Executive Officer and the Presiding Member of the Audit and Risk Committee to provide a statement, on an annual basis, that the Auditor is independent of AEDA for the relevant financial year (**Attachment E**).
31. As per the Audit and Risk Committee's Terms of Reference, it is recommended that the Audit and Risk Committee review any representation letter(s) requested by the external auditor before they are signed by management. The copy of the representation letter required by the external auditors, BDO is included (**Attachment F**).

Kadaltilla / Adelaide Park Lands Authority

32. The Adelaide Park Lands Authority (APLA) was enacted on 14 December 2006 as a subsidiary of Council with its primary role of providing policy and advice to Council and the State Government regarding the management of the Park Lands.
33. The 2022/23 Financial Statements for APLA (**Attachment G**) reflect a nil net surplus for the year. This has been accounted for in the Consolidated Financial Statements of the Corporation for 2022/23.
34. The 2022/23 Financial Statements for APLA will be forwarded to the Minister for Climate, Environment and Water, Susan Close MP following review of the Financial Statements by the Audit and Risk Committee at its meeting on 6 October 2023 as part of APLA's Annual Report.
35. Given the requirements of the Act and the terms of reference of the Audit and Risk Committee, it is considered appropriate for the Audit and Risk Committee to recommend that the Annual Financial Statements of APLA together with any Letter of Representation be signed by the relevant parties.
36. As per the Audit and Risk Committee's Terms of Reference, it is recommended that the Audit and Risk Committee review any representation letter(s) requested by the external auditor before they are signed by management. The copy of the representation letter required by the external auditors, BDO is included (**Attachment H**).
37. Section 22(3) of the Regulations requires the Council's Chief Executive Officer and the Presiding Member of the Audit and Risk Committee to provide a statement, on an annual basis, that the APLA Auditor is independent of APLA for the relevant financial year (**Attachment I**).

Brown Hill Keswick Creeks Storm Water Board

38. Brown Hill and Keswick Creeks Storm Water Board is a regional subsidiary under section 43 and schedule 2 of the Act and given that CoA is a constituent Council it is a subsidiary of the CoA under the Act.
39. Brown Hill and Keswick Creeks Storm Water Board was established by several constituent councils, comprising the Cities of Adelaide, Burnside, Mitcham, Unley, and West Torrens. Its Charter was endorsed by The South Australian Government and gazetted on 27 February 2018. The CoA's equitable interest is 8.0%, its annual contribution is 8.0% of a 50% capital works contribution (with the remaining 50% funded by the Stormwater Management Board) and 20.0% of operating expenditure of the Regional Subsidiary.
40. The 2022/23 Financial Statements for the Brown Hill and Keswick Creeks Storm Water Board (**Attachment J**) reflect an operating surplus of \$0.125 million for the year. The CoA's share of the operating surplus is \$10k and this has been accounted for in the Consolidated Financial Statements along with the recognition of a capital contribution of \$0.196 million.

Internal Financial Controls

41. As per the Act, section 129(1) (b), the external auditor of Council must undertake an audit of the financial controls exercised by the Council during the relevant financial year in relation to revenue, expenditure, assets, and liabilities. The auditor must provide an audit opinion on related internal financial controls to provide reasonable assurance that the financial transactions of the Council have been conducted properly and in accordance with the Australian Accounting Standards.
42. In forming an opinion under section 129(3) (a), the auditor must give due consideration to the adequacy of the Council's policies, practices, and procedures of internal control under section 125 of the Act. The Council must ensure that appropriate measures are taken to implement and maintain the internal controls in order to assist the Council to carry out its activities in an efficient and orderly manner to achieve its objectives.

Summary of Financial Results

43. Regulation 10 of the *Local Government (Financial Management) Regulations 2011 (SA)* requires a separate report on financial results to be presented to Council, including the audited financial results for the previous

financial year compared with the estimated financial results set out in the budget. These must be presented in a manner consistent with the Model Financial Statements.

44. The report on the financial results comparing the audited financial results for the CoA and its subsidiaries for the 2022/23 financial year with the estimated financial results set out in the 2022/23 budget are contained in **Attachments K, L, M and N.**

Other Items

45. It is considered that the Consolidated Financial Statements give a true and fair view of the Corporation of the CoA's financial position as at 30 June 2023.
46. Following delivery of the external auditor BDO's final Audit Completion Report, discussions with the Auditors without management present and review of the Annual Financial Statements, it is considered appropriate for the Audit and Risk Committee to recommend that the Consolidated Financial Statements together with any Letter of Representation be signed by the relevant parties.
47. In addition, it is proposed that the Audit and Risk Committee recommends the presentation of the Consolidated Financial Statements of the CoA, Financial Statements of the Adelaide Central Market Authority, the Adelaide Economic Development Agency, the Adelaide Park Lands Authority, and the Brown Hill and Keswick Creeks Storm Water Board to Council on 24 October 2023.

ATTACHMENTS

Attachment A – Audited Financial Statements CoA 2022/23

Attachment B – Audit Representation Letter CoA 2022/23

Attachment C – Certification of Auditor Independence CoA 2022/23

Attachment D – Audited Financial Statements AEDA 2022/23

Attachment E – Certification of Auditor Independence AEDA 2022/23

Attachment F – Audit Representation Letter AEDA 2022/23

Attachment G – Audited Financial Statements APLA 2022/23

Attachment H – Audit Representation Letter APLA 2022/23

Attachment I – Certification of Auditor Independence APLA 2022/23

Attachment J – Audited Financial Statements Brownhill & Keswick Creeks Stormwater Board 2022/23

Attachment K – 2022/23 Report on financial results for City of Adelaide

Attachment L – 2022/23 Report on financial results for Adelaide Economic Development Agency

Attachment M – 2022/23 Report on financial results for Adelaide Park Lands Authority

Attachment N – 2022/23 Report on financial results for Adelaide Central Market Authority

- END OF REPORT -