

Matters arising from External Audit

Friday, 27 September 2024

Audit and Risk Committee

Strategic Alignment - Our Corporation

Program Contact:

Nicole Van Berkel, Acting
Manager Finance & Procurement

Public

Approving Officer:

Anthony Spartalis, Chief
Operating Officer

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 2024' to the Presiding Member of the Audit and Risk Committee for City of Adelaide and subsidiaries, refer **Attachment 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 2024.

RECOMMENDATION

THAT THE AUDIT AND RISK COMMITTEE

1. Notes the 'City of Adelaide Annual Completion Report for the year ended 30 June 2024' from Council's external auditors, BDO, contained in **Attachment A** to Item 8.4 on the Agenda for the meeting of the Audit and Risk Committee held 27 September 2024.

IMPLICATIONS AND FINANCIALS

City of Adelaide 2024-2028 Strategic Plan	Strategic Alignment – Our Corporation
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
24/25 Budget Allocation	Not as a result of this report
Proposed 25/26 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
24/25 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 16 February 2024, the Audit and Risk Committee endorsed the proposed 2023/24 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 2024, BDO provided an 'Interim Report' on the 2023/24 external audit. BDO's Interim Report noted that to date they had 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 2024. 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 BDO review of subsequent events post 30 June 2024
 - 8.2 BDO receipt of written management representation on various matters
 - 8.3 BDO receipt of adopted financial statements and agreement with the draft financial statements provided to date.
 9. These are scheduled to be completed subsequent to the Audit and Risk Committee meeting on 27 September 2024.
 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. Status of the audit
 - 10.2. Areas of audit focus
 - 10.3. Adoption and impacts of new accounting standards
 - 10.4. Summary of misstatements
 - 10.5. Internal controls.
 11. Key areas of audit focus addressed by the report include:
 - 11.1. Revaluation of Infrastructure, Property, Plant and Equipment.
 - 11.2. Accounting for Treatment of Work In Progress (WIP).
 - 11.3. Management override of internal controls.
 - 11.4. Cut-off of grant funding and accuracy of any amounts deferred at 30 June 2024
 - 11.5. Assets held for sale and discontinued operations
 12. It should be noted that the uncorrected misstatement noted in the report was a result of the prior year financial statements as agreed improvements. These improvements have been implemented in the 2023/24 financial year. The misstatement is immaterial individually and in aggregate to the financial report taken as a whole.
- Audit and Risk Committee – Agenda - Friday, 27 September 2024

13. 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.
14. The report identified no material deficiencies existed in the accounting treatment and disclosures of matters previously identified as significant risks.
15. The audit did not identify any significant deficiencies with internal controls. However, the following deficiencies were identified:
 - 15.1 Supporting documentation for a historical rate rebate has not been retained.
 - 15.1.1 The Record Keeping Operating Guidelines at the time the rebate was approved identified a retention period of 6 years, and as such the record was deleted from our central records system. The current guideline approved in 2020 now identifies all rates and valuations files as essential documents and are retained permanently.
 - 15.1.2 Management have committed to undertaking a review of all rebates in 2024/25 to ensure they meet the criteria set out in the *Local Government Act (1999) (SA)* and / or City of Adelaide's Rating Policy.
 - 15.2 Increase in the provision for expected credit losses of \$1.19 million, of which \$0.268 million was carried from the previous financial year.
 - 15.2.1 Management has reported these issues to the executive management and is currently developing an action plan to pursue outstanding debts, assess their recoverability, and proceed with write-offs as appropriate.
16. 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 2024.

ATTACHMENTS

Attachment A - City of Adelaide Annual Completion Report for year ended 30 June 2024

- END OF REPORT -