

# City of Adelaide

Annual audit plan

Period ended 30 June 2025





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Dear Audit & Risk Committee Members

Thank you for the opportunity to present our annual audit plan ('plan') for City of Adelaide (the 'Council') for the year ending 30 June 2025.

Our plan has been developed with input from City of Adelaide management and continues to be based on our understanding of the Council's business and operating environment.

We acknowledge that throughout the year there may be business developments, circumstances may change and additional matters may arise. Our plan will be responsive to your needs and will maximise audit effectiveness so we can deliver the high-quality audit you expect.

This plan is intended solely for management and the Audit & Risk Committee and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss our plan with you at the Audit & Committee on 21 February 2025.

Please feel free to contact me on +61 8 7324 6147 if you have any questions or would like to discuss the content of this plan further.

Yours faithfully



**Linh Dao**

Engagement Partner

Adelaide, 3 February 2025

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## Your BDO team

Your engagement team provides a combination of continuity and fresh ideas. This helps to ensure that we build on previous experience and make the audit process as smooth as possible.

### Your BDO team

Our audit of City of Adelaide will be led by Linh Dao as Group Engagement Partner. Linh will oversee the co-ordination of the audit and will have primary responsibility for working with Nicole Van Berkel and her team.

Supporting Linh will be Chelsea Aplin and Jennier Zhou as Audit Managers.

Linh is responsible for the day-to-day direction of the audit work and is the key point of contact for Nicole Van Berkel.

The day-to-day audit team will be led by Chelsea and Jennifer.

When auditing key judgements, we are often required to engage specialists who have qualifications and expertise not possessed by the core audit team.

Supporting the engagement team will be our IT Specialist, who will assist the team with the review of IT environment and relevant IT general controls as part of the audit.

### BDO TEAM MEMBERS



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## Our objectives and approach

### Objectives

Our audit is performed with the objective of enabling us to express an opinion as to whether

- The financial report is prepared, in all material aspects, in accordance with Australian Accounting Standards, the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011*, and
- Controls exercised by the Council in relation to the receipt, expenditure and investment of money, 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 law based on criteria established in the *Better Practice Model - Financial Internal Controls for South Australia Councils* issued by the Local Government Association of South Australia.

### Approach

Our audit is performed in accordance with the BDO Audit Approach, which is documented using our global audit tool, APT. It consists of four key phases:



### A risk driven audit

Our audit approach is driven by our assessment of risks of material misstatement, based on a robust understanding of your business from an internal and external point of view. Our approach is centred around:

- Obtaining an understanding of the business, its environment, and the applicable financial reporting framework
- Identifying and assessing risks of material misstatement
- Assessing the controls in place to address and prevent these risks
- Designing and executing appropriate procedures to obtain evidence, including the use of data analytics where appropriate
- Ensuring rigorous quality management over audit performance.

### Internal control

We obtain an understanding of the system of internal control relevant to the audit to assist us with our risk assessment procedures. Our understanding covers:

- The overall control environment
- The entity's risk assessment process
- The information system, including IT applications and related business processes, relevant to financial reporting, and communication
- Control activities relevant to the audit
- Activities the entity uses to monitor internal control relevant to financial reporting.

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## Our objectives and approach *continued*

### Communications

We communicate to the Audit & Risk Committee in writing any significant deficiencies that come to our attention during the audit on a timely basis.

In addition, we communicate with management the significant deficiencies being reported to those charged with governance and any other deficiencies identified that in our judgement are of sufficient importance to merit management's attention. In doing so, we will provide recommendations to improve internal controls and business systems.

### Fraud

During the course of our audit, we make enquiries of those charged with governance, management, and others to identify any known instances of fraud. We also make enquiries to understand where you consider the risks are in relation to fraud and if you have any knowledge of actual or suspected fraud. This also includes considering the risk of management override of controls.

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.

### Going concern

As part of our audit, we will review management's assessment of the ability of the entity to continue as a going concern for the 12 months from the date of signing the financial report and therefore whether the going concern basis for the preparation of the financial report is appropriate.

### Laws and regulations

We make enquiries in relation to any non-compliance with laws and regulations impacting the period under audit. If we become aware of any instances of non-compliance with laws and regulations which would materially impact on the financial position or performance of the entity, then we will report them to you on a timely basis to consider the impact on the financial report.

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## Audit quality

Our System of Quality Management (SOQM) provides the foundation on which we build and maintain a culture of quality and it enables the behaviours and actions of our partners and staff to achieve quality on a consistent basis. Our SOQM sets out the key drivers of audit quality, including the specific attributes that are critical in enhancing and maintaining quality. For further information on the elements of our SOQM and how we consistently achieve quality outcomes, refer to our [Transparency Report](#).

### Independence and objectivity

Our commitment to be independent, act objectively, with the necessary integrity, professional competence and due care are key defining qualities that contribute to exceptional client service. At BDO, we adhere to all relevant ethical standards and requirements both within and external to our network.

All engagement team members, including experts and specialists, are required to confirm and declare their independence from audit clients and any related entities prior to commencing work on the engagement.

Your BDO team is independent and will continue to work with objectivity in all aspects of the engagement.

### Experience and expertise

The appropriate composition of engagement teams is fundamental to delivering a high-quality audit. We ensure partners and staff have the necessary experience, competencies, and technical skills to undertake their engagements. For complex engagements, we consider the need to appoint specialists or experts to assist with specific risk areas.

Your BDO team possesses the relevant experience and expertise necessary to perform an effective audit.

### Professional judgment and scepticism

Professional judgment is the systematic practice of making the best possible decision considering professional standards and the facts and circumstances of a situation. To exercise professional judgment requires professional scepticism. This means having a questioning mind, being alert to anything that may indicate misstatement and critically assessing audit evidence.

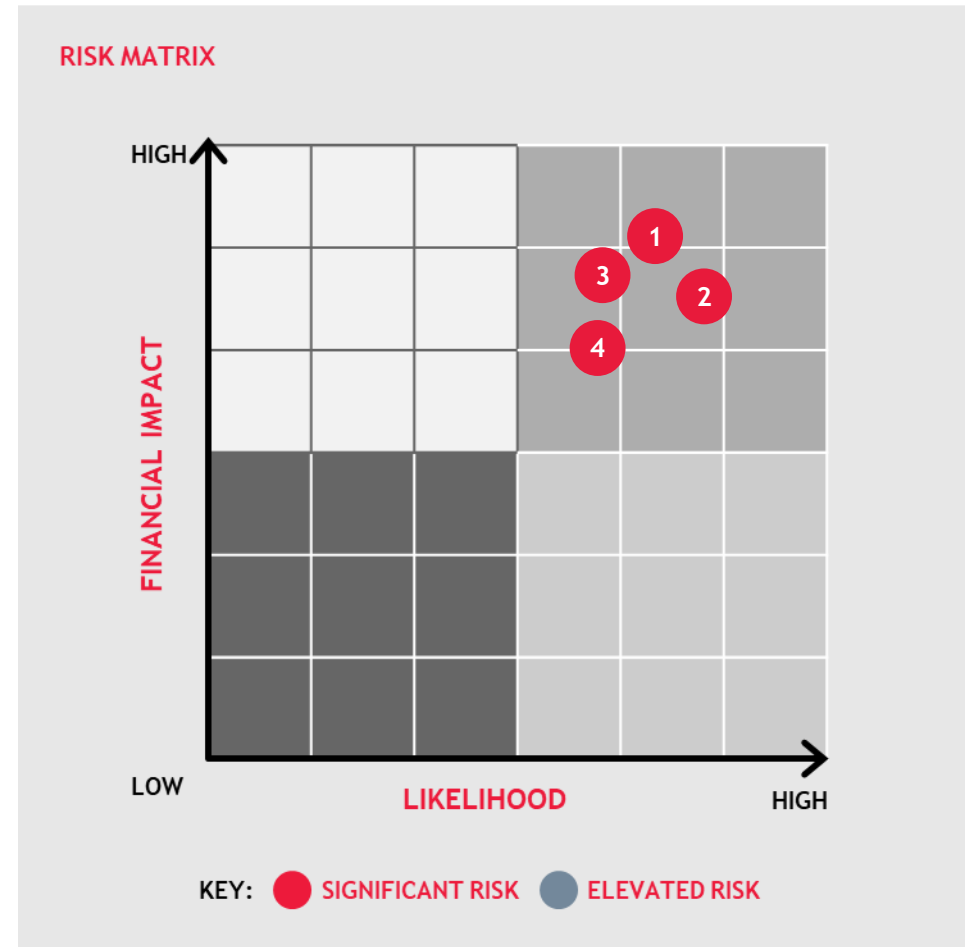
We will continue to question and challenge key assumptions and judgments made by management in preparing the 30 June 2025 financial report.

## Risk assessment and areas of focus

In line with our audit approach and based on our understanding of City of Adelaide, we have identified the risks of material misstatement (RMM) at both the engagement and assertion level. In assessing the RMMs, we use a spectrum of risk based on the likelihood of a misstatement occurring and the magnitude of the misstatement in the context of our materiality. We use inherent risk factors (complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or fraud) to drive risk identification and assessment.

Our initial assessment is shown in the matrix for the risks identified at the upper end of our spectrum (Significant and Elevated).

On the subsequent page we have set out our perspective on the potential impact on the financial statements and our proposed approach to respond to the risks. We will continue to be alert for risks during the course of the audit and update our assessment and responses as required.





## Risk assessment and areas of focus *continued*

| # | AREAS OF FOCUS   | OUR PERSPECTIVE  | PLANNED RESPONSE   |
|---|--|--|--|
| 1 | Revaluation infrastructure and land & buildings        | Council's infrastructure and land & buildings are carried under revaluation model. There is a risk that these balances are misstated as a result of the application of inappropriate valuation methodologies, or incorrect underlying assumptions. | <p>We will evaluate the competence, capability and objectivity of the independent valuers, if any, obtain an understanding of their work and evaluate its appropriateness.</p> <p>For the classes of assets that are not subject to independent valuation this year, we will evaluate management's assessment of how Council has complied with the requirement of AASB 116.31 to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.</p>           |
| 2 | Accounting treatment of Capital Work In Progress (WIP) | There is a risk that the accounting treatment of items captured within Capital WIP may not be in accordance with Australian Accounting Standards.  | <p>We will obtain the WIP schedule and review in detail a sample of projects outstanding at the end of the year to ensure they are likely to generate assets. We will also review a sample of assets transferred out of the Capital WIP to audit whether the categorisation and value allocated to the relevant fixed assets classes are appropriate.</p> <p>Furthermore, we will make inquiries of CMAR and ACC's development progress and assess the appropriateness of ongoing accounting treatment for relevant financial statement areas.</p> |
| 3 | Management override of internal controls               | Australian Auditing Standards require that we presume there is a risk that management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively.                                    | <p>Our responses will include a review of key internal controls at the Council to mitigate the risk of management override.</p> <p>We will test the appropriateness of journal entries and other adjustments made in the preparation of the financial report. We will also review accounting estimates for bias, and evaluate 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.</p>  |

## Risk assessment and areas of focus *continued*

| # | AREAS OF FOCUS  | OUR PERSPECTIVE   | PLANNED RESPONSE   |
|---|---|---|--|
| 4 | Cut-off of grant funding and accuracy of any amounts deferred at 30 June 2025 | There is a risk of error in the calculation of grant income recognised and deferred at the end of the year. | We will obtain the schedule of grant income recognised and deferred at the reporting date. We will select a sample of grants and obtain the agreements to review in detail, and audit whether they have been recognised in accordance with AASB 15 <i>Revenue from Contracts with Customers</i> and AASB 1058 <i>Income of Not-for-profit Entities</i> . |

## Internal control assessment

We are required to provide an audit opinion on Council’s internal controls in accordance with Section 129(1)(b) of the Local Government Act 1999. Our assessment of internal controls is based on the criteria in the Better Practice Model - Financial Control for South Australian Councils as issued by the Local Government Association of South Australia.

The Better Practice Model emphasises a risk based approach to internal financial controls. It states that a Council should design and implement internal financial controls activities and monitoring systems that prioritise extreme and high financial risk as identified by the Council’s risk tolerance framework.

### Risk assessment

BDO has used the risk assessment matrix per the Better Practice Model to create a general expected risk assessment. The assessment is only focused on the business impact of the risks. Each risk is assigned risk category of low, moderate, high. The results of our initial assessment is as follows:

| Risk category                | Risk level |          |     |
|------------------------------|------------|----------|-----|
|                              | High       | Moderate | Low |
| Strategic Financial Planning | -          | 3        | 9   |
| Assets                       | 3          | 5        | 19  |
| Liabilities                  | -          | 4        | 10  |
| Revenue                      | 3          | 6        | 5   |
| Expenses                     | 6          | 5        | 8   |
| External Services            | -          | 2        | -   |
| Financial governance         | -          | -        | 3   |

We expect to receive Council’s risk assessment of internal controls as part of the planning process. Once received we will compare and understand any differences between the two assessments. Based on the results of this comparison, we will consider the impact on our audit approach.

### Control assessment

Once the risk assessment is complete, we undertake a control assessment classifying each control as key or non-key. All controls associated with high risks are considered to be key controls. Controls with moderate risks are assessed and allocated key or non-key.

| Control type    | Description   |
|-----------------|---|
| Key control     | The absence of these controls operating may have a significant impact on mitigating the risks. All key controls are included within our audit testing.  |
| Non-key control | The absence of these controls in place may not have a significant impact on mitigating the risks as the operation of a key control in the same area may provide sufficient mitigation. The level of testing of non-key controls is dependent on the risk assessment. See the next section for more details. |

## Internal control assessment *continued*

### Control testing

The risk and control assessments performed by BDO will then determine our level of testing of the controls in place to address the risks.

| Risk level | Level of testing of controls  | Reason   |
|------------|---|--|
| High       | All controls to be tested, all considered to be key.  | Control failure may result in a significant business impact, therefore an increased level of assurance is required in relation to the effectiveness of the controls supporting high risks. |
| Moderate   | All identified key controls and a selection of non-key controls selected based on our professional judgement. | Control failure may result in a moderate business impact, therefore a normal level of assurance is required in relation to effectiveness of the controls supporting moderate risks.        |
| Low        | No testing of controls  | Control failure is unlikely to result in a significant business impact.  |

The number of controls to we plan to test for each risk category is as follows:

| Risk category                | Controls to be tested |
|------------------------------|-----------------------|
| Strategic Financial Planning | 11                    |
| Assets                       | 20                    |
| Liabilities                  | 8                     |
| Revenue                      | 16                    |
| Expenses                     | 24                    |
| External services            | 3                     |
| Financial governance         | -                     |
| <b>Total</b>                 | <b>82</b>             |

Due to the number of controls involved we have not provided a detailed list of controls in this report. We can provide the detailed list of controls separately as required. The controls selected for testing represent our assessment of those required to be tested to provide reasonable assurance that the financial transactions of the Council have been conducted properly and in accordance with law based on criteria established in the Better Practice Model - Financial Internal Control for South Australia Councils issued by the Local Government Association of South Australia.



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## Materiality

Materiality means, in the context of an audit, if financial information is omitted, misstated or not disclosed it has the potential to (adversely) affect the decisions of users of the financial report. Materiality is used by auditors in making judgements on the amount of work to be performed, which balances require work and for evaluating the effect of misstatements. Materiality is initially calculated at the planning stage and re-assessed prior to providing our opinion.

During the course of our audit we may identify misstatements and these will be reported to you at the conclusion of our work based on our assessment of materiality at that stage (this may have been updated from the materiality calculated at the planning stage). It should be noted that the auditing standards do not require us to communicate misstatements that are considered 'clearly trivial' and as such, if we identify such misstatements we will not communicate these to you.

We determine materiality by considering a range of both qualitative and quantitative factors when applying our professional judgement.

Our materiality for the 30 June 2025 audit is based on 1.8% of forecasted total assets. Our estimated materiality levels are set out in the table below:

|                                  |              |
|----------------------------------|--------------|
| <b>GROUP MATERIALITY</b>         | \$35,000,000 |
| <b>SPECIFIC MATERIALITY</b>      | \$4,500,000  |
| <b>CLEARLY TRIVIAL THRESHOLD</b> | \$225,000    |

Specific materiality will be applied to the financial statement areas that are related to operating activities, whereas engagement materiality will be applied to financial statement areas of capital expense nature. Specific materiality is set at 1.8% of Council's total expenditure for the year.

The planning materiality has been calculated based on Council's budgeted results and financial position for the year ended 30 June 2025. These will be revisited and amended accordingly based on the final trial balances provided to us for audit.

# Timeline

## Audit milestones

We recognise that regular, timely communication with management and the Audit & Risk Committee is critical to maintaining an effective and transparent relationship. Our audit process operates throughout the year so that we can respond to issues as they arise and maintain close communication, with management and the Audit & Risk Committee, as the audit cycle progresses.

We have set out below the timing of significant milestones to include on-site visits, key meeting dates and reporting deadlines with respect to the completion of the audit.

| MILESTONE  | RESPONSIBILITY   | DATE                              |
|--|------------------|-----------------------------------|
| Planning meeting with management to understand your business and identify areas of focus for the business        | BDO & management | Completed                         |
| Issuance of engagement letter  | BDO & management | February 2025                     |
| Interim audit visit commences, including detailed understanding of your processes and IT applications            | BDO & management | 2 weeks commencing 28 April 2025  |
| Issuance of interim management letter  | BDO              | Early June 2025                   |
| Trial balances for regional subsidiaries (i.e. ACMA, AEDA, APLA) and car park acquittals are ready for the audit | Management       | By 8 August 2025                  |
| Final audit visit commences  | BDO & management | 3 weeks commencing 11 August 2025 |
| Financial statements, including Note 7 and revaluation work ready for audit                                      | Management       | By 20 August 2025                 |
| Close out meeting with management  | BDO & management | Early September 2025              |
| Submission of audit completion report  | BDO              | By 16 September 2025              |

## Timeline *continued*

| MILESTONE  | RESPONSIBILITY                           | DATE  |
|--|--|---|
| Financial statements presented to Audit & Risk Committee   | BDO, management & Audit & Risk Committee | 24 September 2025   |
| Chief Executive Officer and Principal Member of Council to approve and sign off Certification of Financial Statements, Certification of Auditors Independence and management representation letter | Council                                  | 24 September 2025   |
| Issue Independence Auditor's report and Certificate of Auditor Independence  | BDO                                      | Upon receipt of Council's signed financial statements and representation letter |

# Fees

## Fees

The proposed fee for all services provided for the year ending 30 June 2025 is as below. All amounts are exclusive of GST.

| AUDIT AND ASSURANCE SERVICES   | FY25 PROPOSED   | FY24 ACTUAL     |
|--|-----------------|-----------------|
| Financial statement audit  | \$48,000        | \$46,600        |
| Internal financial control audit   | \$25,000        | \$24,400        |
| Minor audits (i.e. AEDA, APLA, Wages Dec, R2R and all car park acquittals) | \$12,000        | \$11,000        |
| <b>Total fee</b>   | <b>\$85,000</b> | <b>\$82,000</b> |

## Assumptions

Any reasonable out of pocket expense are charged to you as disbursements when incurred. In addition, we will disburse to you a technology levy as a percentage (2%) of our fees to cover software licensing, data storage and usage costs. Our fee is based on our understanding of your current operations and the required scope of the audit. If these alter, the fee will need to be revised.

Our fees do not include any advice or assistance that may be given in respect of accounting issues. Whilst brief ad hoc information provided in the course of our audit is generally included in our proposed fee, formal advice, assistance with complex issues or meetings to discuss these issues falls outside the scope of our proposed fee. Fees for assistance provided will be negotiated prior to services being performed.

## Assistance required

In order to keep our time and costs to a minimum, we appreciate your assistance with the following:

- Ensure you have documented your policies and procedures surrounding your business processes, from initiation and processing through to recording and reporting, of transactions, account balances and disclosures. Including how your IT systems and applications are being used in this process
- With your approval, providing us access to extract data from your IT systems to enable us to use our data analytic tools in the BDO Advantage suite
- Preparing position papers for all key judgements and estimates, using your experts and specialists as required
- Management providing all deliverables in line with the agreed timetable
- Assistance from your staff with supporting documentation and explanations during the audit process
- Disclosure by your staff of all information relevant to the engagement in a timely manner.

We will provide you with an audit preparation package through our Global Portal.



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# BDO's Global Portal

## BDO's Client Portal

To enhance our communication and to reduce any potential expectation gaps, we will continue to use the BDO Global Portal ('portal').

In addition to facilitating the secure exchange of information, the use of the portal assists with project management and provides a live view of progress to both BDO and City of Adelaide.

We will consult with you about how you would like us to communicate during the engagement, and the frequency of our status updates. In addition, whether it is to provide ad-hoc support, brainstorm ideas, or discuss any aspect of our services, the portal can assist. The key features of the portal are illustrated below:



### Online client collaboration

- Upload information and documentation in one secure place
- Track actions and milestones for BDO and client responsibilities.



### A flexible, secure platform with local customisation

- Security - permission and access can be set at a project level for different users such as your staff or our BDO teams
- You can receive a daily or weekly digest, summarising all activity that has occurred on the portal
- View document audit trails, reducing the risk of email misdirection.



### Digitised paperwork and workflow

- Approve and sign documents all within the portal, allowing for better transparency and speedier project progress
- Set dates with calendar reminders for when BDO requires certain documentation or information to be uploaded or completed
- Assign tasks to specific users
- Portal supports multiple document types and views.

## BDO Advantage

### BDO Advantage: Our innovative Audit Technology Platform

Today's business, regardless of industry or location, becomes increasingly digital-centric. Companies accumulate a great amount of data in their systems, but data becomes valuable only if we present and analyse them in such a way that they actually bring benefits. Today, we can do this effectively with BDO Advantage.

Our new suite of Data Analytics tools (BDO Advantage) enables us to enhance our audit approach through the extraction and analysis of data, to provide assurance for our audit and valuable insights for your business - allowing you to quickly address anomalies and make better decisions.

### Benefits to you

- Audit quality - Audit Data Analytics (ADAs) are engineered to identify risk areas requiring attention more rapidly. Conversely, areas requiring less attention are similarly identified using consistent visualisations derived from underlying data, providing a more effective audit and enhanced audit quality
- Reduced reliance on sampling - ADAs and the supporting methodology focuses our attention on notable items indicating higher risk of material misstatement within a population, allowing for targeted efforts to be directed to those items meriting the most attention. Entire populations do not ordinarily require significant amounts of traditional sampling. Rather, efforts are directed to tests of transactions indicative of higher risk, while simultaneously reducing efforts on those that do not indicate risk
- More meaningful audits - As we perform less sampling on entire populations and focus our efforts on outliers and unusual patterns within your datasets in consistent models, we will increasingly focus our energy on performing more meaningful and interesting work.

### The future

BDO is committed to innovation. As a firm, we are increasingly investing in building and implementing digital tools as part of the BDO Digital Audit Suite, to make the audits we deliver more efficient and insightful for you. As the BDO Digital Audit Suite evolves, we will apply these tools as part of your audit, where we believe they will deliver benefits to you as our client.



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## Appendix 1 New developments

### Changes in financial reporting for 31 December 2024

#### Amendments to AASB 101 for classifying liabilities as current or non-current

Effective for annual reporting periods beginning on or after 1 January 2024, there are three main changes to the classification requirements within AASB 101 *Presentation of Financial Statements*:

- The right to defer settlement for at least 12 months must exist at the end of the reporting period. If the right to defer settlement is dependent upon the entity complying with specified conditions (covenants) as at the reporting date, the right to defer (and therefore classify at least part of the loan as non-current) only exists at the reporting date if the entity complies with those conditions at the reporting date (paragraph 72B)
- Classification is based on the right to defer settlement, and not intention. Accordingly, if an entity has the right at the end of the reporting period to roll over an existing obligation for at least 12 months after the reporting period, it classifies the obligation as non-current, notwithstanding the entity may intend to settle the liability earlier (paragraph 73), and
- If a liability could be settled by the lender requiring the entity to transfer to the lender its own equity instruments prior to maturity (e.g. a convertible bond), classification of the liability is subject to whether the conversion feature is classified as a liability or equity instrument. If the conversion feature is classified as a liability and could be exercised within 12 months of the reporting date, the liability is classified as current. Alternatively, if the conversion feature is classified as equity under AASB 132 *Financial Instruments: Presentation*, the conversion feature does not affect the classification of the convertible bond (paragraph 76B).

Classifying loans can be complicated where there has been a breach of a loan covenant, and can depend on whether and when the lender has provided a waiver or a period of grace. Our [publication](#) includes a flowchart and detailed examples to assist in this analysis.

Where a liability could be settled by an entity transferring its own equity instruments, such as for a convertible bond or note, this [publication](#) provides examples to assist with appropriate classification.

These amendments apply for the first time to the classification of liabilities as current or non-current in the 31 December 2024 balance sheet. Comparatives must be restated in the 31 December 2023 balance sheet and in the 1 January 2023 opening balance sheet.

### New developments in financial reporting

#### AASB 18 *Presentation and Disclosure in Financial Statements*

On 9 April 2024, the International Accounting Standards Board issued IFRS 18 *Presentation and Disclosure in Financial Statements* (AASB 18 in Australia), a new financial statements presentation standard to replace IAS 1 *Presentation of Financial Statements*. You can read more about this in our [recent publication](#).

The changes require income and expenses to be classified into one of the following five categories - investing, financing, income taxes, discontinued operations and operating ('operating' being the residual or 'catch all' category). Classification follows an entity's 'main business activities' so AASB 18 is likely to result in different presentations across entities. The Statement of Profit or Loss also includes two mandatory subtotals:

- Operating profit or loss - this is a sub-total of all income and all expenses classified as operating, and
- Profit or loss before financing and income taxes - this is the sub-total of operating profit or loss, and all income and expenses classified as investing.

There are also changes to the Statement of Cash Flows, including how interest and dividend cash inflows and interest cash outflows are classified.

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## Appendix 1 New developments *continued*

Lastly, the financial statements must include new disclosures in a single note about 'management-defined performance measures' such as earnings before interest, taxes, depreciation and amortisation (EBITDA), 'adjusted profit', operating profit excluding recurring items, etc. The new disclosures apply to 'management-defined performance measures' if they are used in public communications outside the financial statements, to communicate to users of financial statements, management's view of an aspect of the entity's financial performance. They do not apply to certain specific sub-totals in the Statement of Profit or Loss such as gross profit. They also do not apply to social media posts and oral communications, and to non-IFRS information based on financial measures that are not performance-related (such as measures based only on the financial position of the entity). Also, they do not apply if an entity makes no public communications (as may be the case for private companies).

The changes are effective for annual periods beginning on or after 1 January 2027.

If you have any questions or require more information regarding these changes, please contact our [IFRS & Corporate Reporting](#) team.



## Appendix 2 Sustainability reporting

### What is required?

Legislation to mandate sustainability reporting Australia was passed by the Senate on 22 August 2024 and received Royal Assent on 17 September 2024. The start date is for years commencing 1 January 2025, with a phase-in period for entities of different sizes and types. Entities required to prepare and lodge financial reports with the Australian Securities and Investments Commission (ASIC) under Chapter 2M of the *Corporations Act 2001* may have to prepare sustainability reports if they meet certain criteria. In particular, entities that do not meet the size threshold tests in section 292A and are neither NGER reporters nor asset owners, are not currently required to prepare sustainability reports.

The legislation requires a 'sustainability report', but climate-related disclosures are the first, and currently the only component of mandatory sustainability reporting.

### Where will climate-related financial disclosures be disclosed?

Climate-related disclosures are required within a sustainability report forming part of the annual report. The sustainability report required by the *Corporations Act 2001* and consist of:

- The climate statements
- Notes to the climate statement
- Any statements prescribed by legislation
- The director's declaration.

### ASIC says: Start preparing for climate reporting now

Climate reporting represents the biggest changes to financial reporting and disclosures standards in a generation.

### Key actions to take now

**Reporting Obligations:** Assess whether mandatory sustainability reporting applies.

**Risk Disclosure:** Balance mandatory and voluntary disclosures, considering stakeholder needs, as this can be seen as a strategic work program vs a compliance activity.

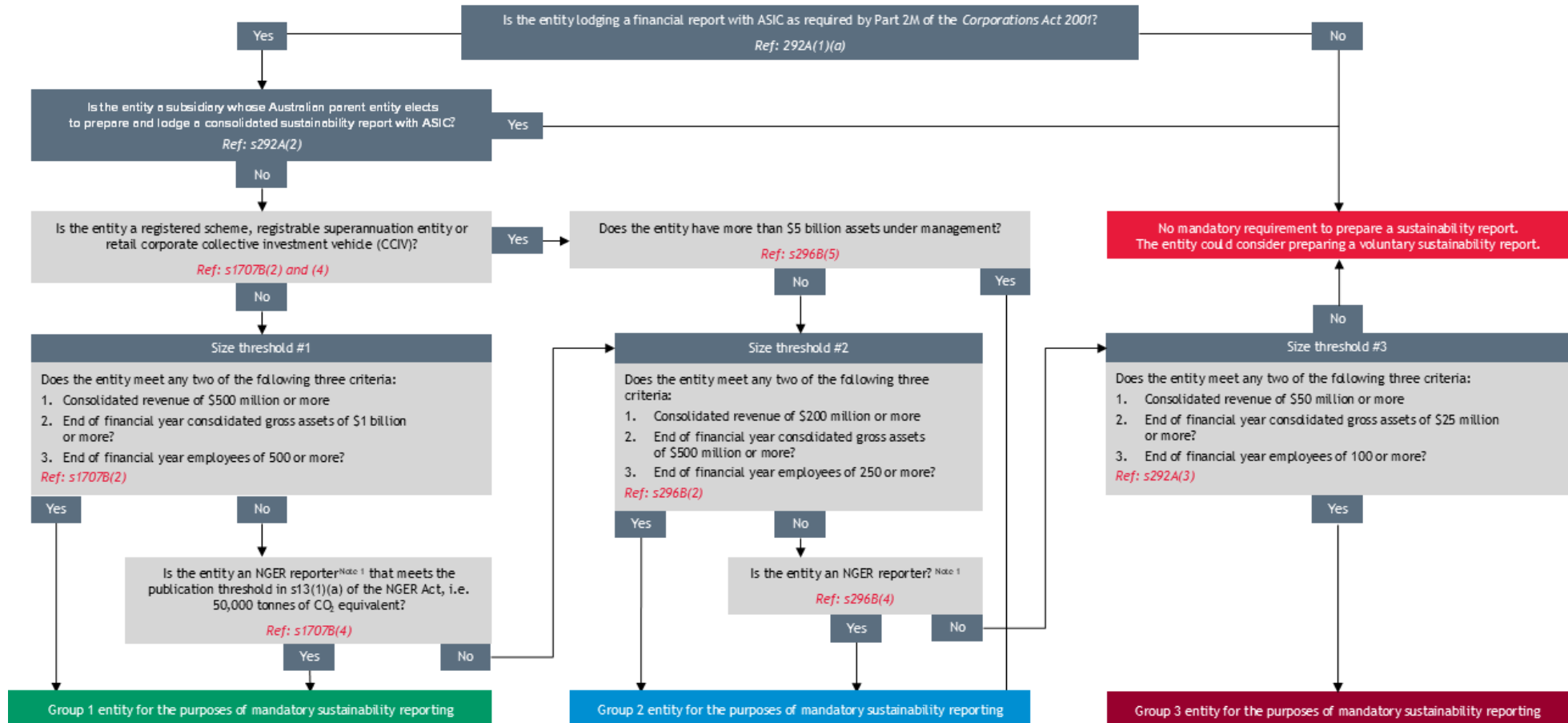
**Internal Capability:** Train employees or build capability to allocate resources effectively. Given that this is a new area, capability and capacity can be inhibitors.

**Data Quality and Technology Constraints:** Given that some of this information will be being captured and generated for the first time, govern data and assess technology readiness.

**Process Maturity and Change Management:** Align processes, manage change effectively, and ensure people across the end-to-end process understand the "why".

## Who is required to prepare climate-related financial disclosures?

The following decision tree diagram will assist you in determining whether your entity is subject to mandatory sustainability reporting, and if applicable, which of the three groups it falls into.



Note 1: An entity is an NGER reporter if it is a controlling corporation registered or required to be registered under s12(1) of the National Greenhouse and Energy Reporting Act 2007 (NGER Act).

## When will climate-related reporting be mandated?

The following table outlines the first mandatory reporting period end for Group 1, Group 2 and Group 3 entities with different year-ends.

## SUSTAINABILITY REPORTS REQUIRED FOR THE FIRST YEAR ENDING ON DATES SHOWN BELOW

| YEAR-END     | GROUP 1 ENTITIES  | GROUP 2 ENTITIES  | GROUP 3 ENTITIES  |
|--------------|-------------------|-------------------|-------------------|
| 31 December  | 31 December 2025  | 31 December 2027  | 31 December 2028  |
| 31 March     | 31 March 2026     | 31 March 2028     | 31 March 2029     |
| 30 June      | 30 June 2026      | 30 June 2027      | 30 June 2028      |
| 30 September | 30 September 2026 | 30 September 2028 | 30 September 2029 |

### Sustainability reporting standards

The Australian Accounting Standards Board is responsible for setting sustainability reporting standards. Its first two standards, AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (a voluntary standard) and AASB S2 *Climate-related Disclosures* (mandatory standard) align closely with IFRS® Sustainability Disclosure Standards.

### Assurance over climate-related disclosures

The Auditing and Assurance Standards Board has published its [proposed timeline for assurance over the sustainability report](#). If approved as currently proposed, assurance over the climate-related financial disclosures will be in the:

- First year - limited assurance over governance, strategy and Scope 1 and Scope 2 emissions
- Second and third years - limited assurance over all disclosures but reasonable assurance over Scope 1 and Scope 2 emissions
- Fourth year - Reasonable assurance over all disclosures.

### Your sustainability roadmap

We've created a practical roadmap to guide your implementation of mandatory climate-related disclosures as well as your sustainability journey. It outlines the essential activities and their deadlines. This roadmap has been drafted for an entity with a 30 June year-end. Though Council is not required to report under Corporation Act, and we are yet aware of any changes in the Local Government Act that would require the inclusion of Sustainability Report in Council's Annual Report, we have included the suggested best practice roadmap if Council were a Group 2 entity for the mandatory climate reporting purpose in the following page for your information.

## Group 2 entities: Best practice roadmap

| PROJECT STREAMS |  |  | 30 JUNE 2024   | 30 JUNE 2025  | 30 JUNE 2026   | 30 JUNE 2027   | 30 JUNE 2028  |
|-----------------|--|--|--|---|--|--|---|
| 1               | COMPLIANCE FOCUS:<br>Carbon footprint measurement              | Scope 1 and 2 greenhouse gas (GHG) emissions |  | <ul style="list-style-type: none"> <li>Set carbon inventory boundary</li> <li>Develop a Basis of Preparation (carbon accounting methodology)</li> <li>Measure and report internally Scope 1 &amp; Scope 2 GHG emissions</li> </ul>                        | <ul style="list-style-type: none"> <li>Improve measurement and report internally Scope 1 &amp; Scope 2 GHG emissions</li> <li>Set targets in relation to Scope 1 &amp; 2 GHG emissions</li> <li>Conduct an assurance readiness assessment</li> </ul>                 | Mandatory calculation and external reporting of Scope 1 and 2 GHG emissions  |   |
|                 |  | Scope 3 GHG emissions                        |  | Initial measurement (significant estimation) and report internally Scope 3 GHG emissions  | Improve measurement (significant estimation) and report internally Scope 3 GHG emissions   | <ul style="list-style-type: none"> <li>Improve measurement (less estimation) and report internally Scope 3 GHG emissions</li> <li>Set targets in relation to Scope 3 GHG emissions</li> <li>Conduct an assurance readiness assessment</li> </ul> | Mandatory calculation and external reporting of Scope 3 GHG emissions |
| 2               | COMPLIANCE FOCUS:<br>Climate related disclosure                | TCFD   | Include <u>some TCFD disclosures</u> in the annual report with a focus on the following pillars: <ul style="list-style-type: none"> <li>Governance; and</li> <li>Strategy</li> </ul> | Include <u>all TCFD disclosures</u> in the annual report, including the following pillars: <ul style="list-style-type: none"> <li>Governance</li> <li>Strategy</li> <li>Risk Management</li> <li>Metrics and Targets</li> </ul>                           |  | TCFD disclosures replaced by IFRS S2/AASB S2   |   |
|                 |  | IFRS S2 and AASB S2                          |  | Conduct an IFRS S2/AASB S2 gap analysis   | <ul style="list-style-type: none"> <li>Conduct a material climate risk assessment</li> <li>Prepare a scenario analysis</li> <li>Financial modelling of impact on financial statements</li> <li>Prepare draft IFRS S2/AASB S2 disclosures for internal use</li> </ul> | Mandatory reporting of all IFRS S2/AASB S2   |   |
| 3               | STRATEGIC FOCUS:<br>Sustainability related strategy disclosure | IFRS S1/AASB S1                              |  | <u>Activate sustainability strategy</u> <ul style="list-style-type: none"> <li>Step 1: ASSESS - Current state assessment</li> <li>Step 2: PRIORITISE - Materiality assessment (stakeholder engagement)</li> <li>Step 3: COMMIT - Identify gaps</li> </ul> | <ul style="list-style-type: none"> <li>Step 4: MEASURE - Commit and measure to address gap identified</li> <li>Step 5: REPORT - Prepare separate voluntary sustainability report</li> <li>Conduct an IFRS S1/AASB S1 gap analysis</li> </ul>                         | Continuous improvement of reporting to stakeholders (e.g. separate voluntary reporting)  |   |

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## Appendix 3 Other communications

### Ethics and independence

In conducting our audit, we are required to comply with the independence requirements of the *Corporations Act 2001* and Part 4A of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

We obtain 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.

Should any independence matters be raised, we will bring them to your immediate attention.

For the comfort of those charged with governance, we note that the following processes assist in maintaining our independence:

- Restrictions on BDO employees having financial interests in audit clients
- No other work is permitted to be undertaken by any BDO division or office without the express approval of the engagement director/partner
- Services including valuation and similar services are specifically prohibited to be provided by any other BDO office to you
- All services performed by any BDO division or office have been reported to you.

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

### Communications with those charged with governance

To enhance our communication and to reduce any potential expectation gaps with clients, BDO has adopted a structured reporting system. We will communicate with Audit & Risk Committee and management through various means. This includes but is not limited to a:

- This Audit plan
- Management letter after the audit visit
- The BDO Client Portal
- A completion report at the conclusion of the audit
- The Audit report.

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We have prepared this report solely for the use of City of Adelaide. As you know, this report forms part of a continuing dialogue between the company and us and, therefore, it is not intended to include every matter, whether large or small, that has come to our attention. For this reason we believe that it would be inappropriate for this report to be made available to third parties and, if such a third party were to obtain a copy of this report without prior consent, we would not accept any responsibility for any reliance they may place on it.

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