

External Audit Interim Management Letter

Friday, 17 June 2022

Audit and Risk Committee

Strategic Alignment - Enabling Priorities

Program Contact:

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Public

Approving Officer:

Amanda McIlroy - Chief Operating Officer

EXECUTIVE SUMMARY

Under Section 129 of the *Local Government Act 1999 (SA)* the Auditor must provide to Council a report on matters arising from the audit and specifically identify in the report, 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.

BDO Chartered Accountants (BDO) completed their interim audit during the period 16 May 2022 through to 3 June 2022. As is normal practice and based on their work to date BDO have provided an "Interim Report on the 2022 External Audit" to the Presiding Member of the Audit and Risk Committee, Mr David Powell per **Attachment A**.

BDO's Interim 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 2022. A final report on matters arising from the audit will be provided to the Audit and Risk Committee on 30 September 2022.

RECOMMENDATION

THAT THE AUDIT AND RISK COMMITTEE

1. Notes the report and the Interim Report on the 2022 External Audit as per Attachment A to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 17 June 2022.
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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, debt and assets.
Policy	Not as a result of this report
Consultation	Not as a result of this report
Resource	Not as a result of this report
Risk / Legal / Legislative	Section 126(4)(c) of the <i>Local Government Act 1999 (SA)</i> identifies the functions of an Audit Committee as: <i>“Reviewing the adequacy of the accounting, internal control, reporting and other financial management systems and practices of the council on a regular basis”.</i>
Opportunities	Not as a result of this report
21/22 Budget Allocation	Not as a result of this report
Proposed 22/23 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
21/22 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 external auditors for the Council are BDO Chartered Accountants (BDO). The role of the external auditor is to provide an opinion to Council with respect to the audited financial statements. In planning the audit, the auditor considers the internal controls to determine their audit procedures for the purpose of expressing an opinion on the financial statements, and the effectiveness of the financial control environment.
2. Under Section 129 of the *Local Government Act 1999 (SA)* the auditor must provide to Council a report on particular matters arising from the audit and specifically identify in the report, 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.
3. At the meeting of the Audit and Risk Committee on 4 February 2022, the Audit and Risk Committee endorsed the proposed 2020-21 End of Year financial reporting process and external audit timetable. The associated report highlighted that BDO had scheduled to carry out their audit in two parts with the interim audits conducted in May 2022 and the final phase of the audit concentrating on the Corporation's draft financial statements to be carried out at the end of August 2022.
4. BDO have provided an "Interim Report on the 2022 External Audit" to the Presiding Member of the Audit and Risk Committee, per **Attachment A**.
5. At the time of the "Interim Report on the 2022 External Audit" BDO had not completed testing of all the core controls identified in this document because some relate to annual processes and consequently will not occur until the end of the financial year, or others are more closely aligned to testing we would normally conduct after year-end.
6. The controls to be tested did not yield exceptions in the prior year nor does current internal reporting indicate significant issues.
7. Based on the work-to-date, BDO's Interim Report notes they have identified no material deficiencies in internal controls that would lead to a qualification to the audit report on internal controls.
8. Key issues identified during the audit planning process included:
 - 8.1. Revaluation, depreciation, useful lives and residual values of Infrastructure, Property Plant and Equipment Assets.
 - 8.2. Accounting treatment of Capital Work in Progress.
 - 8.3. Management override of internal controls – standard compliance check.
 - 8.4. Cut off grant funding and accuracy of any amounts deferred at 30 June 2022.
 - 8.5. Accounting for major development contracts.
9. It is appropriate that the Audit and Risk Committee notes the Interim Report on the 2022 External Audit.
10. In accordance with the agreed timetable endorsed by the Audit and Risk Committee at the 4 February 2022 meeting, BDO will present a final report on matters arising from the audit to the Audit and Risk Committee on 30 September 2022.

ATTACHMENTS

Attachment A – Interim Report on the 2021 External Audit

- END OF REPORT -