

Mr David Powell  
Presiding Member - Audit & Risk Committee  
The Corporation of the City of Adelaide  
GPO Box 2252  
ADELAIDE SA 5001

8 June 2022

Dear Mr Powell

### **INTERIM REPORT ON THE 2022 EXTERNAL AUDIT**

We are pleased to provide the members of the Audit & Risk Committee an update on the 2022 External Audit.

We have conducted our interim audit visits, in line with our annual audit plan dated 21 January 2022. Our work to date has covered:

- Our annual assessment of risk and potential implications for the audit of the financial report.
- Our annual assessment of risk and potential implication for the audit opinion on internal controls.
- A review of internal controls and determination of those that will be relied upon and tested as part of our audit strategy for the audit of the annual financial statements.
- Interim testing of internal controls for the control audit opinion.
- Interim testing of a sample of transactions recorded in revenue, operating expenditure and payroll expenditure.
- Analytical review of interim results to identify any unusual trends or items that may require additional audit attention.
- Review of interim testing to ensure that there are no underlying deficiencies in internal controls or matters that require additional attention as part of our audit on the financial report.
- Review of the IT environment and any IT general controls that are relevant to the financial reporting process and our audit.

We have also updated our understanding in relation to key financial reporting issues that were identified in our audit planning process, as follows:

- Revaluation, depreciation, useful life and residual value 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 2022; and
- Accounting for major development contracts.

No additional risks have been identified subsequent to the presentation of our annual audit plan.

## **Status update on key issues**

### **Revaluation, depreciation, useful life and residual value of Infrastructure, Land & Building Assets**

Council revalue all material asset classes on a regular basis such that carrying values are not materially different from fair value. Revaluations are carried out on a rotational basis by Council's employees in conjunction with independent valuers. This year, we have been briefed by management that there will be a revaluation of Public Art, Playground and Playground Equipment, Footpath, Ticket Machine and Irrigation.

Furthermore, we were advised by management that a management's expert has been engaged to assist with the review of the useful life of Council's fixed assets.

It is expected that these engagements will be completed as part of the year end reconciliation process, and this will be available to us by our final visit commencing 22 August 2022.

### **Capital Work In Progress**

We have been briefed on the progress in relation to capital work in progress, in particular the capitalisation and/or expensing of items and the handover process of completed capital projects during the year. It is expected that the underlying asset records and associated reconciliations will be updated after year end and completed before the commencement of the year-end visit.

### **Management override of internal controls**

Our interim testing has not identified any evidence of management override of internal controls. We will revisit this during our year-end visit, complete our testing and report our findings accordingly.

### **Cut-off of grant funding and accuracy of any amounts deferred at 30 June 2022**

Council has been awarded a significant number of grants during the year. However, the ability to effectively spend these grants has been limited due to the shortage of contractors or internal resources. As a result, it is expected that there will be a significant portion of grant funding to be deferred as at 30 June 2022 and carried forward into following reporting period. We have been provided with Council's grant register and been briefed on management's assessment process to determine whether a grant is of capital or operating nature. We have made initial inquiries with management and will revisit this accounting during our year-end visit.

### **Accounting for major development contracts**

We have been briefed on the progress of 88 O'Connell Street and Adelaide Central Market Complex development contracts. A management expert was engaged to provide advice on the initial accounting presentation of these contracts in the financial statements. We have held discussion with management and management's expert to discuss their findings and proposed accounting treatment. During those discussions, it was established that the initial accounting will be under AASB 116 - Property, Plant and Equipment as a disposal of a non-current asset rather than revenue under AASB 15 - Revenue from Contracts with Customers. We will revisit the matter during our year-end visit to assess the final accounting impact and disclosures made to the financial statements.

### **Update on our audit opinion in relation to internal controls**

We have commenced planning and testing of internal controls for the purpose of providing an audit opinion on Council's internal controls. Specifically that controls exercised by the Council in relation to the receipt, expenditure and investment of money, the 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 legislative requirements.

Our assessment of internal controls is based on the criteria in the *Better Practice Model - Financial Internal Control for South Australian Councils* as issued by the Local Government Association of South Australia.

At the time of this report, we have not completed all testing of core controls as 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. The controls to be tested did not yield exceptions in the prior year nor does the current Promapp reporting indicate significant issues.

Based on the work to date, we have not noted any material exceptions that would lead to a qualification to the audit report on internal controls. We will continue our work on internal controls at the year-end visit and will report to Council accordingly.

Please contact me if you have any questions or need any further information.

Yours faithfully

**BDO Audit Pty Ltd**

A handwritten signature in blue ink that reads 'Paul Gosnold'.

Paul Gosnold  
Director