

Matters Arising from 2021-22 External Audit

Friday, 30 September 2022

Audit and Risk Committee

Strategic Alignment - Strong Economies

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 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 the management of the Council's financial affairs identified by the auditor during the course of the audit.

BDO has now completed their end of year audit and have provided an 'Annual Completion Report for the year ended 30 June 2022' to the Presiding Member of the Audit and Risk Committee for both the Consolidated City of Adelaide and Adelaide Central Market Authority, refer **Attachments A and B**.

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 2022.

RECOMMENDATION

THAT THE AUDIT AND RISK COMMITTEE

1. Notes the 'City of Adelaide Annual Completion Report for the year ended 30 June 2022' from Council's external auditors, BDO, contained in Attachment A to Item 5.1 on the Agenda for the meeting of the Audit and Risk Committee held 30 September 2022.
 2. Notes the 'Adelaide Central Market Authority Annual Completion Report for the year ended 30 June 2022' from Council's external auditors, BDO, contained in Attachment B to Item 5.1 on the Agenda for the meeting of the Audit and Risk Committee held 30 September 2022.
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IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	Strategic Alignment – Strong Economies Financial sustainability is critical to achieving our vision and Council will carefully manage its revenue, costs, debts, 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 129 of the <i>Local Government Act 1999 (SA)</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. 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 role of 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. 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.
3. 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 has sufficient relevant information to assist their 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.
4. At the meeting of the Audit and Risk Committee on 4 February 2022, the Audit and Risk Committee endorsed the proposed 2021-22 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. In accordance with the Act this report will be provided by the auditor to the Audit and Risk Committee and the Principal Member of the Council (who must then ensure that a copy is provided to the Chief Executive Officer and other members of Council).
6. At the Audit and Risk Committee Meeting held on 17 June 2022, BDO provided an 'Interim Report' on the 2021-22 external audit. BDO's Interim Report noted that to date they have 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 2022. In addition, BDO's Interim Report provided a status update on key issues that Council were taking appropriate action on.

Report on Matters Arising from the Audit

7. The external auditor, Mr Paul Gosnold of BDO has completed the audit of the financial statements and provided audit clearance for the Audited Financial Statements subject to:
 - 7.1. Subsequent events audit procedures to be performed by the auditors up to date of the audit report
 - 7.2. Receipt of signed management representation letter
 - 7.3. Receipt of final Annual Financial Statements certified by the CEO and the Principal Member of Council.
8. These are scheduled to be completed subsequent to the Audit and Risk Committee meeting on 30 September 2022.
9. 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:
 - 9.1. The status of the audit
 - 9.2. Key accounting and audit matters
 - 9.3. Adoption and impacts of new accounting standards
 - 9.4. Summary of any misstatements
 - 9.5. Internal controls.
10. Key areas of focus addressed by the report include:
 - 10.1. Revaluation of Infrastructure, Property, Plant and Equipment.
 - 10.1.1. Noting that there is an increase in the value of Council assets caused by independent valuations. Management continue to work through alignment of depreciation and valuation records for all asset classes to ensure ongoing appropriate treatment. BDO noted no exceptions where found in their testing.
 - 10.2. Accounting for Treatment of Work In Progress (WIP).
 - 10.2.1. BDO have noted the balance in the WIP account at 30 June 2022 and an improved change to the capitalisation process from previous years, BDO has attested that this balance is true and fair and all assets have been capitalised where appropriate.

10.3. Accounting for Major Development Contracts.

10.3.1. Noting previous reports to the Audit and Risk Committee regarding accounting treatment of the major contracts associated with 88 O'Connell St and Central Market Arcade, there was a slight amendment to the calculation originally presented. This presented favourable to the financials.

10.4. It should be noted that the corrected misstatements noted in the report are all agreed improvements and where noted as impacting the Profit/Loss, these were all 'below the line' adjustments and not impacted the Operating result reported.

11. 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.
12. The report identified no material deficiencies existed in the accounting treatment and disclosures of matters previously identified as significant risks.
13. The audit did not identify any significant deficiencies with internal controls.
14. The audit has concluded that the consolidated financial reports of the City of Adelaide and Adelaide Central Market Authority present fairly, in all material respects, the entities financial position as at 30 June 2022.

ATTACHMENTS

Attachment A – City of Adelaide Annual Completion Report for year ended 30 June 2022

Attachment B – ACMA Annual Completion Report for year ended 30 June 2022

- END OF REPORT -