



CITY OF ADELAIDE

Annual completion report

YEAR ENDED 30 JUNE 2022

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Dear Audit and Risk Committee Members

We are pleased to present this report to the Audit and Risk Committee of City of Adelaide (the 'Council') in relation to the 30 June 2022 annual audit.

As at the date of this report, we have substantially completed our audit and subject to the satisfactory resolution of the matters outlined in the Executive Summary, we expect to issue an unmodified audit report.

We have set out in this document the significant matters arising from our audit. This summary covers those matters we believe to be material in the context of our work.

We look forward to the Audit and Risk Committee meeting on 30 September 2022 where we will have the opportunity to discuss this report.

Should you require clarification on any matter in this report before this date, please do not hesitate to contact us.

We would like to take this opportunity to extend our appreciation to management for their assistance and cooperation throughout the course of our audit.

Yours faithfully



Paul Gosnold
Engagement Partner

Adelaide, 23 September 2022



Linh Dao
Associate Director





EXECUTIVE SUMMARY

PURPOSE

The purpose of this report is to communicate significant matters arising from our audit to the Audit and Risk Committee. This report has been discussed with management.

SCOPE

Our audit was conducted in accordance with Australian Auditing Standards and the *Local Government Act 1999 and the Local Government (Financial Management) Regulations 2011* for the year ended 30 June 2022.

STATUS OF THE AUDIT

Our audit of the financial report is substantially complete. We expect to issue an unmodified audit report, subject to satisfactory completion of the following:

- ▶ Review of the financial statements and resolution of any outstanding disclosure queries;
- ▶ Receipt of management representations on various matters;
- ▶ Review of subsequent events post 30 June 2022; and
- ▶ Receipt of formally adopted financial statements and agreement of these to the final draft provided to us to date.

A draft of the proposed audit report is included at [Appendix 1](#).

SUMMARY OF MISSTATEMENTS

We have identified misstatements during our audit. The list of corrected misstatements is included in the respective [section](#) of this report.

We have not identified any uncorrected misstatements that, in our judgement, either individually or in aggregate, could have a material effect on the financial report for the year ended 30 June 2022.

AREAS OF AUDIT FOCUS

In performing our audit, we have identified those matters that, in the auditor's judgement, were of the most significance in the audit of the financial report. Our audit procedures also focused on areas that were considered to represent significant risks of material misstatement. These areas of focus are outlined below:

- ▶ Revaluation 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
- ▶ Accounting for major development contracts

Refer to the relevant section for details on the significant risk areas and other areas focused on during the audit.



AREAS OF AUDIT FOCUS

We identified the risk areas as part of our risk assessment procedures undertaken during the planning phase and continued to be alert for risks during the course of the audit. Our audit procedures focused on areas that were considered to represent risks of material misstatement.

We set out the areas that were considered significant risks of material misstatement along with an outline of the work performed and a summary of findings.

REVALUATION OF INFRASTRUCTURE, PROPERTY, PLANT AND EQUIPMENT

Description	Audit work performed	Summary of findings
Council's infrastructure, property, plant and equipment is carried at valuation. There is a risk that these balances are misstated as a result of the inappropriate application of valuation methodologies or the use of incorrect underlying assumptions.	We have evaluated the competence, capability and objectivity of the independent valuers, if any, obtained an understanding of their work and evaluated appropriateness of conclusions reached.	<p>We noted the revaluation has resulted in a net increase in value of Council's assets of \$84mil, of which \$92mil increase related to the infrastructure assets and \$7.6mil decrease related to land and buildings. The main reason for the increase is the reassessment of the condition of the assets by the independent valuers, compared to their depreciated value in the asset records, and current price increases.</p> <p>For land and buildings, management identified some instances of duplicated assets within the asset records which were corrected through the asset revaluation reverse. Furthermore, some decrements resulted from lower sale proceeds on disposal of land and buildings.</p> <p>No other exceptions were noted from our testing.</p>



AREAS OF AUDIT FOCUS *CONTINUED*

ACCOUNTING TREATMENT OF CAPITAL WORK IN PROGRESS (WIP)

Description	Audit work performed	Summary of findings
<p>There is a risk that the accounting treatment of items captured within Capital WIP may not be in accordance with Australian Accounting Standards.</p>	<p>We have obtained the Capital WIP schedule and reviewed in detail a sample of projects outstanding at the end of the year to ensure they are likely to generate assets. We have also reviewed a sample of assets transferred out of Capital WIP to check that the categorisation and value allocated to the relevant fixed asset class was appropriate.</p>	<p>We noted the financial statements reported a significant balance of Capital WIP of \$37.6mil as at 30 June 2022 (2021: \$15.9mil). The balance included \$9mil of capital works that had reached practical completion before 30 June 2022, however this had not been capitalised to respective classes of assets in Assetics. We concurred with management that the impact on the depreciation of the relevant assets on Council's surplus or deficit for the year would be clearly trivial and no adjustments were required.</p> <p>No other exceptions were noted in relation to the accounting treatment of capital work in progress.</p>

AREAS OF AUDIT FOCUS *CONTINUED*

MANAGEMENT OVERRIDE OF INTERNAL CONTROLS

Description	Audit work performed	Summary of findings
<p>Australian Auditing Standards require that we presume there is a risk that management has the ability to manipulate accounting records and override control that otherwise appear to be operating effectively.</p>	<p>Our response included a review of key internal controls at the Council to mitigate the risk of management override.</p> <p>We tested the appropriateness of journal entries and other adjustments made in the preparation of the financial report. We also reviewed accounting estimates for bias, and evaluated the business rationale of any significant transactions that are outside the normal course of business or that otherwise appeared to be unusual.</p>	<p>We did not identify any evidence of misstatement due to management override of internal controls.</p>

CUT-OFF OF GRANT FUNDING AND ACCURACY OF ANY AMOUNTS DEFERRED AT 30 JUNE 2022

Description	Audit work performed	Summary of findings
<p>There is a risk of error in the calculation of grant income recognised and deferred at the end of the year by reference to grant agreements and Australian Accounting Standards.</p>	<p>We obtained the schedule of grant income recognised and deferred at year end. We selected a sample of grants and obtained the agreements to test that funding that was 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>.</p>	<p>No exceptions were noted from our testing performed.</p>

AREAS OF AUDIT FOCUS CONTINUED

ACCOUNTING FOR MAJOR DEVELOPMENT CONTRACTS

Description	Audit work performed	Summary of findings
<p>Council has development contracts relating to 88 O'Connell St and Central Market Arcade. These contracts are of significant value and are considered complex. There is a risk of error in relation to the accounting for these projects.</p>	<p>We audited the accounting treatment of these contracts by reference to supporting documents including management position papers, relevant agreements and the requirements of applicable Accounting Standards.</p> <p>We assessed if relevant disclosures made to the financial statements were in accordance with the applicable reporting framework.</p>	<p>We noted milestone conditions set out on both contracts were met before the reporting date and as a result, relevant assets under contract have been derecognised at 30 June 2022. This resulted in a significant receivable of \$42.3mil outstanding at the reporting date, which has been presented as other non-current receivables in the financial statements.</p> <p>As the amount is not expected to be recovered in the next 12 months, the receivable has been discounted to net present value (NPV) for financial reporting purposes at 30 June 2022. We noted an error in management's NPV calculation which has been corrected and included in the Summary of Misstatement section of this report.</p> <p>In future reporting periods, we recommend management monitor changes to expected cash flows so that timely adjustments are made to the financial statements.</p> <p>Furthermore, as part of the audit test, we noted some major surplus assets being disposed of during the year. AASB 5 requires entities to measure assets in accordance with applicable accounting standards immediately prior to the transfer to assets held for sale. For Council, this means assets need to be revalued to fair value prior to the transfer. This was not done for some of the assets disposed of during the year. Adjustments have been made to the financial statements to correct revaluation increments which were initially recognised as gain on disposal. We have included this in the Summary Misstatement section of this report.</p>

SUMMARY OF MISSTATEMENTS

CORRECTED MISSTATEMENTS

We identified the following misstatements during the course of our audit which have been corrected:

Description	Assets	(Liabilities)	Reserves	(Profit)/Loss
To adjust for debtor receipt on 30 June 2022 that was not recorded in the general ledger correctly	(\$1,667,000) \$1,667,000	-	-	-
To correct accounting for irrigation asset disposal through asset revaluation reserve, rather than surplus or deficit	-	-	\$742,856	(\$742,856)
To adjust for revaluation of assets immediately prior to the transfer to asset held for sale during the year	\$2,754,815	-	(\$4,387,815)	\$1,633,000
To correct the discounting effect on long-term receivable as at the reporting date	(\$1,143,734)	-	-	\$1,143,734
Net effect of corrected misstatements	\$1,611,081	-	(\$3,644,959)	\$2,033,878



INTERNAL CONTROL

CURRENT YEAR

In accordance with *ASA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, we are required to communicate in writing, significant deficiencies in internal control identified during our audit to those charged with governance on a timely basis.

The standard defines a deficiency in internal control as:

1. A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial report on a timely basis; or
2. A control necessary to prevent, or detect and correct, misstatements in the financial report on a timely basis is missing.

Significant deficiency in internal control means a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgement, is of sufficient importance to merit the attention of the Audit and Risk Committee.

Our audit procedures did not identify any significant deficiencies that in our professional judgment are of sufficient importance to merit the attention of the Audit and Risk Committee.

We intend to provide an unqualified audit report in relation to compliance with Section 125 of the *Local Government Act 1999*.



OTHER REPORTING REQUIREMENTS

INDEPENDENCE AND ETHICS

In conducting our audit, we are required to comply with the independence requirements of the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011* and Part 4A of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

We have obtained 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.

We have not become aware of any issue that would cause any member of the engagement team, BDO or any BDO network firm to contravene any ethical requirement or any regulatory requirement that applies to the audit engagement.

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

The *Local Government Act 1999* requires the lead auditor to make a declaration to the directors regarding independence. We are in a position to make this declaration, a draft of which has been included at [Appendix 2](#).

NON-COMPLIANCE WITH LAWS AND REGULATIONS

We have made enquiries in relation to any non-compliance with laws and regulations during the course of our audit. We have not identified any instances of non-compliance with laws and regulations as a result of our enquiries.

We have not identified any reportable matters during the course of our audit.

FRAUD

Management have confirmed that there were no matters of fraud identified for the period under audit, or subsequently. 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.

We have not identified any instances of fraud during the course of our audit.



APPENDIX 1 PROPOSED AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT TO THE PRINCIPAL MEMBER OF CITY OF ADELAIDE

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of City of Adelaide and its subsidiaries (the Council), which comprises the statement of financial position as at 30 June 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the certification of the financial statements.

In our opinion the accompanying financial report of City of Adelaide presents fairly, in all material respects, the Council's financial position as at 30 June 2022, and its financial performance and its cash flows for the year ended on that date in accordance with Australian Accounting Standards, the *Local Government Act 1999*, and the *Local Government (Financial Management) Regulations 2011*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report.

We are independent of the Council in accordance with the *Local Government Act 1999* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Local Government Act 1999*, which has been given to the Council, would be in the same terms if given to the Council as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is information included in the X report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.



APPENDIX 1 PROPOSED AUDIT REPORT CONTINUED

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Council's Officers for the Financial Report

The Council's officers are responsible for the preparation and fair presentation of the financial that gives a true and fair view in accordance with Australian Accounting Standards, the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011* and for such internal control as the Council's officers determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Council's officers are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council's officers either intend to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd

Paul Gosnold
Director

Adelaide, XX Month 20XX



APPENDIX 1 PROPOSED AUDIT REPORT CONTINUED

INDEPENDENT ASSURANCE REPORT ON THE INTERNAL CONTROLS OF CITY OF ADELAIDE

Opinion

We have undertaken a reasonable assurance engagement on the design and the operating effectiveness of controls established by City of Adelaide ('Council') in relation to financial transactions relating to the receipt, expenditure and investment of money, acquisition and disposal of property and incurring of liabilities, throughout the period 1 July 2021 to 30 June 2022 relevant to ensuring such transactions have been conducted properly and in accordance with law.

In our opinion, in all material respects:

- (a) The controls established by Council in relation to financial transactions relating to the receipt, expenditure and investment of money, acquisition and disposal of property and incurring of liabilities were suitably designed to ensure such transactions have been conducted properly and in accordance with law; and
- (b) The controls operated effectively as designed throughout the period from 1 July 2021 to 30 June 2022.

Basis for opinion

We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3150 *Assurance Engagements on Controls* issued by the Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The Council's responsibilities for the internal controls

The Council is responsible for:

- a) The receipt, expenditure and investment of money, acquisition and disposal of property and incurring of liabilities;
- b) Identifying the control objectives
- c) Identifying the risks that threaten achievement of the control objectives
- d) Designing controls to mitigate those risks, so that those risks will not prevent achievement of the identified control objectives; and
- e) Operating effectively the controls as designed throughout the period.

Our independence and quality control

We have complied with the independence and other relevant ethical requirements relating to assurance engagements, and apply Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* in undertaking this assurance engagement.

Assurance practitioner's responsibilities

Our responsibility is to express an opinion, in all material respects, on the suitability of the design to achieve the control objectives and the operating effectiveness of controls established by Council in relation to financial transactions relating to the receipt, expenditure and investment of money, acquisition and disposal of property and incurring of liabilities. ASAE 3150 requires that we plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the controls are suitably designed to achieve the control objectives and the controls operated effectively throughout the period.



APPENDIX 1 PROPOSED AUDIT REPORT CONTINUED

An assurance engagement to report on the design and operating effectiveness of controls involves performing procedures to obtain evidence about the suitability of the design of controls to achieve the control objectives and the operating effectiveness of controls throughout the period. The procedures selected depend on our judgement, including the assessment of the risks that the controls are not suitably designed or the controls did not operate effectively. Our procedures included testing the operating effectiveness of those controls that we consider necessary to achieve the control objectives identified. An assurance engagement of this type also includes evaluating the suitability of the control objectives.

Limitations of controls

Because of the inherent limitations of an assurance engagement, together with any internal control structure it is possible that, even if the controls are suitably designed and operating effectively, the control objectives may not be achieved and so fraud, error, or non-compliance with laws and regulations may occur and not be detected.

An assurance engagement on operating effectiveness of controls is not designed to detect all instances of controls operating ineffectively as it is not performed continuously throughout the period and the tests performed are on a sample basis. Any projection of the outcome of the evaluation of controls to future periods is subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

BDO Audit Pty Ltd

Paul Gosnold
Director

Adelaide, 23 September 2022



APPENDIX 2 AUDITOR INDEPENDENCE DECLARATION

Positive declaration

We set out below our draft Auditor independence declaration.

CERTIFICATION OF AUDITOR INDEPENDENCE

I confirm that, for the audit of the financial statements of the City of Adelaide for the year ended 30 June 2022, I have maintained my independence in accordance with the requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code), Part 4A, published by the Accounting Professional and Ethical Standards Board, in accordance with the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011* made under that Act.

This statement is prepared in accordance with the requirements of Regulation 22 (5) *Local Government (Financial Management) Regulations 2011*.

Paul Gosnold
Director

BDO Audit Pty Ltd

Adelaide, XX Month 2022

APPENDIX 3 NEW DEVELOPMENTS

We wish to bring to your attention some upcoming changes in financial reporting which may cause significant changes to your future reported financial position and performance.

REVISED AUDITING STANDARD - ASA 315, IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

Australian Auditing Standard 315 *identifying and Assessing the Risks of Material Misstatement (Revised)* (ASA 315) is effective for financial reporting periods beginning on or after December 15, 2021. It requires a more granular process of identification risks of material misstatement (RMM) in an entity, with a separate assessment of inherent risk and control risk for assertion level RMMs, to drive a more efficient and risk-responsive audit.

HOW HAS IT CHANGED?

- ▶ Requirement to perform a separate assessment of inherent risk and control risk for risks of material misstatement (RMMs) identified at the assertion level
- ▶ Spectrum of inherent risk, based on the likelihood and magnitude of an RMM
- ▶ Use of inherent risk factors (complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or fraud) to drive risk identification.
- ▶ Identification of 'risks arising from the use of IT' based on integrity of information in the information system; risks arising from ineffective design or non-application of controls
- ▶ Understanding controls over processes that support the effective operation of the IT environment

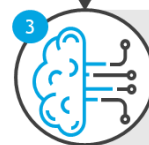
HOW CAN YOU ASSIST US TO TRANSITION TO THIS REVISED STANDARD?




Document your policies and procedures surrounding business processes, from initiation and processing, through to recording and reporting, of transactions, account balances and disclosures



Review your procedures in advance so we can have robust discussions about where the risk areas arise and the controls you have in place.



Familiarise yourself with your IT environment and how your IT systems are being used to help us identify risks arising from use of IT.



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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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