

# Audited Financial Statements & Report on Financial Results 2021-22

Friday, 30 September 2022

Audit and Risk Committee

Strategic Alignment - Enabling Priorities

**Program Contact:**

Grace Pelle, Manager Finance & Procurement

Public

**Approving Officer:**

Amanda McIlroy - Chief Operating Officer

## EXECUTIVE SUMMARY

As governed by the *Local Government (Financial Management) Regulations 2011 (SA)*, the Annual Financial Statements of Council must include a statement signed by the Chief Executive Officer and the Principal Member of Council.

The Consolidated Financial Statements present an overall surplus result of \$977,000, an improvement on the budget approved at Q3 of \$4.4m deficit. During the year, Council was able to provide strong support to the community through programs to Reignite out city, whilst delivering on our commitment to robust financial management, transparent decision making and effective service delivery.

The purpose of this report is to consider and approve for certification the Audited Financial Statements of Council for the year ended 30 June 2022.

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## RECOMMENDATION

### THAT THE AUDIT AND RISK COMMITTEE RECOMMENDS TO COUNCIL

#### That Council

1. Considers that the Consolidated Financial Statements present fairly the financial position of the City of Adelaide, having reviewed the Consolidated Financial Statements for 2021-22, contained in Attachment A to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022.
2. Receives the City of Adelaide's Consolidated Financial Statements for 2021-22, contained in Attachment A to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022, subject to minor administrative changes and subsequent balance date event adjustments, to be certified by the Chief Executive Officer and the Lord Mayor.
3. Considers it is appropriate that the representation letter requested by the external auditor, contained in Attachment B to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022, is signed by management.
4. Notes the Certification of Auditor Independence contained in Attachment C to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022 by the Chief Executive Officer and the Presiding Member of the Audit and Risk Committee.
5. Notes the audited Adelaide Central Market Authority Financial Statements for 2020-21 as contained in Attachment D to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022, have been reviewed by the Adelaide Central Market Authority Board at its meeting on 22 September 2022. These financial results have been included in the Consolidated Financial Statements of the City of Adelaide and:
  - 5.1. Considers the Financial Statements for 2021-22 present fairly the financial position of the Adelaide Central Market Authority.

- 5.2. Considers it is appropriate that the representation letter requested by the external auditor of the Adelaide Central Market Authority, contained in Attachment F to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022, is signed by management.
  - 5.3. Notes the Certification of Auditor Independence in relation to Adelaide Central Market Authority, contained in Attachment E to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022 is signed by the Chief Executive Officer and the Presiding Member of the Audit and Risk Committee.
  - 5.4. Notes the representation letter requested by the external auditor of the Central Market Marketing Fund, contained in Attachment H to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022, is signed by management.
  - 5.5. Notes the audited Central Market Marketing Fund (CMMF) Financial Statements for 2021-22 as contained in Attachment G to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022, have been audited and present fairly the position of the CMMF.
  6. Notes the Adelaide Economic Development Agency Financial Statements for 2021-22, contained in Attachment I to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022, have been reviewed by the Adelaide Economic Development Agency Board at its meeting on 26 September 2022. These financial results are included in the Consolidated Financial Statements of the City of Adelaide, and
    - 6.1. Considers the Financial Statements for 2021-22 present fairly the financial position of the Adelaide Economic Development Agency.
    - 6.2. Notes the Certification of Auditor Independence in relation to Adelaide Economic Development Agency, contained in Attachment J to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022 is signed by the Chief Executive Officer and the Presiding Member of the Audit and Risk Committee.
    - 6.3. Notes the representation letter requested by the external auditor of the Adelaide Economic Development Agency, contained in Attachment K to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022, is signed by management.
  7. Notes the Adelaide Park Lands Authority Financial Statements for 2021-22, contained in Attachment L to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022, are included in the Consolidated Financial Statements of the City of Adelaide, and
    - 7.1. Considers the Financial Statements for 2021-22 present fairly the financial position of the Adelaide Park Lands Authority and can be certified by the Lord Mayor as Chair of Adelaide Park Lands Authority.
    - 7.2. Considers it is appropriate that the representation letter requested by the external auditor of the Adelaide Park Lands Authority, contained in Attachment M to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022, is signed by management.
    - 7.3. Notes the Certification of Auditor Independence in relation to the Adelaide Park Lands Authority, contained in Attachment N to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022, and considers it is appropriate to be signed by the Chief Executive Officer and the Presiding Member of the Audit and Risk Committee.
  8. Notes the Brown Hill and Keswick Creeks Stormwater Board's Financial Statements for 2021-22 as contained in Attachment O to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022. Council's equity interest of 8% is included in the Consolidated Financial Statements of the City of Adelaide.
  9. Recommends the 2021-22 Consolidated Financial Statements of the City of Adelaide, and the Financial Statements of the Adelaide Park Lands Authority, Adelaide Central Market Authority, Brown Hill and Keswick Creeks Stormwater Board and Council Solutions Regional Authority be presented to Council for noting on 11 October 2022 and inclusion in the adopted Annual Report.
  10. Notes the 2021-22 Report on the financial results for the City of Adelaide and its subsidiaries, contained in Attachments P, Q, R and S to Item 5.2 on the Agenda for the meeting of the Audit and Risk Committee held on 30 September 2022.
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## IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	<b>Strategic Alignment – Enabling Priorities</b> 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	<i>Local Government Act 1999 (SA) and the Local Government (Financial Management) Regulations 2011 (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. The Consolidated Financial Statements for the year ended 30 June 2022 have been prepared in accordance with the *Local Government Act 1999* (SA) (the Act) and *the Local Government (Financial Management) Regulations 2011* (SA) (the Regulations) and all applicable Australian Accounting Standards. The format used in these statements is prescribed by legislation to be in accordance with the Model Financial Statements, approved by the Minister for Local Government in June 2022.
2. As per the Regulations, the Financial Statements of Council must include a statement signed by the Chief Executive Officer and the Principal Member of Council. The Chief Executive Officer and the Lord Mayor have been authorised by Council to certify the Annual Financial Statements in their final form.
3. The role of the external auditor is to provide an audit opinion to Council with respect to the audited financial statements. The external auditor, Mr Paul Gosnold of BDO, has completed the audit of the financial statements and in his report on matters arising from the audit (Audit Completion Report) has provided audit clearance for the Consolidated Financial Statements as part of a separate report to the Audit and Risk Committee.
4. Audit clearance is subject to BDO conducting a subsequent event review up to the date of signing of the Consolidated Financial Statements of the Corporation together with the required Letter of Representation being signed by the relevant parties, subsequent to the Audit and Risk Committee meeting on 30 September 2022.
5. The Financial Statements of the Adelaide Central Market Authority for the year ended 30 June 2022 have been audited by the appointed auditor BDO and reviewed by the Adelaide Central Market Authority Board at their meeting on 22 September 2022. The signed Financial Statements are included in **Attachment D** for presentation to Council in accordance with the Act and the Regulations
6. The Financial Statements of the Adelaide Economic Development Agency for the year ended 30 June 2022 have been audited by the appointed auditor BDO and reviewed by the Adelaide Economic Development Agency Board at their meeting on 26 September 2022. The signed Financial Statements are included in **Attachment I** for presentation to Council in accordance with the Act and the Regulations.
7. The Financial Statements of the Adelaide Park Lands Authority for the year ended 30 June 2022 have been audited by the appointed auditor BDO and will be signed by the Lord Mayor as Chair of Adelaide Park Lands Authority at the Audit and Risk Committee meeting on 30 September 2022. The signed Financial Statements are included in **Attachment L** for presentation in accordance with the Act and the Regulations.
8. The Financial Statements of the Brownhill and Keswick Creeks Stormwater Board for the year ended 30 June 2022 have been approved by the Brownhill and Keswick Creeks Stormwater Board and signed by nominated board members. The signed Brownhill and Keswick Creeks Stormwater Board Financial Statements are included in **Attachment O** for presentation to Council in accordance with the Act and the Regulations.

### Consolidated Financial Statements

9. The statutory Consolidated Financial Statements of the Corporation, prepared in accordance with the Regulations and the relevant Australian Accounting Standards (AASB), have been completed for the 2021-22 year (**Attachment A**).
10. The Consolidated Financial Statements comprise the following:
  - 10.1. Council Certification
  - 10.2. Statement of Comprehensive Income
  - 10.3. Statement of Financial Position
  - 10.4. Statement of Changes in Equity
  - 10.5. Statement of Cash Flows
  - 10.6. Notes to and forming part of the Financial Statements
  - 10.7. Independent Audit Report
  - 10.8. In addition, the Financial Statements are required to be accompanied by the Certification Statement of Independence of the City of Adelaide Auditor by the Chief Executive Officer and the Presiding Member of the Audit and Risk Committee, as well as the Audit Certificate of Audit Independence.

## **Statement of Comprehensive Income**

11. The major year on year movements in the Statement of Comprehensive Income are as follows:
  - 11.1. Income increased by \$8.3m (4.2%) over the previous year and includes the following movements:
    - 11.1.1. Rates revenue net increase of \$2.8m driven by growth in new developments, additions, and alterations of 2.4% growth in the number of assessments from 2020-21.
    - 11.1.2. Increase in Grants, subsidies and contributions by \$3.9m due to the additional funds granted for Reignite and early payment of the Financial Assistance Grant.
    - 11.1.3. A decrease of \$0.5m in statutory charges, primarily due to lower than expected on-street parking income.
    - 11.1.4. An increase in User Charges of \$1.8m due to better performance in Aquatic Centre, Golf and Off-street parking compared to 2020-21.
  - 11.2. Operating expenditure remained stable compared to the previous year with a minor increase of \$0.4m (0.2%) and includes the following movements:
    - 11.2.1. Employee costs decreased by \$5.3m. The decline is in relation to the temporary savings generated through extended periods of COVID leave and vacancy management. Proportions of this were offset with use of contractors to ensure service delivery was maintained.
    - 11.2.2. Materials, Contracts and Other Expenses increased by \$6.4m compared to 2020-21. This increase was generated via additional advertising and promotional costs due to the Reignite Campaign by \$1.5m. and an additional spend of \$3.8m in sponsorships and donations in support of business through COVID.
    - 11.2.3. Depreciation, Amortisation, and Impairment had a net increase of \$0.2m.
    - 11.2.4. Finance costs decreased by \$0.5m as a result of a lower borrowing levels.
  - 11.3. Overall the operating position improved from a \$6.9m deficit in 2020-21 to a \$1.0m surplus in 2021-22 despite the impacts of COVID and enabled the continued support of our community through Reignite.

## **Statement of Financial Position**

12. Total Assets have increased by \$55.8m from 2020-21, largely due to the recognition of future cash flows from major projects by \$40.3m.
13. An increase in Infrastructure, Property, Plant & Equipment of \$15.0m as a result of new assets and revaluations net of disposals and depreciation.
14. Total Liabilities have decreased by \$32.4m. This is primarily due to a reduction in borrowings by \$26.7m due to the re-timing of capital spending and an improved operational result.

## **Statement of Changes in Equity**

15. Net equity increased by \$88.2m to the prior year, predominantly due to the increase in asset revaluation reserves.

## **Statement of Cash Flows**

16. Council generated \$62.8m from its Operating Activities during the year compared to \$52.8m during 2020-21. This is reflective of improved revenues as noted above.
17. During the year Council invested \$29.1m on the upgrade, renewal and acquisition of assets compared with \$31.2m in 2020-21.

## **Preliminary End of Year vs End of Year Final Position**

18. At the time of reporting, it was noted that there was the potential for changes to the estimated result for proposed adjustments regarding provisions, grant recognition, impairments of major assets and asset revaluations.
19. As a result of the finalisation of the audit, the proposed adjustment items above have been finalised and the impact on the operating result was positive to the result, presenting a favourable position in comparison to the estimate.
20. The preliminary end of year position was estimated to be an \$87,000 surplus. When compared to a final operating surplus of \$977,000, there is a favourable variance of \$890,000.

### **Representation Letter requested by the External Auditor**

21. As per the Audit and Risk Committee's Terms of Reference, it is recommended that the Audit and Risk Committee review any representation letter(s) requested by the external auditor before they are signed by management. The copy of the representation letter required by the external auditors, BDO is included as **Attachment B**.
22. The presentation of this representation letter is standard practice of any audit and provides the auditor confirmation from management, that, amongst other matters, accounting standards have been consistently applied, that all matters that need to be disclosed have been so disclosed and that the valuation of assets has been consistently applied. It is planned that this representation letter be signed by relevant parties, following approval of the Audit and Risk Committee, subsequent to the meeting on 30 September 2022. Certification Statement of Independence of Council Auditor
23. Section 21(2) of the Regulations requires the Council's Chief Executive Officer and the Presiding Member of the Audit and Risk Committee to provide a statement, on an annual basis, that the council auditor is independent of the Council for the relevant financial year (**Attachment C**).
24. Section 22(5) of the Regulations requires the auditor of a Council to provide a written statement attesting to their independence. Council's Auditor, BDO, have provided a statement of Audit Independence in the Audit Completion Report, as prescribed in the Regulations.

### **Adelaide Central Market Authority**

25. The Adelaide Central Market Authority (ACMA) was formed as a subsidiary of the City of Adelaide (CoA) in May 2012 with CoA holding a 100% equity share. The ACMA charter was updated and approved by Council on 8 June 2021 which took effect from the date of gazettal on 8 July 2021.
26. The 2021-22 Financial Statements for ACMA (**Attachment D**) reflect a net deficit of \$0.1m for the year. This has been accounted for in the Consolidated Financial Statements of the Corporation for 2021-22.
27. The 2021-22 Financial Statements for ACMA were reviewed by the ACMA Board at their meeting on 22 September 2022.
28. Given the requirements of the Act and the terms of reference of the Audit and Risk Committee, it is considered appropriate for the Audit and Risk Committee to recommend that the Annual Financial Statements of ACMA together with any Letter of Representation be signed by the relevant parties.
29. Section 22(3) of the Regulations requires the Council's Chief Executive Officer and the Presiding Member of the Audit and Risk Committee to provide a statement, on an annual basis, that the Auditor is independent of ACMA for the relevant financial year (**Attachment E**).
30. As per the Audit and Risk Committee's Terms of Reference, it is recommended that the Audit and Risk Committee review any representation letter(s) requested by the external auditor before they are signed by management. The copy of the representation letter required by the external auditors, BDO is included (**Attachment F**).

### **Central Market Marketing Fund**

31. The Central Market Marketing Fund (CMMF) collects funds from traders to be utilised for the purposes of marketing the Central Market.
32. The funds are audited by the external auditor and financial statements are prepared (**Attachment G**).
33. A separate representation letter is prepared for the CMMF and is attached for the Audit and Risk Committee review (**Attachment H**).
34. Following delivery of the external auditor BDO's final Audit Completion Report, discussions with the Auditors without management present and review of the Annual Financial Statements, it is considered appropriate for the Audit and Risk Committee to recommend that the CMMF Financial Statements together with any Letter of Representation be signed by the relevant parties and approved by the Adelaide Central Market Authority Board.

### **Rundle Mall Management Authority/Adelaide Economic Development Agency**

35. The Rundle Mall Management Authority (RMMA) was enacted on 9 November 2008 as a subsidiary of Council with its primary role of promoting Rundle Mall.
36. The Adelaide Economic Development Agency (AEDA) was enacted on 18 January 2021 as a subsidiary of Council effectively taking over the role of promoting Rundle Mall and thereby dissolving the RMMA subsidiary.

37. AEDA also has taken on the function of economic development and business support for the City of Adelaide.
38. The 2021-22 Financial Statements for AEDA (**Attachment I**) reflect a net break even position for the year. This has been accounted for in the Consolidated Financial Statements of the Corporation for 2021-22.
39. The operating result of the individual entities reflect income and expense recognition requirements in accordance with accounting standards. As a combination, the overall operations of AEDA have provided a break even result (**Attachment Q**).
40. The 2021-22 Financial Statements for AEDA were reviewed by the AEDA Board at their meeting on 26 September 2022.
41. Given the requirements of the Act and the terms of reference of the Audit and Risk Committee, it is considered appropriate for the Audit and Risk Committee to recommend that the Annual Financial Statements of AEDA together with any Letter of Representation be signed by the relevant parties.
42. Section 22(3) of the Regulations requires the Council's Chief Executive Officer and the Presiding Member of the Audit and Risk Committee to provide a statement, on an annual basis, that the Auditor is independent of AEDA for the relevant financial year (**Attachment J**).
43. As per the Audit and Risk Committee's Terms of Reference, it is recommended that the Audit and Risk Committee review any representation letter(s) requested by the external auditor before they are signed by management. The copy of the representation letter required by the external auditors, BDO is included (**Attachment K**).

#### **Adelaide Park Lands Authority**

44. The Adelaide Park Lands Authority (APLA) was enacted on 14 December 2006 as a subsidiary of Council with its primary role of providing policy and advice to Council and the State Government regarding the management of the Park Lands.
45. The 2021-22 Financial Statements for APLA (**Attachment L**) reflect a nil net surplus for the year. This has been accounted for in the Consolidated Financial Statements of the Corporation for 2021-22.
46. The 2021-22 Financial Statements for APLA will be forwarded to the Minister for Environment and Water, Hon. David Speirs MP following review of the Financial Statements by the Audit and Risk Committee at its meeting on 30 September 2022 as part of APLA's Annual Report.
47. Given the requirements of the Act and the terms of reference of the Audit and Risk Committee, it is considered appropriate for the Audit and Risk Committee to recommend that the Annual Financial Statements of APLA together with any Letter of Representation be signed by the relevant parties.
48. As per the Audit and Risk Committee's Terms of Reference, it is recommended that the Audit and Risk Committee review any representation letter(s) requested by the external auditor before they are signed by management. The copy of the representation letter required by the external auditors, BDO is included (**Attachment M**).
49. Section 22(3) of the Regulations requires the Council's Chief Executive Officer and the Presiding Member of the Audit and Risk Committee to provide a statement, on an annual basis, that the APLA Auditor is independent of APLA for the relevant financial year (**Attachment N**).

#### **Brown Hill Keswick Creek**

50. Brownhill and Keswick Creeks Stormwater Board is a regional subsidiary under section 43 and schedule 2 of the Act and given that City of Adelaide is a constituent Council it is a subsidiary of the City of Adelaide under the Act.
51. Brownhill and Keswick Creeks Stormwater Board was established by several constituent Councils, comprising the Cities of Adelaide, Burnside, Mitcham, Unley, and West Torrens. Its Charter was endorsed by The South Australian Government and Gazetted on 27 February 2018. The City of Adelaide's equitable interest is 8.0%, its annual contribution is 8.0% of a 50% capital works contribution (with the remaining 50% funded by the Stormwater Management Board) and 20.0% of operating expenditure of the Regional Subsidiary.
52. The 2021-22 Financial Statements for the Brownhill and Keswick Creeks Stormwater Board (**Attachment O**) reflect a net deficit of \$49k for the year. The City of Adelaide's share of the net deficit is \$4k and this has been accounted for in the Consolidated Financial Statements along with the recognition of a capital contribution of \$451k.

## Internal Financial Controls

53. As per the Act, section 129(1) (b), the external auditor of Council must undertake an audit of the financial controls exercised by the Council during the relevant financial year in relation to revenue, expenditure, assets, and liabilities. The auditor must provide an audit opinion on these internal financial controls to provide reasonable assurance that the financial transactions of the Council have been conducted properly and in accordance with the Australian Accounting Standards.
54. In forming an opinion under section 129(3) (a), the auditor must give due consideration to the adequacy of the Council's policies, practices, and procedures of internal control under section 125 of the Act. The Council must ensure that appropriate measures are taken to implement and maintain the internal controls in order to assist the Council to carry out its activities in an efficient and orderly manner to achieve its objectives.

## Summary of Financial Results

55. Regulation 10 of the *Local Government (Financial Management) Regulations 2011* (SA) requires a separate report on financial results to be presented to Council, including the audited financial results for the previous financial year compared with the estimated financial results set out in the budget. These must be presented in a manner consistent with the Model Financial Statements.
56. The report on the financial results comparing the audited financial results for the City of Adelaide and its subsidiaries for the 2021-22 financial year with the estimated financial results set out in the 2021-22 budget are contained in **Attachments P, Q, R and S**.

## Other Items

57. It is considered that the Consolidated Financial Statements give a true and fair view of the Corporation of the City of Adelaide's financial position as at 30 June 2022.
58. Following delivery of the external auditor BDO's final Audit Completion Report, discussions with the Auditors without management present and review of the Annual Financial Statements, it is considered appropriate for the Audit and Risk Committee to recommend that the Consolidated Financial Statements together with any Letter of Representation be signed by the relevant parties.
59. In addition, it is proposed that the Audit and Risk Committee recommends the presentation of the Consolidated Financial Statements of the City of Adelaide, Financial Statements of the Adelaide Central Market Authority, the Adelaide Economic Development Agency, the Adelaide Park Lands Authority, the Council Solutions Regional Authority and the Brownhill and Keswick Creeks Stormwater Board to Council on 12 October 2021.

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# ATTACHMENTS

**Attachment A** – Audited Financial Statements CoA 2021-22

**Attachment B** – Audit Representation Letter CoA 2021-22

**Attachment C** – Certification of Auditor Independence CoA 2021-22

**Attachment D** – Audited Financial Statements ACMA 2021-22

**Attachment E** – Certification of Auditor Independence ACMA 2021-22

**Attachment F** – Audit Representation Letter ACMA 2021-22

**Attachment G** – Audited Financial Statements CMMF 2021-22

**Attachment H** – Audit Representation Letter CMMF 2021-22

**Attachment I** – Audited Financial Statements AEDA 2021-22

**Attachment J** – Certification of Auditor Independence AEDA 2021-22

**Attachment K** – Audit Representation Letter AEDA 2021-22

**Attachment L** – Audited Financial Statements APLA 2021-22

**Attachment M** – Audit Representation Letter APLA 2021-22

**Attachment N** – Certification of Auditor Independence APLA 2021-22

**Attachment O** – Audited Financial Statements Brownhill & Keswick Creeks Stormwater Board 2021-22

**Attachment P** – 2021-22 Report on financial results for City of Adelaide

**Attachment Q** – 2021-22 Report on financial results for Adelaide Economic Development Agency



**Attachment R** – 2021-22 Report on financial results for Adelaide Park Lands Authority

**Attachment S** – 2021-22 Report on financial results for Adelaide Central Market Authority

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