



CITY OF ADELAIDE

Annual audit plan

30 June 2023

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Dear Audit and Risk Committee Members

Thank you for the opportunity to present our annual audit plan ('plan') for City of Adelaide ('Council') for the year ending 30 June 2023.

Our plan has been developed with input from Council's management and continues to be based on our understanding of City of Adelaide's business and operating environment.

We acknowledge that throughout the year there may be business developments, circumstances may change and additional matters may arise. Our plan will be responsive to your needs and will maximise audit effectiveness so we can deliver the high-quality audit you expect.

This plan is intended solely for management and the Audit & Risk Committee and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss our plan with you at the Audit & Risk Committee on 3 February 2023.

Please feel free to contact me on +61 8 7324 6147 if you have any questions or would like to discuss the content of this plan further.

Yours faithfully



Linh Dao
Lead audit partner

Adelaide, 25 January 2023





YOUR BDO TEAM

Your engagement team provides a combination of continuity and fresh ideas. This helps to ensure that we build on previous experience and make the audit process as smooth as possible.

YOUR BDO TEAM

Our audit of City of Adelaide will be led by Linh Dao as Engagement Partner. Linh will oversee the co-ordination of the audit and will have primary responsibility for working with the Manager, Finance and Procurement and his/her team.

Supporting Linh will be Jennifer Zhou as audit manager.

Jennifer is responsible for the day-to-day direction of the audit work and is the key point of contact for the Manager, Finance and Procurement.

The day-to-day audit team will be led by Jennifer Zhou.

SPECIALISTS

When auditing complex areas, we are often required to engage specialists who have qualifications and expertise not possessed by the core audit team.

Supporting the engagement team will our IT Specialist, who will review the IT environment and any relevant IT general controls as part of the audit.



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AUDIT OBJECTIVES AND APPROACH

AUDIT OBJECTIVES

The objective of the audit is to enable us to express an opinion as to whether

- ▶ The financial report is prepared, in all material respects, in accordance with Australian Accounting Standards, the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011*, and

Controls exercised by Council in relation to the receipt, expenditure and investment of money, 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 law based on criteria established in the Better Practice Model - Financial Internal Control for South Australia Councils issued by the Local Government Association of South Australia

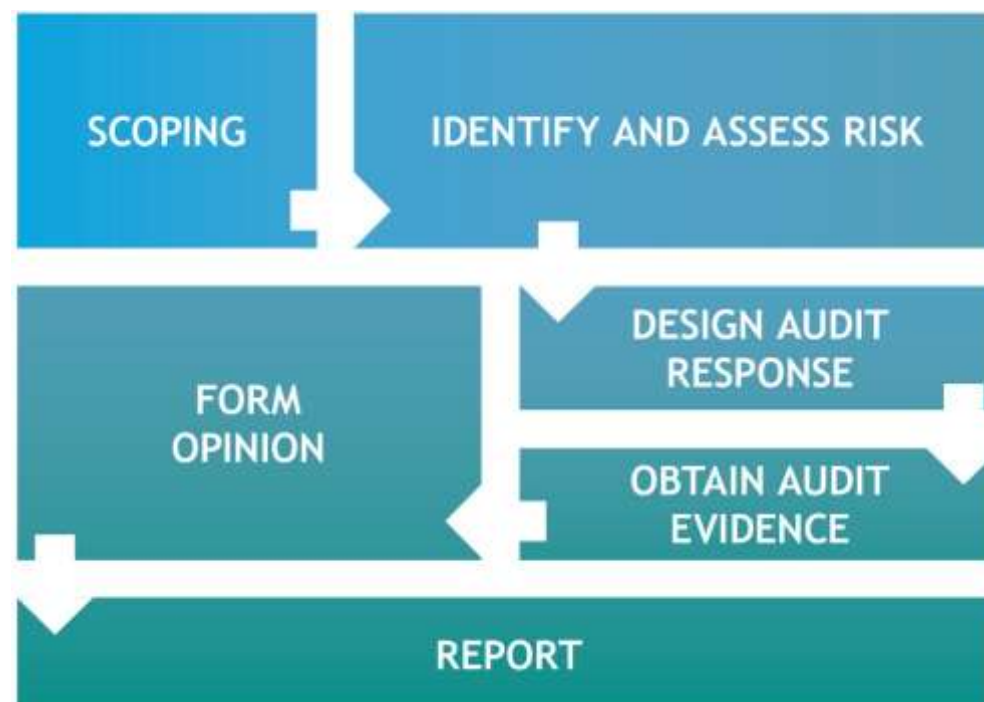
OUR APPROACH

Our audit is performed in accordance with the BDO Audit Approach which consists of six phases and is documented using our global audit tool, APT.

The approach is centred around:

- ▶ Obtaining an understanding of the business being audited from an internal and external point of view
- ▶ Assessing the risk of material misstatements and the controls in place to address and prevent these risks
- ▶ Choosing appropriate procedures to obtain evidence, including the use of data analytics where appropriate
- ▶ Ensuring rigorous quality control over audit performance
- ▶ Providing constructive ideas for improving internal controls and business systems.

A summary of the other key aspects of the BDO Audit Approach is set out on subsequent pages.



OUR APPROACH CONTINUED

INTERNAL CONTROL

We obtain an understanding of the system of internal control relevant to the audit to assist us with our risk assessment procedures. Our understanding covers:

- ▶ The overall control environment
- ▶ The entity's risk assessment process
- ▶ The information system, including the related business processes, relevant to financial reporting, and communication
- ▶ Control activities relevant to the audit
- ▶ Activities the entity uses to monitor internal control relevant to financial reporting.

This understanding is also supported by our assessment of internal controls based on the criteria in the Better Practice Model - Financial Internal Control for South Australian Councils, to allow us to express an opinion on the matters set out in Section 129(b) of the *Local Government Act 1999*.

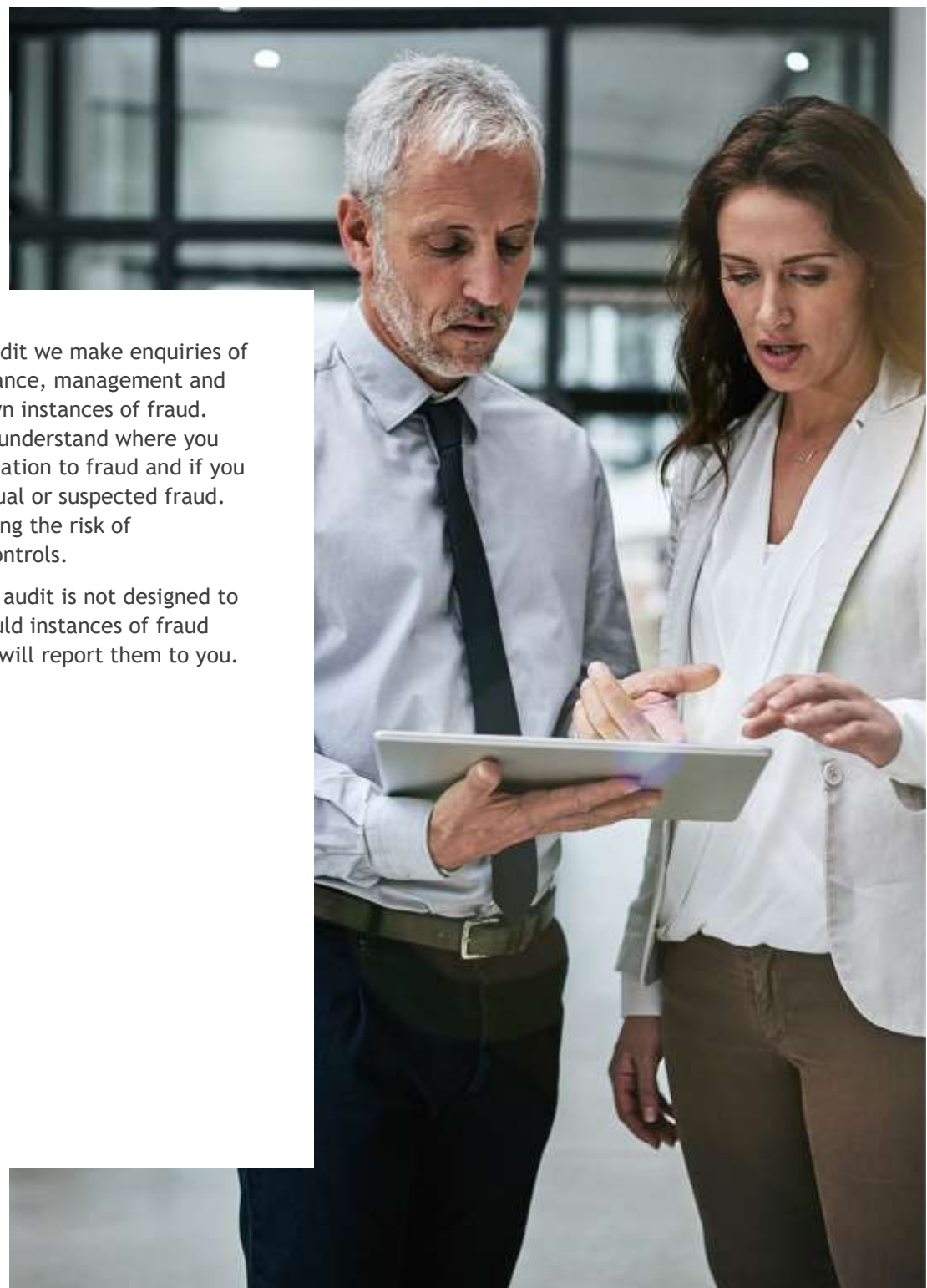
We communicate to the Audit & Risk Committee in writing any significant deficiencies that come to our attention during the audit on a timely basis.

In addition, we communicate with management the significant deficiencies being reported to those charged with governance and any other deficiencies identified that in our judgement are of sufficient importance to merit management's attention.

FRAUD

During the course of our audit we make enquiries of those charged with governance, management and others to identify any known instances of fraud. We also make enquiries to understand where you consider the risks are in relation to fraud and if you have any knowledge of actual or suspected fraud. This also includes considering the risk of management override of controls.

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.



OUR APPROACH *CONTINUED*

AUDIT QUALITY AND PROFESSIONAL SCEPTICISM

To support and promote audit quality at BDO, we have implemented an Audit Quality Framework (AQF) that sets out the key drivers of audit quality, including the specific attributes that are important for audit quality to be maintained and enhanced. Refer to our [Transparency report](#) for further information.

The AQF recognises that professional scepticism is essential to obtain audit evidence which is sufficient and appropriate to reduce the likelihood of a material misstatement to an acceptable level.

The application of professional scepticism by all members of the engagement team is central to BDO's Audit Approach.

GOING CONCERN

As part of our audit we will review management's assessment of the ability of City of Adelaide to continue as a going concern for the 12 months from the date of signing the financial report and therefore whether the going concern basis for the preparation of the financial report is appropriate.

LAWS AND REGULATIONS

We make enquiries in relation to any non-compliance with laws and regulations impacting the period under audit. If we become aware of any instances of non-compliance with laws and regulations which would materially impact on the financial position or performance of the entity, then we will report them to you on a timely basis to consider the impact on the financial report.



MATERIALITY

Materiality means, in the context of an audit, if financial information is omitted, misstated or not disclosed it has the potential to (adversely) affect the decisions of users of the financial report. Materiality is used by auditors in making judgements on the amount of work to be performed, which balances require work and for evaluating the effect of misstatements. Materiality is initially calculated at the planning stage and re-assessed prior to providing our opinion.

During the course of our audit we may identify misstatements and these will be reported to you at the conclusion of our work based on our assessment of materiality at that stage (this may have been updated from the materiality calculated at the planning stage). It should be noted that the auditing standards do not require us to communicate misstatements that are considered 'clearly trivial' and as such, if we identify such misstatements we will not communicate these to you.

We determine materiality by considering a range of both qualitative and quantitative factors when applying our professional judgement.

Our materiality for the 30 June 2023 audit is based on 1.8% of forecasted total expenditure. Our estimated materiality levels are set out in the table below:

MATERIALITY	\$3,500,000
CLEARLY TRIVIAL THRESHOLD	\$175,000



ENHANCING THE CLIENT EXPERIENCE

BDO'S CLIENT PORTAL

To enhance our communication and to reduce any potential expectation gaps, we will continue to use the BDO Global Portal ('portal').

In addition to facilitating the secure exchange of information, the use of the portal assists with project management and provides a live view of progress to both BDO and City of Adelaide.

We will consult with you about how you would like us to communicate during the engagement, and the frequency of our status updates. In addition, whether it is to provide ad-hoc support, brainstorm ideas, or discuss any aspect of our services, the portal can assist. The key features of the portal are illustrated below:



ONLINE CLIENT COLLABORATION

- ▶ Upload information and documentation in one secure place
- ▶ Track actions and milestones for BDO and client responsibilities.



A FLEXIBLE, SECURE PLATFORM WITH LOCAL CUSTOMISATION

- ▶ Security - permission and access can be set at a project level for different users such as your staff or our BDO teams
- ▶ You can receive a daily or weekly digest, summarising all activity that has occurred on the portal
- ▶ View document audit trails, reducing the risk of email misdirection.



DIGITISED PAPERWORK AND WORKFLOW

- ▶ Approve and sign documents all within the portal, allowing for better transparency and speedier project progress
- ▶ Set dates with calendar reminders for when BDO requires certain documentation or information to be uploaded or completed
- ▶ Assign tasks to specific users
- ▶ Portal supports multiple document types and views.

RISK ASSESSMENT AND AREAS OF AUDIT FOCUS

In line with our audit approach, and based on our understanding of City of Adelaide, we have identified and assessed the risks of material misstatement at both the engagement and assertion level.

Our audit procedures are focused on areas that are considered to represent risks of material misstatement to the financial report. We identified the risk areas as part of our risk assessment procedures during the planning phase and will continue to be alert for risks during the course of the audit. We set out below the key areas of focus, our perspective of the potential impact on the financial statements and our proposed approach. The associated risks are categorised between those that are considered to be significant and other than significant.

AREAS OF FOCUS	OUR PERSPECTIVE	PLANNED RESPONSE
Revaluation of infrastructure, property, plant and equipment	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 application and inappropriate valuation methodologies, or incorrect underlying assumptions.	We will evaluate the competence, capability and objectivity of the independent valuers, if any, obtain an understanding of their work and evaluate its appropriateness.
Accounting treatment of Capital Work In Progress (WIP)	There is a risk that the accounting treatment of items captured within Capital WIP may not be in accordance with Australian Accounting Standards.	We will obtain the WIP schedule and review in detail a sample of projects outstanding at the end of the year to ensure they are likely to generate assets. We will also review a sample of assets transferred out of the Capital WIP to check that the categorisation and value allocated to the relevant fixed asset class is appropriate. Furthermore, we will make inquiry of Central Market Arcade development progress and assess the appropriateness of ongoing accounting treatment for relevant financial statement areas.

RISK ASSESSMENT AND AREAS OF AUDIT FOCUS *CONTINUED*

AREAS OF FOCUS	OUR PERSPECTIVE	PLANNED RESPONSE
Management override of internal controls	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>Our response will include a review of key internal controls at the Council to mitigate the risk of management override.</p> <p>We will test the appropriateness of journal entries and other adjustments made in the preparation of the financial report. We will also review accounting estimates for bias, and evaluate the business rationale (or lack of) of any significant transactions that are outside of the normal course of business or that otherwise appear to be unusual.</p>
Cut-off of grant funding and accuracy of any amounts deferred at 30 June 2023	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.	We will obtain the schedule of grant income recognised and deferred at year end. We will select a sample of grants and obtain the agreements to review in detail and test that they have 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> .
Changes in IT platforms	We understand that Council has moved both TechOne and Pathway from onsite application to a cloud-based solution and certain business processes have been updated to fully take advantage of the changes. There is a risk that data may have not been transferred into the cloud-based systems appropriately which could result in material misstatements.	<p>We will consider relevant IT general controls around IT system changes during the year. We will also involve our IS Specialist to assist with the review where appropriate.</p> <p>We will perform substantive procedures to check that balances have been brought across systems appropriately.</p>

INTERNAL CONTROL ASSESSMENT

We are required to provide an audit opinion on Council's internal controls in accordance with Section 129(1)(b) of the *Local Government Act 1999*. Our assessment of internal controls is based on the criteria in the Better Practice Model - Financial Control for South Australian Councils as issued by the Local Government Association of South Australia.

The Better Practice Model emphasises a risk based approach to internal financial controls. It states that a Council should design and implement internal financial controls activities and monitoring systems that prioritise extreme and high financial risk as identified by the Council's risk tolerance framework.

RISK ASSESSMENT

BDO has used the risk assessment matrix per the Better Practice Model to create a general expected risk assessment. The assessment is only focused on the business impact of the risks. Each risk is assigned risk category of low, moderate, high. The results of our initial assessment is as follows:

RISK CATEGORY	RISK LEVEL		
	HIGH	MODERATE	LOW
Strategic Financial Planning	-	3	9
Assets	3	10	14
Liabilities	-	4	10
Revenue	3	7	4
Expenses	6	5	8
External Services	-	2	-
Financial Governance	-	-	3

We expect to receive Council's risk assessment of internal controls as part of the planning process. Once received we will compare and understand any differences between the two assessments. Based on the results of this comparison, we will consider the impact on our audit approach.

CONTROL ASSESSMENT

Once the risk assessment is complete, we undertake a control assessment classifying each control as key or non-key. All controls associated with high risks are considered to be key controls. Controls with moderate risks are assessed and allocated key or non-key.

CONTROL TYPE	DESCRIPTION
Key Control	The absence of these controls operating may have a significant impact on mitigating the risks. All key controls are included within our audit testing.
Non-Key Control	The absence of these controls in place may not have a significant impact on mitigating the risks as the operation of a key control in the same area may provide sufficient mitigation. The level of testing of non-key controls is dependent on the risk assessment. See the next section for more details.

INTERNAL CONTROL ASSESSMENT *CONTINUED*

CONTROL TESTING

The risk and control assessments performed by BDO will then determine our level of testing of the controls in place to address the risks.

RISK LEVEL	LEVEL OF TESTING OF CONTROLS	REASON
High	All controls to be tested, all considered to be key.	Control failure may result in a significant business impact, therefore an increased level of assurance is required in relation to the effectiveness of the controls supporting high risks.
Moderate	All identified key controls and a selection of non-key controls selected based on our professional judgement.	Control failure may result in a moderate business impact, therefore a normal level of assurance is required in relation to effectiveness of the controls supporting moderate risks.
Low	No testing of controls.	Control failure is unlikely to result in a significant business impact.

The number of controls to we plan to test for each risk category is as follows:

RISK CATEGORY	CONTROLS TO BE TESTED
Strategic Financial Planning	9
Assets	27
Liabilities	8
Revenue	20
Expenses	27
External Services	3
Financial Governance	-
Total	94

Due to the number of controls involved we have not provided a detailed list of controls in this report. We can provide the detailed list of controls separately as required. The controls selected for testing represent our assessment of those required to be tested to provide reasonable assurance that the financial transactions of the Council have been conducted properly and in accordance with law based on criteria established in the Better Practice Model - Financial Internal Control for South Australia Councils issued by the Local Government Association of South Australia.



TIMELINE

AUDIT MILESTONES

We recognise that regular, timely communication with management and the Audit & Risk Committee is critical to maintaining an effective and transparent relationship. Our audit process operates throughout the year so that we can respond to issues as they arise and maintain close communication, with management and the Audit & Risk Committee, as the audit cycle progresses.

We have set out below the timing of significant milestones to include on-site visits, key meeting dates and reporting deadlines with respect to the completion of the audit.

MILESTONE	RESPONSIBILITY	DATE
Planning meeting with management	BDO & management	January/February 2023
Audit & Risk Committee meeting and submission of Annual audit plan	BDO & management	February 2023
ITGC review planning commences	BDO & management	March/ April 2023
Interim audit visit commences, including review of controls and transactional testing	BDO & management	22 May to 2 June 2023
Final audit visit commences (ACMA and acquittal audits to commence first)	BDO & management	14 August to 8 September 2023
Close out meeting with management	BDO & management	8 September 2023
Submission of audit completion report	BDO	15 September 2023
Financial statements presented to Audit & Risk Committee	BDO, management & Audit & Risk Committee	29 September 2023
Chief Executive Officer and Principal Member of Council to approve and sign off Certification of Financial Statements, Certification of Auditors Independence and management representation letter	Council	29 September 2023
Issue Independent Auditor's Report and Certificate of Auditor Independence in relation to Independence	BDO	29 September 2023



FEES

FEES

The proposed fee for all services provided for the year ending 30 June 2023 is \$61,000. All amounts are exclusive of GST.

AUDIT SERVICES	FY23 PROPOSED	FY22 ACTUAL
Financial statement audits	\$28,000	\$27,000
Internal financial control audit	\$23,000	\$22,500
Minor Audits	\$10,000	\$10,000
Total fee	\$61,000	\$59,500

ASSUMPTIONS

Our proposed fee is based on our understanding of your current operations and the required scope of the audit. If these alter, the proposed fee will need to be revised.

Our proposed fees do not include any advice or assistance that may be given in respect of accounting issues. Whilst brief ad hoc information provided in the course of our audit is generally included in our proposed fee, formal advice, assistance with complex issues or meetings to discuss these issues falls outside the scope of our proposed fee. Fees for assistance provided will be negotiated prior to services being performed.

ASSISTANCE REQUIRED

In order to keep our time and costs to a minimum, we appreciate your assistance with the following:

- ▶ Management providing all deliverables in line with the agreed timetable
- ▶ Assistance from your staff with supporting documentation and explanations during the audit process
- ▶ Disclosure by your staff of all information relevant to the engagement in a timely manner
- ▶ Prior to the commencement of our audit, we will provide you with an audit preparation package.

APPENDIX 1 NEW DEVELOPMENTS

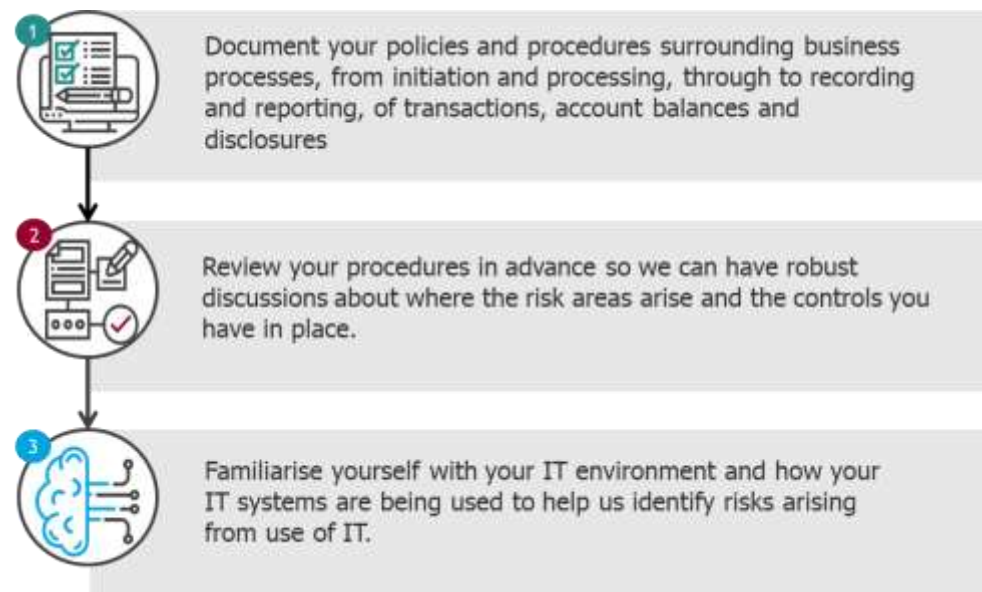
REVISED AUDITING STANDARD - ASA 315, IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

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?



APPENDIX 2 CLIMATE RISKS AND FINANCIAL REPORTING

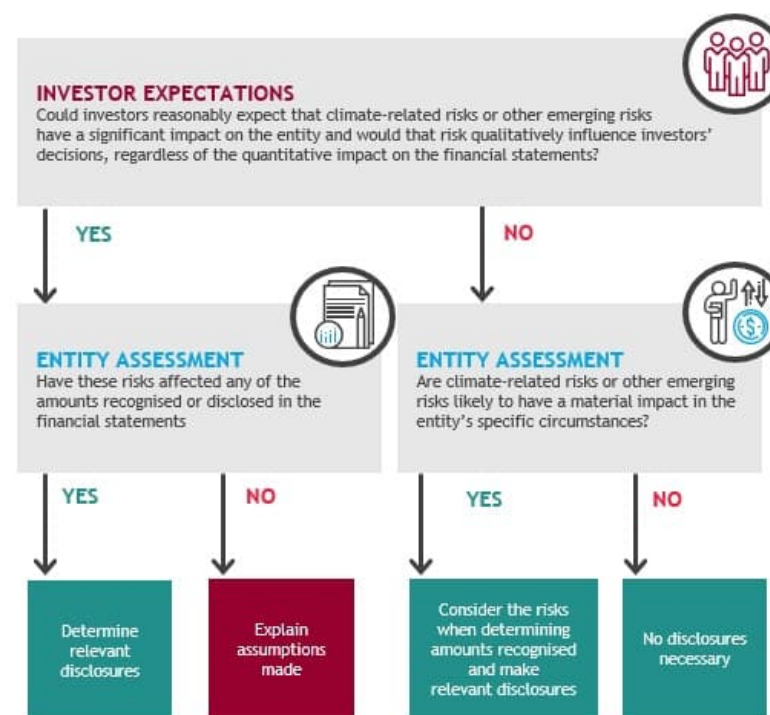
CONSIDERING THE IMPACT OF CLIMATE RISKS IN THE FINANCIAL REPORT

Interest among investors in understanding climate-related risk from companies' management has increased in recent years. Despite this, climate-related risks are currently predominantly discussed outside the financial statements, if at all.

As set out in [AASB/IASB Practice Statement 2 Making Materiality Judgements](#) (APS/PS 2), qualitative external factors such as the industry in which the entity operates and investor expectations may make such risks 'material' and warrant disclosures when preparing financial statements, regardless of their numerical impact. Given investor statements on the importance of climate-related risks to their decision making, the impact of the materiality definition and APS/PS 2 is that entities can no longer treat climate-related risks as merely a matter of corporate social responsibility and may need to consider them also in the context of their financial statements.

Entities preparing financial statements in accordance with Australian Accounting Standards should consider:

- ▶ Whether investors could reasonably expect that emerging risks, including climate-related risks, could affect the amounts and disclosures reported in the financial statements and have indicated the importance of such information to their decision making; and
- ▶ What disclosures about the impact of climate-related risks and other emerging risks on the assumptions made in preparing the financial statements are material to the financial statements in light of the guidance in APS/PS 2, as summarised in the following decision tree from AASB & AUASB



This [AASB & AUASB Joint Bulletin on Climate Change](#) provides guidance on climate-related risk disclosures, key takeaways and recommendations and contains a non-exhaustive list of examples of how climate-related risks could affect the financial statements, as well as the accounting standards that may need to be considered. If you require any assistance in this area, please contact your audit engagement partner initially.



APPENDIX 3 OTHER COMMUNICATIONS

ETHICS AND INDEPENDENCE

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

We obtain 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.

Should any independence matters arise, we will bring them to your immediate attention.

For the comfort of those charged with governance, we note that the following processes assist in maintaining our independence:

- ▶ Restrictions on BDO employees having financial interests in audit clients
- ▶ No other work is permitted to be undertaken by any BDO division or office without the express approval of the engagement director/partner
- ▶ Services including valuation and similar services are specifically prohibited to be provided by any other BDO office to you
- ▶ All services performed by any BDO division or office have been reported below.

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

COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

To enhance our communication and to reduce any potential expectation gaps with clients, BDO has adopted a structured reporting system. We will communicate with the Audit & Risk Committee and management through various means. This includes but is not limited to:

- ▶ This audit plan
- ▶ Management letter after audit interim visit
- ▶ The BDO Client Portal
- ▶ An audit completion report at the conclusion of the audit
- ▶ The audit report.



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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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