

City of Adelaide

Interim Management Letter 2025

Period ended 30 June 2025



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Dear Audit and Risk Committee Members

Thank you for the opportunity to present our interim management letter for City of Adelaide for the year ending 30 June 2025.

We have now completed our interim visit and finalised our audit plan for the audit. We acknowledge that further business developments, circumstances, and additional matters may arise. Our audit approach will be responsive to these changes and will maximise audit effectiveness so we can deliver the high-quality audit you expect.

This letter is intended solely for management and the Audit and 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 this letter with you at the Committee meeting on 13 June 2025.

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

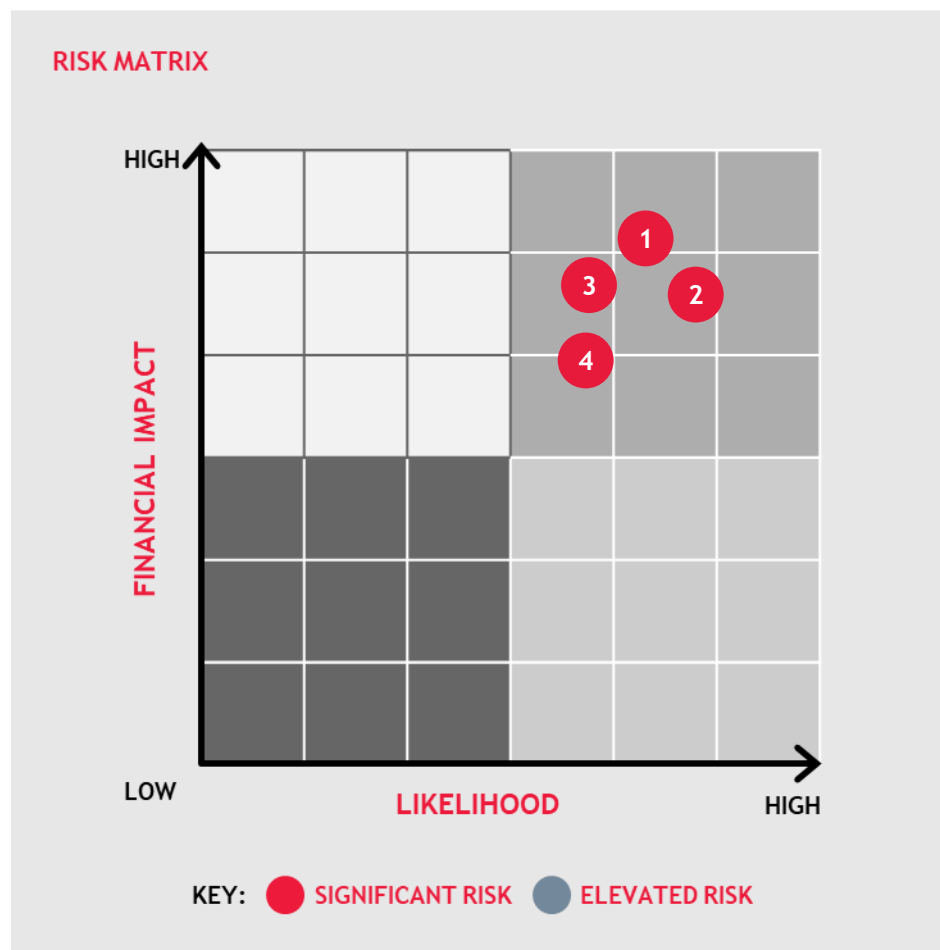
Adelaide, 3 June 2025

Risk assessment and areas of focus

In line with our audit approach and based on our understanding of City of Adelaide, we have identified the risks of material misstatement (RMM) at both the engagement and assertion level. In assessing the RMMs, we use a spectrum of risk based on the likelihood of a misstatement occurring and the magnitude of the misstatement in the context of our materiality. We use inherent risk factors (complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or fraud) to drive risk identification and assessment.

Our initial assessment is shown in the matrix for the risks identified at the upper end of our spectrum (Significant and Elevated).

On the subsequent page we have set out our perspective on the potential impact on the financial statements and our proposed approach to respond to the risks. We will continue to be alert for risks during the course of the audit and update our assessment and responses as required.



Risk assessment and areas of focus *continued*

#	AREAS OF FOCUS	OUR PERSPECTIVE	PLANNED RESPONSE
1	Revaluation of infrastructure assets	Council's infrastructure assets, land and buildings are carried at valuation. There is a risk that these balances are misstated as a result of the application of inappropriate valuation methodologies, or incorrect underlying assumptions.	We have been briefed by management that full revaluations are underway for lights, poles, cables and conduits, switch boards, power bollards, traffic signals and CCTV cameras. We have had preliminary discussion with management on the proposed valuation methodologies for individual classes of assets, including the approach for those that condition audit might not be undertaken independently for this year. Management has also advised us that indexation will be applied to bridges, footpaths, roads, water infrastructure, kerbs, and the water table. These assets were subject to full revaluation in recent years, footpaths in FY2023 and the remainders in FY2024. The indexation exercise is planned to ensure Council's compliance with AASB 116.40 requirements in between formal revaluation exercise. We expect that the revaluation work will be completed and ready for audit by the commencement of our year-end visit. We will report the audit findings at our completion report accordingly.
2	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 have been briefed on the progress in relation to capital work in progress, in particular the capitalisation and/or expensing of items and the handover process of completed capital projects during the year. Similar to prior year, management does not intend to perform any manual capitalisation for assets that have reached practical completion before the reporting date as part of the year-end process and all capitalisation will happen in Assetic, Council's asset management application system. Projects that have reached practical completion but not yet been capitalised to Assetic will remain in WIP and management has assessed that any depreciation impact on Council's surplus or deficit would be clearly trivial to the financial statements.

Risk assessment and areas of focus *continued*

#	AREAS OF FOCUS	OUR PERSPECTIVE	PLANNED RESPONSE
			It is expected that the underlying asset records and associated reconciliations for Capital WIP will be completed before the commencement of our year-end visit.
3	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.	Our interim testing has not identified any evidence of management override of internal controls. We will revisit this during our year-end visit, complete our testing and report our findings accordingly.
4	Cut-off of grant funding and accuracy of any amounts deferred at 30 June 2025	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.	Council continued to report significant deferred grant income at the interim date, however this is largely due to the timing between the receipt and delivery of the required outcomes. We have been provided with the Council's grant register and briefed on management's assessment process to determine whether a grant is of a capital or operating nature. We have made initial inquiries with management and will revisit this accounting during our year-end visit.

Risk assessment and areas of focus *continued*

Other Matters

Revision of lease term and useful lives of the Upark leasehold improvement

We have been briefed by management that Council has reassessed the extension option available to Council for one of its carparks, and that it is now reasonably certain that Council will be taking up this option to extend the lease, which is considered as a lease modification in accordance with AASB 16 and needs accounting for accordingly. Management has provided us with their position paper for the accounting treatment as the result of the lease term reassessment. We provided management with our initial feedback as well as requests for supporting documents to undertake the necessary audit procedures. We will finalise the work as part of the year-end visit and report to Council accordingly.

The lease term reassessment will also result in consideration required for associated leasehold improvements. We were briefed by management that they are in the process of reviewing useful lives of leasehold improvement assets as part of the year-end reconciliation process, ensuring the assets are depreciated over the shorter of the useful lives of the assets and the lease terms. We will audit such assessment as part of the year-end revisit.

Impairment of Smart Parking Sensors

We have been briefed by management on the likely impairment of the Council's smart parking sensors and obtained management's position paper regarding the need for and potential impact of the impairment. We will revisit this matter as part of our year-end visit to assess the support for management's position and confirm recognition in accordance with accounting standards.

Major capital project development

Management has briefed us on the progress of 3 major projects being Central Market Arcade Redevelopment ('CMAR'), 88 O'Connell and Adelaide Aquatic Centre Redevelopment ('AAC') to date. We were advised that there have been no amendments made to previously signed agreements and projects continue to progress as planned. We will audit the associated financial statement areas, including any disclosures, as part of the year-end visit and report to Council accordingly.

Internal Control Assessment

Update on our opinion in relation to internal controls

We have commenced planning and testing of internal controls for the purpose of providing an audit opinion on Council's internal controls. Specifically controls exercised by the Council in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Council have been conducted properly and in accordance with legislative requirements.

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

At the time of this report, we have not completed all testing of core controls as some relate to annual processes and consequently will not occur until the end of the financial year, or others are more closely aligned to testing we would normally conduct after year end. The controls to be tested did not yield exceptions in the prior year nor does the current Promapp reporting indicate significant issues.

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



Appendix 1 New developments

Changes in financial reporting for 30 June 2025

Amendments to AASB 101 for classifying liabilities as current or non-current

Effective for annual reporting periods beginning on or after 1 January 2024, there are three main changes to the classification requirements within AASB 101 *Presentation of Financial Statements*:

- The right to defer settlement for at least 12 months must exist at the end of the reporting period. If the right to defer settlement is dependent upon the entity complying with specified conditions (covenants) as at the reporting date, the right to defer (and therefore classify at least part of the loan as non-current) only exists at the reporting date if the entity complies with those conditions at the reporting date (paragraph 72B)
- Classification is based on the right to defer settlement, and not intention. Accordingly, if an entity has the right at the end of the reporting period to roll over an existing obligation for at least 12 months after the reporting period, it classifies the obligation as non-current, notwithstanding the entity may intend to settle the liability earlier (paragraph 73), and
- If a liability could be settled by the lender requiring the entity to transfer to the lender its own equity instruments prior to maturity (e.g. a convertible bond), classification of the liability is subject to whether the conversion feature is classified as a liability or equity instrument. If the conversion feature is classified as a liability and could be exercised within 12 months of the reporting date, the liability is classified as current. Alternatively, if the conversion feature is classified as equity under AASB 132 *Financial Instruments: Presentation*, the conversion feature does not affect the classification of the convertible bond (paragraph 76B). Our [publication](#) provides examples to assist with appropriate classification.

Classifying loans can be complicated where there has been a breach of a loan covenant, and can depend on whether and when the lender has provided a

waiver or a period of grace. Our [publication](#) includes a flowchart and detailed examples to assist in this analysis.

These amendments apply for the first time to the classification of liabilities as current or non-current in the 30 June 2025 balance sheet. Comparatives must be restated in the 30 June 2024 balance sheet and in the 1 July 2023 opening balance sheet.

New developments in financial reporting - standards issued, not yet effective

AASB 18 *Presentation and Disclosure in Financial Statements*

On 9 April 2024, the International Accounting Standards Board issued IFRS 18 *Presentation and Disclosure in Financial Statements* (AASB 18 in Australia), a new financial statements presentation standard to replace IAS 1 *Presentation of Financial Statements*. Our [bulletin](#) contains a high-level summary of the amendments.

The changes require income and expenses to be classified into one of the following five categories - investing, financing, income taxes, discontinued operations and operating ('operating' being the residual or 'catch all' category). Classification follows an entity's 'main business activities' so AASB 18 is likely to result in different presentations across entities. The Statement of Profit or Loss also includes two mandatory subtotals:

- Operating profit or loss - this is a sub-total of all income and all expenses classified as operating, and
- Profit or loss before financing and income taxes - this is the sub-total of operating profit or loss, and all income and expenses classified as investing.

Our [publication](#) provides in-depth guidance for classifying income and expenses in the Statement of Profit or Loss.

Appendix 1 New developments *continued*

There are also changes to the Statement of Cash Flows, including how interest and dividend cash inflows and interest cash outflows are classified.

Lastly, the financial statements must include new disclosures in a single note about 'management-defined performance measures' such as earnings before interest, taxes, depreciation and amortisation (EBITDA), 'adjusted profit', operating profit excluding recurring items, etc. The new disclosures apply to 'management-defined performance measures' if they are used in public communications outside the financial statements, to communicate to users of financial statements, management's view of an aspect of the entity's financial performance. They do not apply to certain specific sub-totals in the Statement of Profit or Loss such as gross profit. They also do not apply to social media posts and oral communications, and to non-IFRS information based on financial measures that are not performance-related (such as measures based only on the financial position of the entity). Also, they do not apply if an entity makes no public communications (as may be the case for private companies).

The changes are effective for annual periods beginning on or after 1 January 2027.

If you have any questions or require more information regarding these changes, please contact our [IFRS & Corporate Reporting](#) team.

Appendix 2 Sustainability reporting

What is required?

Legislation to mandate sustainability reporting in Australia was passed by the Senate on 22 August 2024 and received Royal Assent on 17 September 2024. The start date is for years commencing 1 January 2025, with a phase-in period for entities of different sizes and types. Entities required to prepare and lodge financial reports with the Australian Securities and Investments Commission (ASIC) under Chapter 2M of the *Corporations Act 2001* may have to prepare sustainability reports if they meet certain criteria. In particular, entities that do not meet the size threshold tests in section 292A and are neither NGER reporters nor asset owners, are not currently required to prepare sustainability reports.

The legislation requires a ‘sustainability report’, but climate-related disclosures are the first, and currently the only component of mandatory sustainability reporting.

ASIC’s Regulatory Guide 280 ([RG 280](#)) was issued on 31 March 2025 and provides entities with practical guidance about complying with their sustainability reporting obligations and about ASIC’s approach to administration, supervision and enforcement moving forwards.

Where will climate-related financial disclosures be disclosed?

Climate-related disclosures are required within a sustainability report forming part of the annual report. The sustainability report required by the *Corporations Act 2001* consists of:

- The climate statements;
- Notes to the climate statements;
- Any statements prescribed by legislation; and
- The director’s declaration.

ASIC says: Start preparing for climate reporting now

Climate reporting represents the biggest changes to financial reporting and disclosures standards in a generation.

Key actions to take now

Reporting Obligations: Assess whether mandatory sustainability reporting applies.

Risk Disclosure: Balance mandatory and voluntary disclosures, considering stakeholder needs, as this can be seen as a strategic work program vs a compliance activity.

Internal Capability: Train employees or build capability to allocate resources effectively. Given that this is a new area, capability and capacity can be inhibitors.

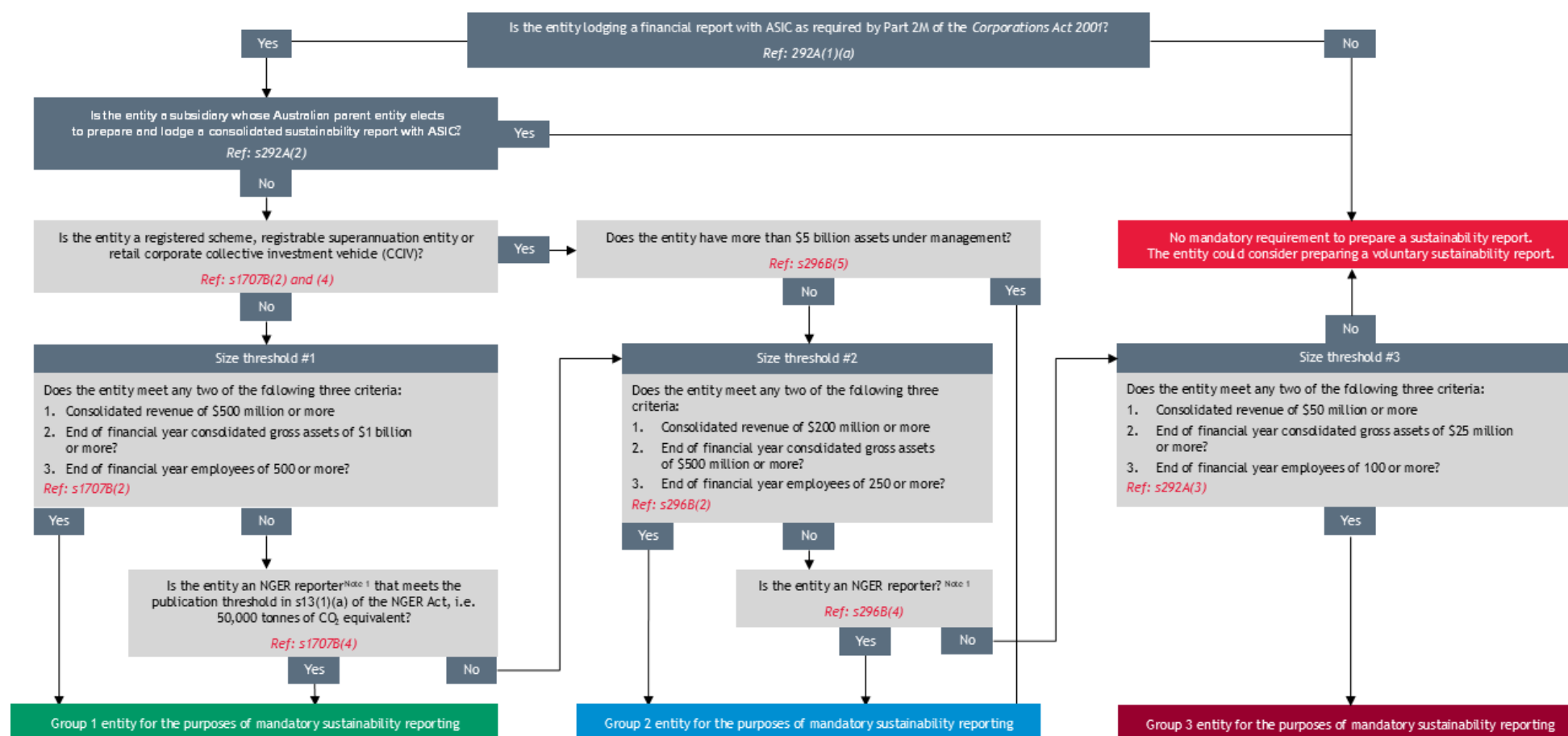
Data Quality and Technology Constraints: Given that some of this information will be being captured and generated for the first time, govern data and assess technology readiness.

Process Maturity and Change Management: Align processes, manage change effectively, and ensure people across the end-to-end process understand the “why”.

Appendix 2 Sustainability reporting *continued*

Who is required to prepare climate-related financial disclosures?

The following decision tree diagram will assist you in determining whether your entity is subject to mandatory sustainability reporting, and if applicable, which of the three groups it falls into.



Note 1: An entity is an NGER reporter if it is a controlling corporation registered or required to be registered under s12(1) of the National Greenhouse and Energy Reporting Act 2007 (NGER Act).

Appendix 2 Sustainability reporting *continued*

When will climate-related reporting be mandated?

The following table outlines the first mandatory reporting period end for Group 1, Group 2 and Group 3 entities with different year-ends.

SUSTAINABILITY REPORTS REQUIRED FOR THE FIRST YEAR ENDING ON DATES SHOWN BELOW			
YEAR-END	GROUP 1 ENTITIES	GROUP 2 ENTITIES	GROUP 3 ENTITIES
31 December	31 December 2025	31 December 2027	31 December 2028
31 March	31 March 2026	31 March 2028	31 March 2029
30 June	30 June 2026	30 June 2027	30 June 2028
30 September	30 September 2026	30 September 2027	30 September 2028

Sustainability reporting standards

The Australian Accounting Standards Board is responsible for setting sustainability reporting standards. Its first two standards, AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (a voluntary standard) and AASB S2 *Climate-related Disclosures* (mandatory standard) align closely with IFRS® Sustainability Disclosure Standards.

Your sustainability roadmap

We've created a practical roadmap to guide your implementation of mandatory climate-related disclosures as well as your sustainability journey. It outlines the essential activities and their deadlines. Though Council is not required to report under Corporations Act, and we are not yet aware of any changes in the Local Government Act that would require the inclusion of Sustainability Report in Council's annual report, we have included the suggested best practice roadmap if Council were a Group 2 entity for the mandatory climate reporting purpose in the following page for your information.

Group 2 entities: Best practice roadmap

PROJECT STREAMS			30 June 2025	30 June 2026	30 June 2027	30 June 2028
1	COMPLIANCE FOCUS: Carbon footprint measurement	Scope 1 and 2 emissions	- Set carbon inventory boundary - Develop a Basis of Preparation (carbon accounting methodology) - Measure and report internally scope 1 & scope 2 emissions	- Improve measurement and report internally scope 1 & scope 2 emissions - Set targets in relation to scope 1 & 2 - Conduct an assurance readiness assessment	Mandatory calculation and external reporting of Scope 1 and 2 emissions, subject to assurance	
		Scope 3 emissions	Initial measurement (significant estimation) and report internally scope 3 emissions	Improve measurement (significant estimation) and report internally scope 3 emissions	- Improve measurement (less estimation) and report internally scope 3 emissions - Set targets in relation to scope 3 - Conduct an assurance readiness assessment	Mandatory calculation and external reporting of Scope 3 emissions, subject to assurance
2	COMPLIANCE FOCUS: Climate-related disclosure	TCFD	Include <u>all</u> TCFD disclosures in the annual report, including the following pillars: - Governance - Strategy - Risk Management - Metrics and Targets	- Include <u>all</u> TCFD disclosures in the annual report, including the following pillars: - Governance - Strategy - Risk Management - Metrics and Targets	TCFD disclosures replaced by AASB S2	
		AASB S2 & Australian equivalent	Conduct an AASB S2 gap analysis	- Conduct a climate risk assessment - Prepare a scenario analysis - Financial modelling of impact on financial statements - Prepare draft AASB S2 (mandatory) disclosures for internal use	Mandatory reporting of all AASB S2 disclosures	
3	STRATEGIC FOCUS: Sustainability-related strategy disclosure	AASB S1 (voluntary)	<u>Activate sustainability strategy</u> - Step 1: ASSESS - Current state assessment - Step 2: PRIORITISE - Materiality assessment (stakeholder engagement) - Step 3: COMMIT - Identify gaps	<u>Activate sustainability strategy</u> - Step 4: MEASURE - Commit and measure to address gap identified - Step 5: REPORT - Prepare separate voluntary sustainability report Conduct an AASB S1 (voluntary) gap analysis	Continuous improvement of reporting to stakeholders (e.g. separate voluntary reporting)	

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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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