

Relevant Information for Council

FILE: S122357 **DATE:** 20 October 2023

TO: Lord Mayor and Councillors

FROM: Bill Carter, Chief Financial Officer

THROUGH: Monica Barone, Chief Executive Officer

SUBJECT: Information Relevant To Item 6.3 – Presentation of the 2022/23 Financial Statements and Audit Reports to Council - Letter from Auditor

For Noting

This memo is for the information of the Lord Mayor and Councillors.

Background

At the meeting of the Corporate, Finance, Properties and Tenders Committee on 16 October 2023, Council was advised that the Audit Office of NSW expected to issue an Engagement Closing Report for the year ended 30 June 2023 prior to the Council meeting on 23 October 2023.

On 20 October 2023 the City received the Audit Office of NSW's Engagement Closing Report, as shown in Attachment A to the subject memorandum (and subsequently uploaded as Attachment B to the 16 October 2023 Corporate, Finance, Properties and Tenders Committee report).

As noted in the Presentation of the 2022/23 Financial Statements report to Council tabled at the Corporate, Finance, Properties and Tenders Committee meeting, delays were experienced in completing the final audit due to the removal of the audit service provider that had been engaged by the Audit Office of NSW. The Audit Office of NSW replaced these services with their own staff which presented some resourcing and timing challenges.

The Engagement Closing Report states that the Audit Office are likely, upon receipt of the City's approved and signed Financial Statements, to express an unmodified opinion on the General Purpose Financial Statements (GPFS), the Special Purpose Financial Statements for Declared Business Activities (SPFS) and the Special Schedule "Permissible income for general rates". The Audit Office are only able to issue their opinion after the financial statements are officially signed by Council's representatives.

As noted in the report to Corporate, Finance, Properties and Tenders Committee, the 2022/23 Financial Statements must be prepared, audited and submitted to the Office of Local Government by 31 October 2023, and pending Council's resolution, the City will comply with this requirement.

Memo from Bill Carter, Chief Financial Officer

Prepared by: Bob Wallace, Financial Planning and Reporting Manager

Attachments

Attachment A. Audit Engagement Closing Report for 30 June 2023

Approved

P. M. Barone

MONICA BARONE

Chief Executive Officer

Attachment A

Audit Engagement Closing Report

Ms Monica Barone
Chief Executive Officer
Council of the City of Sydney
Town Hall House
Level 2 456 Kent Street
SYDNEY NSW 2000

Contact: Caroline Karakatsanis
Phone no: 02 9275 7143
Our ref: R0081658580946308

20 October 2023

Dear Ms Barone

**Engagement Closing Report
for the year ended 30 June 2023
Council of the City of Sydney**

We have audited the Council of the City of Sydney (the Council's):

- general purpose financial statements (GPFS)
- special purpose financial statements (SPFS) for the:
 - Council's Declared Business Activities
 - Special Schedule 'Permissible income for general rates' (the Schedule).

Attached is the Engagement Closing Report, which details findings relevant to you in your role as one of those charged with governance. This report gives the Chief Executive Officer, the Lord Mayor and the Audit, Risk and Compliance Committee the opportunity to assess the audit findings, before the representation letter and the Statements by Council and Management, required for the GPFS and SPFS under section 413(2)(c) of the *Local Government Act 1993* (the LG Act), are signed.

I consider this report to fall within the definition of 'excluded information' contained in Schedule 2(2) of the *Government Information (Public Access) Act 2009*. It may not be distributed to persons other than Management and those you determine to be charged with governance of the Council.

If you need more information about the audit, please contact me on 02 9275 7143 or Candy Lee on 02 9275 7381.

Yours sincerely



Caroline Karakatsanis
Director, Financial Audit

cc: Cr Clover Moore, Lord Mayor
Ms Carolyn Walsh, Chair of the Audit, Risk and Compliance Committee

Engagement Closing Report

for the year ended 30 June 2023

Council of the City of Sydney

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1. INTRODUCTION

We have audited the Council of the City of Sydney (the Council's):

- general purpose financial statements (GPFS)
- special purpose financial statements (SPFS) for the:
 - Council's Declared Business Activities
 - Special Schedule 'Permissible income for general rates' (the Schedule).




The audit is progressing for the Statement on Local Roads and Community Infrastructure Program and Road to Recovery Program.







This report informs the Chief Executive Officer, Lord Mayor and the Audit, Risk and Compliance Committee of audit findings relevant to their responsibilities and oversight of the Council's financial statements. We will inform you if significant new matters are found while finalising the audit.

An audit is designed to obtain reasonable assurance the financial statements are free from material misstatement. It is not designed to identify all matters of governance interest, nor is it conducted to express an opinion on the effectiveness of internal control. Matters of governance interest identified during the audit are included in this report.

2. AUDIT OVERVIEW

The table below provides an overview of findings identified during the audit of the Council

Impact assessment		
	High	Matters identified which had a high impact on the financial statements and/or audit.
	Moderate	Matters identified which had a moderate impact on the financial statements and/or audit.
	Low	No matters or matters identified which had a low impact on the financial statements and/or audit.

Section	Outcome	Impact	Reference
Audit outcome:			
GPFS	Unqualified opinion	 Low	3.1
SPFS for Council's Declared Business Activities	Unqualified opinion	 Low	3.1
Special Schedule 'Permissible income for general rates'	Unqualified opinion	 Low	3.1
Response to key issues and audit risks	Matters addressed	 Low	4.1
Misstatements	No misstatements noted	 Low	4.2
Compliance with legislative requirements	No matters noted	 Low	4.3

3. AUDIT OUTCOME AND REPORTS

3.1 Audit outcome

We are likely to express an unmodified opinion on the GPFS, the SPFS for Declared Business Activities and the Schedule.

The Independent Auditor's Report for the SPFS engagements and Schedule will advise users the SPFS engagements and Schedule have been prepared in accordance with a special purpose framework to fulfil the Council's financial reporting responsibilities under the Local Government Code of Accounting Practice and Financial Reporting 2022–23 (LG Code). As a result, the SPFS engagements and Schedule may not be suitable for another purpose.

The Independent Auditor's Reports will be signed on after the outstanding matters listed below are completed and the signed financial statements and management representation letter is received.

Outstanding item	Action required	Responsibility
Management Representation Letter	Management signs the representation letter prior to the audit opinion.	Management
Subsequent events update	Management and the audit team to assess potential impacts on the financial statements of significant transactions and events after year end, up to the date the financial statements are signed.	Management and audit team
Finalisation of quality review procedures	The audit team's quality review procedures will continue until the date of signing.	Audit team
Audit substantive testing in progress: <ul style="list-style-type: none"> • contract assets and contract liabilities • permissible income • special purpose financial statements • various note disclosures. 	Audit team to complete audit procedures following management responses to queries.	Management and audit team

Promptly resolving these matters will avoid delays in issuing the Independent Auditor's Report.

'Other Information' section

The Council's annual report will include information in addition to the financial statements and Independent Auditor's Report. For the purposes of our audit this is considered 'other information'. Auditing Standards require us to consider whether the other information is materially consistent with the financial statements and the knowledge we obtained during the audit. Where matters are identified, we are required to disclose them in the Independent Auditor's Report.

3.2 Report on the Conduct of the Audit

We will issue the Report on the Conduct of the Audit required by section 417(3) of the *Local Government Act 1993* at the same time as the Independent Auditor's Reports. The Report on the Conduct of the Audit will incorporate comments we consider appropriate, based on the audit of the Council's financial statements.

3.3 Auditor-General's Report to Parliament

The 2023 Auditor-General's Report to Parliament will incorporate the results of the audit.

3.4 Management Letter

We issue Management Letters detailing matters of governance interest identified during the audit.

A Management Letter from the final phase of my audit will be sent to you during November 2023, when formal management responses have been received.

4. AUDIT FINDINGS

4.1 Response to key issues and audit risks

The Annual Engagement Plan sent on 14 April 2023, identified key issues affecting the Council and how the audit team planned to respond to them. The results of the audit work are detailed below.

Issue or risk	Audit outcome
Revaluation of infrastructure, property, plant and equipment (IPPE)	
<p>Land under roads will be comprehensively revalued this year. Insufficient governance over the valuation process can impact on the quality and timeliness of financial reporting.</p>	<p>Management utilised internal experts and relevant Valuer General's data to comprehensively revalue land under roads. The revaluation resulted in an increment of the fair value movement of \$55.8 million. Management booked the increase to the asset revaluation reserve.</p> <p>During the valuation process, management identified an error in the previous revaluation workpapers resulting in a prior period error being recognised. Please refer to the appendix for further details.</p> <p>We performed procedures to assess:</p> <ul style="list-style-type: none"> • compliance of the methodology used with AASB 13 'Fair Value Measurement' • objectivity, competence and conclusions reached by the expert engaged by management • completeness and accuracy of source data • adequacy of financial statements disclosures including the disclosure of the prior period error. <p>Our testing did not identify any material misstatements.</p>
Assessing the fair value of the Council's infrastructure, property, plant and equipment (IPPE) and investment property	
<p>For asset classes not subject to comprehensive valuation, Australian Accounting Standards require the Council to annually assess:</p> <ul style="list-style-type: none"> • whether the carrying value of IPPE materially reflects fair value • useful lives remain reasonable • whether any assets are impaired. <p>This annual assessment along with significant judgements and assumptions should be documented.</p>	<p>Management conducted its annual IPPE fair value assessment including:</p> <ul style="list-style-type: none"> • applying an appropriate methodology • applying relevant publicly available indices to asset classes not subject to a comprehensive valuation • reassessing assets' useful lives and residual values, where relevant • considering indicators of impairment. <p>The assessment resulted in the following movements to bring carrying values to fair value:</p> <ul style="list-style-type: none"> • \$292.2 million increase to operational land • \$406.7 million increase to community land • \$492.6 million increase to Crown land • \$10.5 million increase to other structure - trees

Issue or risk	Audit outcome
	<ul style="list-style-type: none"> • \$83.9 million increase to non-specialised buildings • \$2.1 million increase to specialised buildings • \$67.0 million increase to roads, bridges, footways and kerbs • \$13.4 million increase to stormwater drainage • \$27.2 million increase to open space and recreational assets. <p>Management booked the \$1,451 million increase to the asset revaluation reserve.</p> <p>Management also performed a desktop valuation of investment property using a relevant index.</p> <p>Key audit procedures included:</p> <ul style="list-style-type: none"> • assessing whether indices used were relevant and reliable • assessing the sufficiency and appropriateness of management's fair value assessment against the requirements of applicable Australian Accounting Standards • agreeing adjustments made to the reported financial statement balances • assessing the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards. <p>We are satisfied with management's conclusion.</p>
Joint project with Department of Education	
<p>In November 2021, the Council entered into an agreement with Department of Education (DoE) to deliver a primary school in Green Square.</p> <p>Under this agreement the Council will transfer ownership of airspace in which vertical school will be constructed and owned by DoE.</p> <p>The ground floor facilities will be owned by the Council with both parties agreed split of 22.98% to Council and 77.02% to DoE of the total estimated project cost of \$72.9 million.</p>	<p>The construction of the joint project has commenced on 8 August 2022.</p> <p>As at 30 June 2023, \$5.4 million has been spent by Council and recognised as part of its capital work in progress.</p> <p>Management should:</p> <ul style="list-style-type: none"> • review the work in progress to determine classification of capital and operational costs. • Document it's assessment of any accounting implications from current and related future agreements <p>Our audit procedures relied on work performed in 2021-22.</p>
Information Technology General Controls	
<p>Australian Auditing Standards require the auditor to understand the Council's control activities and obtain an understanding of how it has responded to risks arising from Information Technology (IT).</p>	<p>We conducted the following audit procedures:</p> <ul style="list-style-type: none"> • updated our understanding of the IT general controls and IT dependencies and identified related risks relevant to our audit approach • understood and evaluated the IT general controls management has implemented to address these risks. <p>Our findings have been discussed with management and will be included in the final management letter.</p>

Issue or risk	Audit outcome
<p>Cyber security</p> <p>The Council relies on digital technology to deliver services, organise and store information, manage business processes, and control critical infrastructure. The increasing global interconnectivity between computer networks has dramatically increased the risk of cyber security incidents. Such incidents can harm the Council's service delivery and may include the theft of information, denial of access to critical technology, or even the hijacking of systems for profit or malicious intent.</p>	<p>As part of the 2022–23 financial audit we assessed whether cyber security risks represent a risk of material misstatement to the Council's financial statements. Our audit procedures included:</p> <ul style="list-style-type: none"> • assessing whether the risk assessment process considers cyber security risks • determining how the roles and responsibilities for cyber security are established • obtaining an understanding of the process: <ul style="list-style-type: none"> – for safeguarding of assets that may be exposed to security breaches – to monitor and detect security breaches or incidents – for disclosing cyber security risks and incidents. <p>Overall, our limited scope of audit work did not identify any reportable matters.</p>

4.2 Misstatements

Auditing Standards require matters of governance interest and significant misstatements identified during the audit to be communicated to those charged with governance.

Misstatements (both monetary and disclosure deficiencies) are differences between what has been reported in the financial statements and what is required in accordance with the Council's financial reporting framework. Misstatements can arise from error or fraud. Misstatements that resulted from failures in internal controls and / or systemic deficiencies will be reported in the Management Letter.

General Purpose Financial Statements (GPFS)

The Appendix lists and explains the nature and impact of the misstatements contained in the GPFS. Table one reports prior period errors corrected retrospectively.

Based on our evaluation, none of the misstatements reported are due to fraud.

Special Purpose Financial Statements (SPFS)

The SPFS for Declared Business Activities did not contain misstatements.

Special Schedule 'Permissible income for general rates' (the Schedule)

The Schedule did not contain misstatements.

4.3 Compliance with legislative requirements

The Annual Engagement Plan and Terms of Engagement explain that audit procedures are targeted specifically towards forming an opinion on the Council's financial statements. This includes testing whether the Council has complied with legislative requirements that may materially impact the financial statements.

Our audit procedures did not identify reportable findings on compliance with legislative requirements.

5. THE AUDIT PROCESS

5.1 Management co-operation

We appreciated the co-operation and help received from the Council's staff, in particular the finance team.

5.2 Audit fees

The audit fee was based on factors known impacting the Council at the time of preparing the Annual Engagement Plan. We performed additional procedures, as detailed in Section 4.1 'Response to key issues and audit risks' relating to the prior period errors on land under roads valuation which were not included in the original fee estimate. We will discuss and agree any additional audit fees with management.

5.3 Next year's audit

Management had an effective planning and processes to prepare financial statements and be ready for audit. Communication was regular and open, and requests were responded to promptly.

Your comments about the audit process are welcomed.

APPENDIX ONE – GENERAL PURPOSE FINANCIAL STATEMENTS

Table one: Prior period errors corrected retrospectively

The table below summarises prior period transactions identified during the current year that have been corrected retrospectively. Management believes these errors are so significant they require restatement of the Council's previously published GPFS. The impact of the restatement has been detailed in the notes to the financial statements.

Nature and impact of prior period transactions corrected retrospectively

Details of errors	Impact of correction of errors (\$'000)
Land Under Roads (post 30/06/2008) - en globo rate (prior to 1/7/2021)*	
The 2017-18 valuation had an error in the calculation of the 'englobo' rate used for valuations. This error resulted in the overstatement of land under roads as revalued at 30/06/2018, and the subsequent overstatement of land under roads acquired between 1/7/2018 and 30/6/2021.	(23,648)
Land Under Roads (post 30/6/2008) - newly identified assets (prior to 1/7/2021)	
Unrecorded land parcels acquired through dedications/ transfers between 1 July 2008 and 30 June 2021. Of the \$20.4 million impact, \$18.1 million related to parcels of land that had reverted to Council's control as the road authority due to the lapse of a specific clause of the Road Act (1993).	20,389
Land Under Roads (post 30/6/2008) - en globo rate (2021/22 comparative year)*	
The error in calculating the 'englobo' rate flow on effects when valuing land acquired by Council (\$0.1M) and land transferred from the operational land asset class (\$8.5M) during 2021-22 financial year.	(8,638)
Equity	
The adjusting entries described above resulted in the following net adjustments to Council's equity at 30 June 2022:	
• Accumulated surplus	2,265
• IPPE Revaluation reserves	(14,245)
Net Impact	(11,897)

*The above misstatements were identified by management

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

To help parliament hold government accountable for its use of public resources.