Attachment B

Draft independent auditors report and report on the conduct of the audit

INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Council of the City of Sydney

To the Councillors of Council of the City of Sydney

Opinion

I have audited the accompanying financial statements of Council of the City of Sydney (the council), which comprise the Statement by Councillors and Management, the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2026, the Statement of Financial Position as at 30 June 2026, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including material accounting policy information and other explanatory information.

In my opinion:

- the council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
  - have been prepared, in all material respects, in accordance with the requirements of the Division
  - are, in all material respects, consistent with the council's accounting records
  - present fairly, in all material respects, the financial position of the council as at 30 June 2026, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
  - all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

My opinion should be read in conjunction with the rest of this report.

Basis for opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's responsibilities for the audit of the financial statements' section of my report.

I am independent of the council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110).

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Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I have fulfilled my other ethical responsibilities in accordance with APES 110.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Other information

The council's annual report for the year ended 30 June 2026 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements, special schedules (the schedules) and Additional Council disclosures.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the special purpose financial statements and Special Schedule - Permissible income for general rates.

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

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The councillors' responsibilities for the financial statements

The councillors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the *Local Government Act 1993*, and for such internal control as the councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the councillors are responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's responsibilities for the audit of the financial statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

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The scope of my audit does not include, nor provide assurance:

- that the council carried out its activities effectively, efficiently and economically
- on the original budget information included in the Income Statement, Statement of Cash Flows, and Note B5-1 'Material budget variations'
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

Karen Taylor
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

<Date>
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Lord Mayor
Council of the City of Sydney
Town Hall House
Level 2, 456 Kent Street
SYDNEY NSW 2000

Contact: Karen Taylor
Phone no: 9275 7311
Our ref: R008-266507568-12804

27 October 2026

Dear Mayor

Report on the Conduct of the Audit

for the year ended 30 June 2026

Council of the City of Sydney

I have audited the general purpose financial statements (GPFS) of the Council of the City of Sydney (the Council) for the year ended 30 June 2026 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's GPFS.

My audit procedures did not identify any instances of material non-compliance with the financial reporting requirements in Chapter 13, Part 3, Division 2 of the LG Act and the associated regulation or a material deficiency in the Council's accounting records or financial statements. The Council's:

- accounting records were maintained in a manner and form to allow the GPFS to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.

Basis of this report

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2026 is issued in accordance with section 417 of the Act. The Report:

- must address the specific matters outlined in the Local Government Code of Accounting Practice and Financial Reporting 2025-26
- may include statements, comments and recommendations that I consider to be appropriate based on the conduct of the audit of the GPFS.

This Report should be read in conjunction with my audit opinion on the GPFS issued under section 417(2) of the Act.

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Income statement

Financial performance

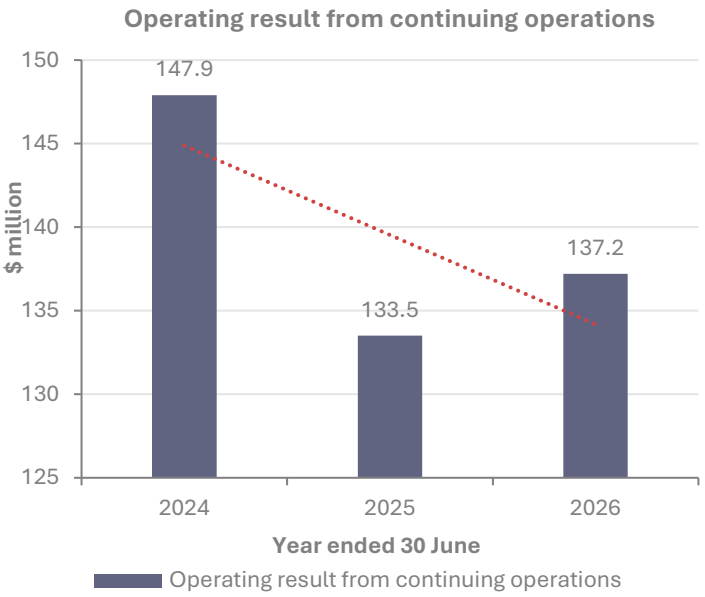
	2026 $m	2025 $m	Variance %
Rates and annual charges revenue	441.6	421.0	▲ 4.9
Grants and contributions provided for operating purposes revenue	21.1	15.7	▲ 34.4
Grants and contributions provided for capital purposes revenue	128.0	111.3	▲ 15.0
Operating result from continuing operations	137.2	133.5	▲ 2.8
Net operating result for the year before grants and contributions provided for capital purposes	9.2	22.1	▼ 58.4

Operating result from continuing operations

This graph shows the operating result from continuing operations for the current and prior two financial years.

Operating result from continuing operations for the year was $3.7 million higher than the 2024–25 result as:

- grants and contributions revenue increased $22.1 million, due to advance payment of financial assistance grant and increase in cash contributions, offset by a decrease in non-cash contributions
- rate and annual charges increased by $20.6 million, mainly due to rate peg of 4.1%
- other income decreased by $14.0 million, due to lower fair value increment on investment properties
- employee expenses increased by $12.4 million
- other expenses increased by $5.9 million.



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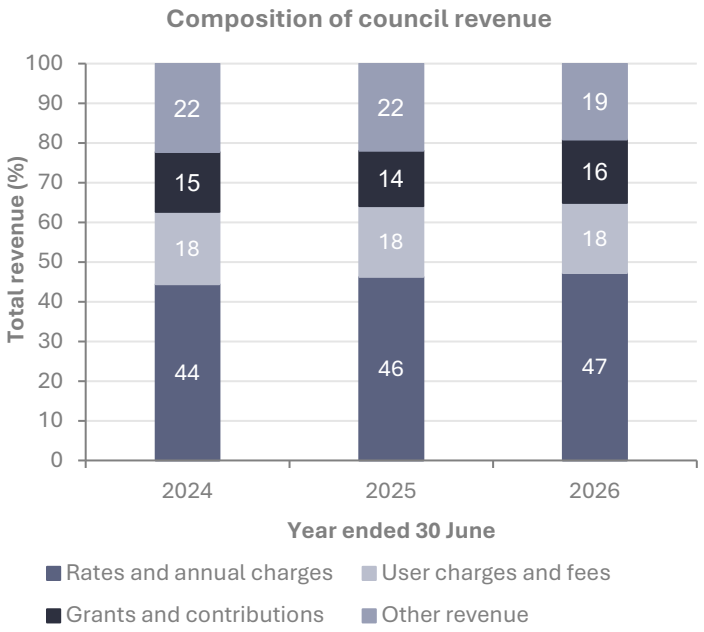
Income

Council revenue

This graph shows the composition of revenue recognised for the current and prior two financial years.

Revenue ($934.8 million) increased by $25.0 million (2.8 %) in 2025–26 due to:

- rates and annual charges revenue ($441.6 million) increased by $20.6 million
- user charges and fees revenue ($165.4 million) which increased by $3.0 million
- grants and contributions revenue ($149.0 million) which increased by $22.1 million
- offset by a $14.0 million decrease in other income and a $6.6 million decrease in interest and investment income.



Cash flows

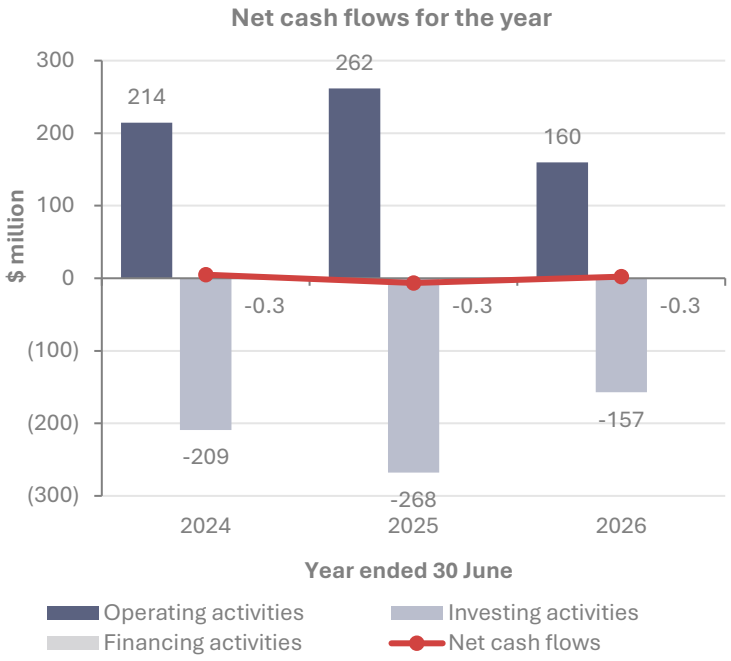
Statement of Cash Flows

The Statement of Cash Flows details the Council's cash inflows and outflows. It helps in assessing the Council's ability to generate cash to fund its operations, pay off debts, and support future projects. It also aids in identifying any pressures or issues in the Council operating in a financially sustainable manner.

This graph shows the net cash flows for the current and prior two financial years.

The net cash flows for 2025-26 were positive $2.1 million. In 2025-26 the net cashflows:

- from operating activities decreased by $102.1 million, mainly due to a $98.1 million decrease in receipts from grants and contributions
- used in investing activities decreased by $110.7 million, mainly due to lower purchases of investments.



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Financial position

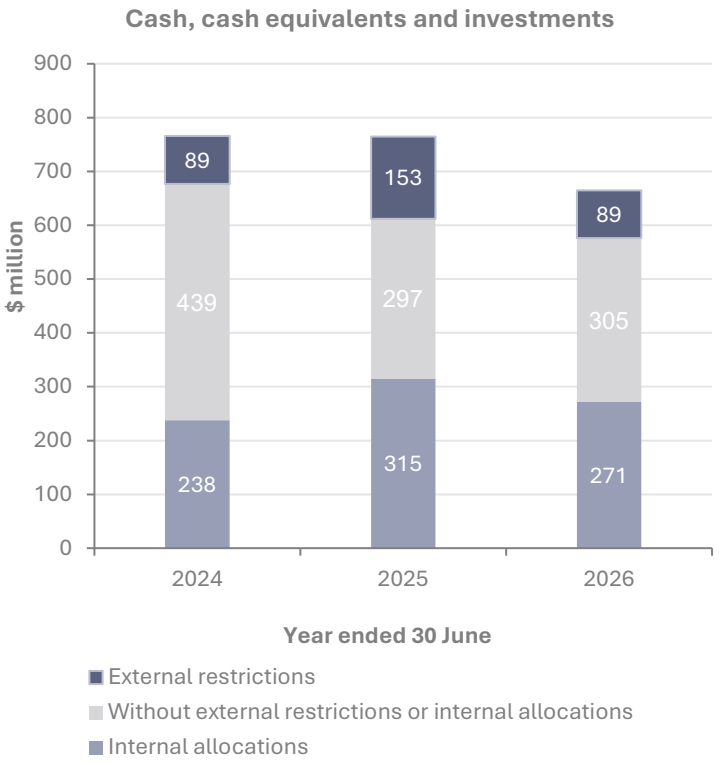
Cash, cash equivalents and investments

Cash, cash equivalents and investments subject to external restrictions are those which are only available for specific use by council due to a restriction placed by legislation or third party contractual agreement.

Cash, cash equivalents, and investments without external restrictions can be allocated internally by the elected Council's resolution or policy. These allocations are matters of Council policy and can be changed or removed by a Council resolution.

This graph shows the amount of cash, cash equivalents and investments with external restrictions, internal allocations, and those with neither as at 30 June 2026 and prior two financial years.

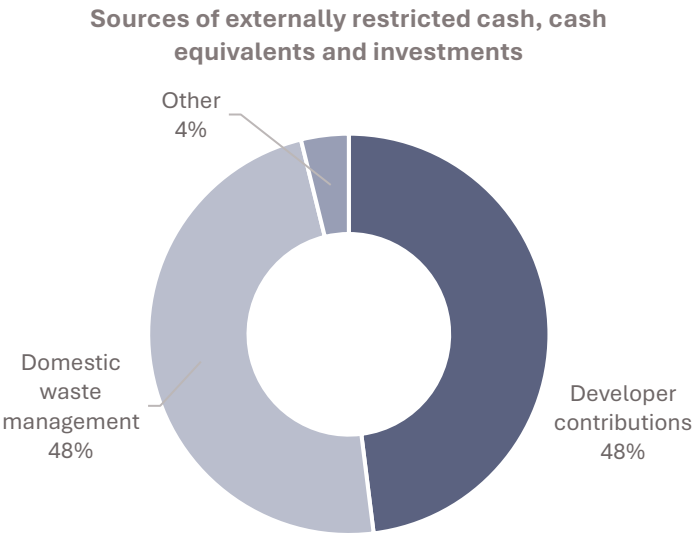
Externally restricted balances decreased due to a $66.3 million due to remitting $76.2 million in affordable housing contributions to community housing providers. Internal allocations decreased by $43.9 million mainly due to $27.9 million spending from the Green Square reserve and $18.6 million spending from the Heritage conservation fund.



This graph shows the sources of externally restricted cash, cash equivalents and investments.

In 2025-26 the Council's main sources of externally restricted cash, cash equivalents and investments include:

- developer contributions of $42.5 million which decreased by $66.3 million (see above for reason).
- domestic waste management charges of $42.6 million which was consistent with the prior year

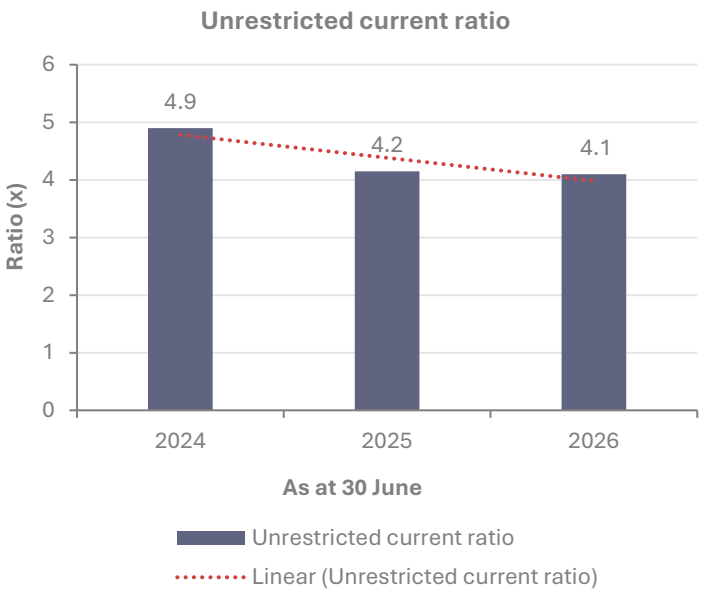


Council liquidity

This graph shows the unrestricted current ratio for the current and prior two financial years.

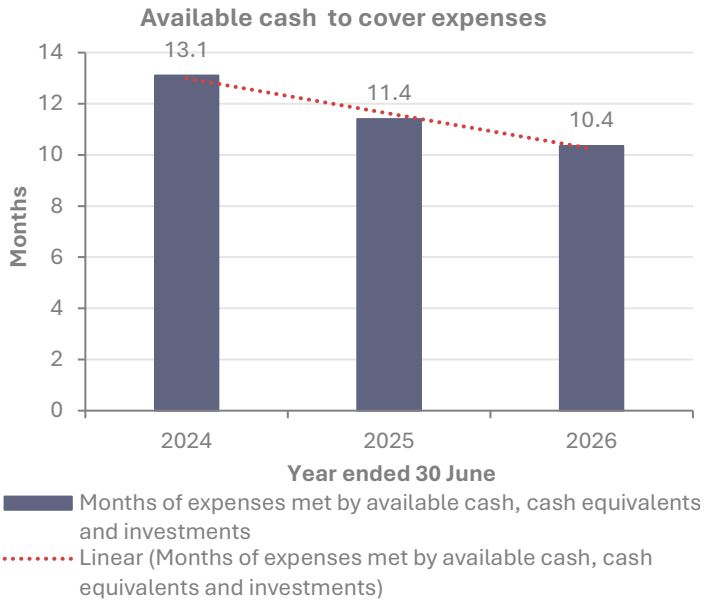
The unrestricted current ratio is specific to local government and represents council's ability to meet its short-term obligations as they fall due. It measures the ratio of unrestricted current assets to current liabilities less specific purpose liabilities.

In 2024-25, the average unrestricted current ratio was an average of 3.7x for metropolitan councils.



This graph shows the number of months of expenses (excluding depreciation and borrowing costs) council can fund from its available cash, cash equivalents and investments (not subject to external restrictions).

At 30 June 2026, Council has available cash to cover 10.4 months of expenses.

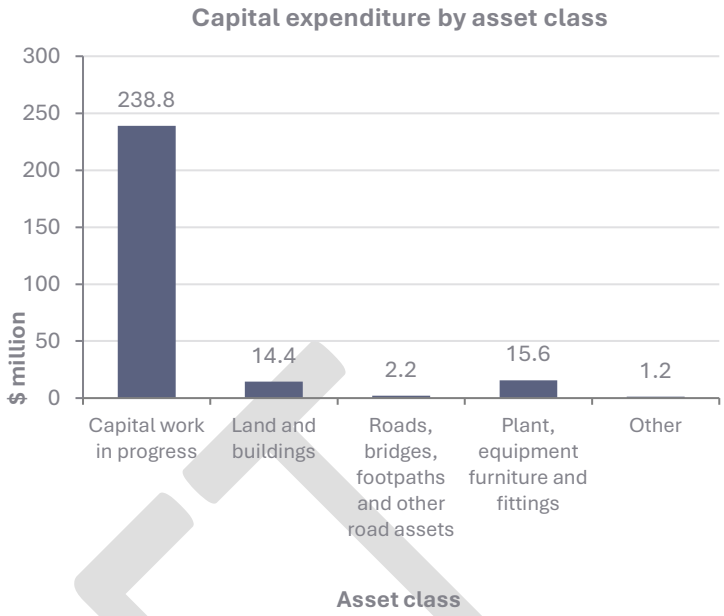


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Infrastructure, property, plant and equipment

This graph shows how much the Council spent on renewing and purchasing assets in 2025-26.

Council renewed $148.3 million of infrastructure, property, plant and equipment during the 2025-26 financial year. This was mainly spent on roads, buildings and other structures. A further $123.9 million was spent on new assets including land and roads.



Karen Taylor
Director, Financial Audit

Delegate of the Auditor-General

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