FOREWORD

Effective financial management is critical to public sector entities’ being able to meet their policy and service delivery responsibilities. An important aspect of financial management and stewardship, and the primary mechanism by which entities meet their financial accountability obligations, is the preparation and publication of annual audited financial statements in entities’ annual reports.

It is generally acknowledged that the timely finalisation of an entity’s financial statements, accompanied by an unmodified audit opinion, is an important indicator of the effectiveness of an entity’s financial management performance. Sound financial management fosters confidence in the entity on the part of Ministers, the Parliament and other stakeholders. As such, the preparation of entities’ financial statements and the necessary systems, procedures, and practices that underpin them should be a high priority.

The environment in which entities are required to prepare their annual financial statements continues to be a challenging one. Ongoing enhancements to accounting standards and changes to the Government’s financial framework are some of the issues faced by entities in preparing accurate and timely audited financial statements. This Guide updates and replaces the Guide issued in April 2006. It includes material relating to agencies’ whole-of-government reporting responsibilities and the Certificate of Compliance process, and provides further guidance on using the work of experts. This guidance is particularly relevant in the context of the requirement for a number of financial statement items to be measured at fair value.

While much of this Guide provides practical guidance material relating to the preparation of financial statements, it is recognised that the underpinning management and internal control regimes need to be functioning effectively if an entity’s financial statements are to comply with legislative and policy requirements.

We are confident that this updated Guide will continue to be a useful reference document to assist all those involved in the preparation of financial statements in the public sector.

As with most activities of this nature, there is not one ‘right’ approach. While the accounting and auditing standards provide a common framework, no two entities are the same and their financial statement preparation processes are at different stages of maturity. As such, the material in the Guide should be interpreted, customised and used to meet each entity’s own particular circumstances. Entities also need to be alert to ongoing legislative and policy changes.

The ANAO acknowledges the willing assistance of a number of entities who provided useful material to update the Guide.

Ian McPhee
Auditor-General
June 2009

1 In this Guide, the term ‘entities’ applies to all organisations subject to the Financial Management and Accountability Act 1997 and the Commonwealth Authorities and Companies Act 1997, as well as business operations that prepare separate financial statements.
INTRODUCTION

Key components of any governance and accountability system in the public sector are the preparation of financial statements in accordance with well-understood and generally accepted accounting standards.²

Financial statements are an important means of demonstrating how the public sector, both at individual entity and whole-of-government level, meets its financial management responsibilities.

A fundamental element of external accountability is the need for public sector entities to prepare annual financial statements and publish them in their annual report. The purpose of financial statements is to present a true and fair view of an entity’s financial performance, financial position, equity and cash flows. As such, they are an important means of demonstrating how the public sector, both at individual entity and whole-of-government level, meets its financial management responsibilities.

For many years Australia, and in particular the Australian public sector, has been at the forefront of financial management reforms. Notable reforms include:

- The introduction of accrual-based financial statements for all departments and agencies from the 1994–95 financial year
- Whole-of-government accrual financial statements were developed in the mid 1990s and first audited in the 1996–97 financial year
- Implementation in 1997 of an accrual-based outcomes and outputs framework to more directly align the budget process with the annual reporting framework including the first accrual budget, and full accrual monthly financial statements for material entities from 1999–2000
- The enactment, with effect from 1 January 1998, of the Financial Management and Accountability Act 1997 (FMA Act), the Commonwealth Authorities and Companies Act 1997 (CAC Act) and the Auditor-General Act 1997 that collectively prescribe the financial management, accountability and audit regime for public sector entities, and

More recently, reforms have involved increasingly compressed timetables for the preparation of audit-cleared³ financial information, the adoption of Australian Equivalents to International Financial Reporting Standards and the harmonisation of Generally Accepted Accounting Principles and Government Finance Statistics.

These reforms are part of a wider global recognition of the need to improve financial management and the quality of financial information across public and private sector organisations.

Entities devote considerable resources and effort to their financial management responsibilities including the preparation of the financial statements at an individual entity and a whole-of-government level. Nevertheless, the capacity and ability of entities to prepare their financial statements within required timeframes is variable across the public sector. This Guide is therefore intended to provide guidance to entities to assist them in gaining additional assurance about the integrity of financial reporting and the efficiency of the preparation of financial statements.

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3 Audit-cleared means that although the ANAO has not issued an audit report, the audit of material balances has not disclosed any issues that would prevent the Department of Finance and Deregulation from consolidating financial information for the purpose of preparing the Statement of Final Budget Outcome and the Consolidated Financial Statements.
COVERAGE AND TERMINOLOGY

This Guide is aimed at general purpose financial statements prepared by public sector entities that are normally prepared and presented at least annually. The Guide does not address special purpose financial statements but many of the matters addressed may be relevant and could be adopted for that purpose.

For the purposes of this Guide and for ease of presentation, the term ‘Chief Executive’ is used generically for entities where responsibility and accountability rests with an individual (such as for the majority of entities subject to the FMA Act). The term ‘Board’ is used for those entities where there is collective responsibility and accountability for the financial statements.

For ease of reference and presentation, a number of terms are used in this Guide to describe similar matters or arrangements:

- **Finance team:** the staff directly responsible for closing the books and for financial reporting in the entity
- **Business areas:** various work areas, which may be known as sections, branches, divisions, or groups that contribute to the financial statements
- **Public sector entities:** all organisations subject to the FMA or CAC Acts, and
- **External audit(or):** this generic term is used throughout the Guide, while recognising that the Australian National Audit Office (ANAO) is the external auditor of Australian Government entities in accordance with the provisions of the Auditor-General Act 1997.

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4 Special purpose financial statements include prospectuses and computations prepared for taxation purposes.
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**Figure 1: Structure of the Guide**

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PART 1
Legal and Policy Framework
PART 1
Legal and Policy Framework

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1. PUBLIC SECTOR FINANCIAL REPORTING FRAMEWORK

1.1. Introduction

The Australian Accounting Standards Board (AASB) sets the financial reporting standards for all reporting entities in Australia. These standards reflect those set by the International Accounting Standards Board (IASB).

The objective of financial statements as set out in the Framework for the Preparation and Presentation of Financial Statements (Framework) is to ‘provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.’ Financial statements are also the means by which management or the governing body of a reporting entity discharges its accountability to the users of the reported financial information.

1.2. Public sector entity requirements

Australian public sector reporting entities are required to prepare financial statements under the Financial Management and Accountability Act 1997 (FMA Act), the Commonwealth Authorities and Companies Act 1997 (CAC Act) or the Corporations Act 2001, as applicable. These Acts, together with the Finance Minister’s Orders, set the financial reporting framework for public sector entities. FMA Act agencies, and CAC Act entities, including those reporting under the Corporations Act, make up the large majority of the reporting entities in the public sector. With few exceptions, reporting entities report on a financial year basis.

Appendix A provides details of the main legislation, policies and guidelines relevant to the preparation of financial statements by public sector entities and a brief summary of each of these elements.

The Chief Executive and Chief Financial Officer (FMA Act agencies) or responsible director and the Chief Executive Officer (CAC Act entities) are required to certify that the financial statements of the reporting entity have been prepared based on properly maintained financial records, and that they give a true and fair view of the matters required by the Finance Minister’s Orders (FMOs) (or Corporations Act, where applicable). This certification forms part of the entity’s financial statements.

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5 The Australian Accounting Standards Board (AASB) is an independent agency of the Australian Government with responsibility to make accounting standards under section 334 of the Corporations Act 2001, to formulate accounting standards for other purposes and to participate in and contribute to the development of a single set of international accounting standards for world wide use. The Chairman of the AASB reports to the Minister for Superannuation and Corporate Law regarding the organisation’s operations.

6 AASB, July 2004. This framework was issued by the AASB to replace parts of the previous Australian conceptual framework (SAC 3 Qualitative Characteristics of Financial Information and SAC 4 Definition and Recognition of the Elements of Financial Statements) that overlapped with the Framework for the Preparation and Presentation of Financial Statements issued by the International Accounting Standards Board. The Framework is concerned with general purpose financial reports including consolidated financial statements. It does not cover special purpose financial reports.

7 The Minister for Finance and Deregulation issues requirements for the reporting of financial statements of public sector entities. These are issued annually as Finance Minister’s Orders and are referred to as such throughout this Guide. Specifically, the Orders comprise the Financial Management and Accountability Orders [Financial Statements] and the Commonwealth Authorities and Companies Orders [Financial Statements] and include Schedule 1 Finance Minister’s Orders for Financial Reporting, Requirements for the Preparation of Financial Statements of Australian Government Entities. The Orders incorporate Australian Accounting Standards and Interpretations issued by the AASB, together with financial reporting guidance and policies designed specifically for public sector reporting entities.

8 There are some additional reporting entities, e.g. FMA agency business operations such as the Therapeutic Goods Administration. Entities of this kind also prepare financial statements in accordance with the Finance Minister’s Orders.
In addition to the financial statements of each reporting entity, the Government presents whole-of-government financial results in annual consolidated financial statements\(^9\) covering all Government-controlled entities. The Minister for Finance and Deregulation certifies the Australian Government Consolidated Financial Statements (CFS). The CFS is subject to audit by the Auditor-General. The Minister also publishes monthly financial statements on the General Government Sector (GGS)\(^10\) in a form consistent with the Budget estimates.\(^11\) The Treasurer and the Minister for Finance and Deregulation also produce a set of financial statements for the Final Budget Outcome (FBO)\(^12\): the statements are based on the Government’s accounting policy that Australian Bureau of Statistics’ (ABS) accrual Government Finance Statistics (GFS)\(^13\) remains the basis of budget accounting policy, except where the Government applies Australian Accounting Standards (AAS) because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports. These statements are integral to the Government’s financial reporting framework, and complement the Budget process by providing outcomes against Budget estimates.

The Government aims to report the FBO to Parliament within 45 days of the end of the financial year, rather than 90 days as required by the Charter of Budget Honesty Act 1998. To assist in achieving this timeframe, the Department of Finance and Deregulation (Finance) sets a timetable for entities to provide financial information relevant to the reporting of the FBO. The requirements are more stringent for material entities,\(^14\) that is, those entities that comprise 99 per cent of significant balances in the CFS.

1.3. Audit reports

An audit report on the financial statements of an entity provides an independent opinion on whether the financial statements are prepared and give a true and fair view, in all material respects, in accordance with an identified financial reporting framework. Audit procedures and reporting are conducted in accordance with standards and guidance set by the Auditing and Assurance Standards Board (AUASB).\(^15\) In accordance with section 24 of the Auditor-General Act 1997, the Auditor-General sets ANAO Auditing Standards that prescribe the required standard of work expected of auditors conducting audits on behalf of the Auditor-General. These standards adopt the standards and guidance set by the AUASB.

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\(^9\) The Consolidated Financial Statements are required under section 55 of the FMA Act.

\(^10\) The General Government Sector comprises services that are mainly non-market in nature, and for the collective consumption of the community, or involve the transfer or redistribution of income.

\(^11\) The monthly financial statements are required by section 54 of the FMA Act.

\(^12\) The Final Budget Outcome is required by the Charter of Budget Honesty Act 1998 and is to be tabled no later than three months after the end of the financial year.

\(^13\) The GFS reporting framework is a specialised financial reporting system designed to support economic analysis of the public sector. It allows comprehensive assessments to be made of the economic impact of government and is consistent with international statistical standards (the System of National Accounts 1993 (SNA93) and the International Monetary Fund’s (IMF) Government Finance Statistics Manual 2001). Further information on ABS GFS is provided in the ABS publication Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005.

\(^14\) Material entities comprise 99 per cent of the revenues, expenses, assets and liabilities of APS entities, including bodies controlled by the Government, such as those under the CAC Act, that are not part of the Government itself. Departments of State are also ‘material’ agencies, regardless of their size, on the basis that they are ‘material in nature’. All remaining agencies are described, for budget and financial reporting purposes, as ‘non-material agencies’. At the time of preparation of this Guide, material entities are required to provide audit-cleared financial information to Finance by 15 August. The deadline for non-material agencies is 31 August.

\(^15\) The AUASB is an independent agency of the Australian Government with responsibility to make auditing standards under section 336 of the Corporations Act 2001, to formulate auditing and assurance standards for other purposes and to participate in and contribute to the development of a single set of auditing standards for world wide use. Auditing and Assurance Standards issued by the AUASB are legislative instruments under the Legislative Instruments Act 2003, with effect under the Corporations Act 2001.
1.4. Annual reports

Annual reports are the principal vehicle by which the Parliament and the community are able to hold a public sector entity accountable for its performance. All entities are required to present annual reports to the responsible Minister in accordance with relevant legislative requirements. Further details are included in Section 2.1 of this part.

The FMA and CAC Acts require each reporting entity to include a copy of the financial statements and the audit report in its annual report. The Government’s consolidated financial statements and the audit report thereon are tabled in the Parliament as a separate document.

1.5. Users of public sector financial statements

There are a large number of parties that are actual or potential users of individual entity and whole-of-government financial statements. These include:

- Ministers and the Government
- Parliamentary Committees and individual Parliamentarians
- taxpayers and the community generally
- employees
- external providers of goods and services
- beneficiaries and other recipients of goods and services provided by Government
- industry and community groups, and
- the media.

This wide and diverse range of users underlines the importance of public sector entities meeting their financial accountability responsibilities.

2. ROLES AND RESPONSIBILITIES OF KEY STAKEHOLDERS

2.1. Public sector entities

Financial management responsibilities

A fundamental tenet of public administration is the need for entities to fully comply with the Australian Government’s financial management framework. Effective implementation of the financial framework requires entities to have in place a range of delegations, policies, instructions and procedures that outline in a clear and consistent manner the responsibilities and accountabilities within the entity for the various components of the framework. These components also form part of an entity’s governance structure.

The preparation and publication of audited annual financial statements is an important component of the Australian Government’s and individual entities’ financial management framework. The responsibility for entities to prepare, and publish, financial statements is as follows:

- section 49(1) of the FMA Act requires the Chief Executive of each agency to give to the Auditor-General the annual financial statements required by the Finance Minister’s Orders. Public sector entities’ annual audited financial statements are subsequently made public through the

16 The audit report is normally placed immediately before the financial statements.
annual report of each entity. Annual reports for FMA Act agencies are required by subsections 63(1) (Departments of State) and 70(1) (Executive Agencies) of the Public Service Act 1999, and by Government policy for other agencies.

- Section 9 of the CAC Act requires the directors of a Commonwealth authority to prepare an annual report in accordance with Schedule 1 of the Act. The annual report must include a report of operations, financial statements and the Auditor-General’s report on those financial statements, and

- Government-controlled companies are required to comply with Part 2M.3 of the Corporations Act that requires certain companies to prepare and publish financial statements in accordance with the relevant provisions of this legislation.

Chief Executives/Boards are responsible for the overall financial management of their entities. In particular, they are required to state whether, in their opinion, the entity’s financial statements have been prepared on the basis of properly maintained financial records and give a true and fair view of the matters required by the FMOs (or Corporations Act, as applicable). In doing so, management implicitly or explicitly makes assertions regarding the recognition, measurement, presentation and disclosure of the various elements of a financial report and related disclosures. These assertions are outlined in Appendix B, Management Assertions.

Risk management practices and internal controls

To enable the Chief Executive/Board to meet their financial statement responsibilities, entities need to have systems and procedures in place to accurately and reliably record all relevant financial transactions and other information needed to be disclosed in its financial statements. Entities also need to design, implement and maintain risk management practices and internal controls to: comply with relevant legislative and policy requirements; accurately record all relevant financial transactions; and to prevent or detect and correct misstatements, whether due to fraud or error. In addition, supporting systems and processes, appropriate to the size and complexity of the entity, need to be in place to provide the Chief Executive/Board with the information and the level of assurance that they need in relation to these matters.

Audit Committees

Audit Committees are a key component of effective governance arrangements, in both public and private sector organisations. In the public sector, the importance of Audit Committees is reflected in the requirements for all entities operating under the FMA Act and CAC Act to establish an Audit Committee.

The review by the Audit Committee of an entity’s financial statements is a significant function of all Audit Committees, with the acceptance of the financial report by the Chief Executive/Board being the culmination of one of the Audit Committee’s key responsibilities.

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17 The management or governing body of each entity is responsible for the replication of the certified financial statements and audit report in the annual report, and for ensuring the accuracy and completeness of the information presented therein. The audit of the financial statements does not relieve management or the governing body of these responsibilities. See ASA 200 Objective and General Principles Governing an Audit of a Financial Report, paragraph 42.

18 Australian Auditing Standard ASA 502 Audit Evidence.

19 The responsibilities of Public Sector Audit Committees are discussed in the ANAO Better Practice Guide: Public Sector Audit Committees, February 2005, page 11.
Reporting to Finance

Entities are required to provide monthly accrual financial statements to Finance to enable the Finance Minister to publish monthly financial statements on the General Government Sector in accordance with the FMA Act. Entities are also required to provide Finance with audit-cleared financial information at the end of each financial year to enable the preparation of the Final Budget Outcome (FBO) and Consolidated Financial Statements (CFS) for the Australian Government.

Publication of annual reports

Under the Requirements for Annual Reports, Ministers are required to table the annual reports of FMA Act agencies in the Parliament by 31 October each year.20 Subsection 9(1) of the CAC Act requires Directors of CAC authorities to provide Ministers with the authority’s annual report by 15 October each year where the reporting year is 30 June. In turn, under subsection 9(3) of the Act, Ministers are to table the annual report in Parliament as soon as is practicable.

Subsection 36(4) of the CAC Act requires the responsible Minister to table a Commonwealth company’s annual report in the Parliament as soon as is practicable after receiving it (wholly-owned companies) or after the annual general meeting (partly owned companies).

Online reporting

The Requirements for Annual Reports encourages departments, to make their annual reports accessible from the Internet and most if not all entities’ annual reports are available from their respective websites.

2.2. Australian National Audit Office

The Auditor-General, through the ANAO, provides an independent review of the performance and accountability of public sector entities.

The Auditor-General’s mandate extends to all Australian Government agencies, authorities, companies and subsidiaries with the exception of performance audits of Government Business Enterprises (GBEs) and of persons employed or engaged under the Members of Parliament Act 1994. Performance audits of wholly-owned GBEs may only be undertaken at the request of the responsible Minister, the Finance Minister or the Joint Committee of Public Accounts and Audit (JCPAA).

Audits conducted by the ANAO must be in accordance with the auditing standards set by the Auditor-General under section 24 of the Auditor-General Act.

Financial statement audits

The Auditor-General, or delegate, conducts financial statement audits to express an opinion on whether the financial statements have been prepared in accordance with the Government’s financial reporting framework and give a true and fair view, in accordance with Australian Accounting Standards and other mandatory financial reporting requirements in Australia, of the

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20 The Requirements for Annual Reports are issued by the Department of the Prime Minister and Cabinet in accordance with subsections 63(2) and 70(2) of the Public Service Act 1999 and approved each year by the Joint Committee of Public Accounts and Audit.
financial position of each entity as at year end, and of its performance and cash flows for the year then ended.

The aim of the financial statement audit is to provide reasonable assurance as to whether the financial statements are free from material misstatement. However, as the nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive evidence, an audit cannot guarantee that all material misstatements will have been detected.

The audit opinion is formed on the basis of audit procedures, which include:

- assessing the effectiveness of management’s internal controls over financial reporting and legal compliance
- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements, and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Chief Executive/Board.

The audit procedures also extend to key aspects of legislative compliance, such as the appropriation of moneys. This coverage is enhanced in circumstances where the ANAO is concurrently conducting a performance audit that includes in-depth coverage of legislative compliance issues. The results of these and other relevant performance audits are considered in determining the audit opinion on the financial statements.

The audit opinion is issued to the responsible Minister (or shareholders in the case of companies) and is included with an entity’s financial statements in the entity’s annual report.

In addition to the audit opinion on financial statements, the ANAO provides each entity with a report on the results of the financial statement audit. The ANAO also tables two cross-entity assurance reports in the Parliament each year. The first details the results of the interim phase of the audit of the financial statements of major entities, and the second report provides a summary of the results of all financial statement audits undertaken in each year.

Key activities undertaken by the ANAO in the context of its audits of entity financial statements include:

- attendance, as observers, at Audit Committee meetings. Such meetings provide both the ANAO and the Committee an opportunity to discuss a range of issues relating to the entity’s financial statements[21]
- working closely with entities and Finance, as required, to resolve matters involving the interpretation and application of accounting standards and related internal control issues (this matter is discussed at Part 3, Section 2.3, Liaison with external audit)
- participation in CFO Forums
- consultation with Finance including on the content of the FMOs and PRIMA financial statements
- the periodic conduct of client information seminars that discuss accounting and auditing developments, and
- providing comment, in conjunction with State and Territory Auditors-General where appropriate, on accounting and auditing Exposure Drafts.

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21 Such issues can include the scope, timing and cost of the external audit; the impact of new or revised accounting standards; business and policy initiatives and major system changes; the result of both financial statement and performance audit activity; the implementation of audit recommendations; and any proposed internal audit coverage relevant to the financial statements.
2.3. Department of Finance and Deregulation

The Department of Finance and Deregulation (Finance) has a significant role relating to the facilitation of Australian Government accountabilities. This includes transparent financial reporting, both ex ante and ex post, including the preparation, accountability and transparency of whole-of-government financial statements.

Details of the whole-of-government annual and monthly financial statements, prepared by Finance on behalf of the Australian Government, are set out in Section 1.2 of this part.

Finance also develops and promulgates accounting policies and financial statement presentation and disclosure requirements through the Finance Minister’s Orders (FMOs). These policies are based on Australian Accounting Standards, accounting interpretations, guidance and other financial reporting policies developed by Finance.

To assist entities to discharge their responsibilities under the FMA and CAC Acts, Finance publishes PRIMA (illustrative financial statements), FinanceBriefs (that provide, on a needs basis throughout the year, timely clarification and guidance on accounting and financial reporting policies), and ongoing financial reporting advice to Australian Government entities. This involves interpretations of accounting policies, advice on reporting and appropriation requirements and development and maintenance of the budget and reporting framework.

Finance is also the convenor of the CFO Forum, which is a vehicle for the discussion of accounting, auditing and related topics. The Forum is generally convened on a monthly basis.
## APPENDIX A: RELEVANT LEGISLATION, STANDARDS, POLICIES AND GUIDANCE

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A summary of these elements is set out below.

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The following is a brief summary of the primary legislation, standards, policies and guidelines that impact on the preparation of the financial statements of public sector entities.

**Commonwealth of Australia Constitution Act (the Constitution)**

The Constitution underpins the Australian Government’s financial framework. It includes provisions broadly governing the ways in which the Commonwealth can collect, retain and spend money. It is designed to safeguard the Parliament’s ultimate control over expenditure of public money through its role in approving the Government’s Budget and Appropriation Bills. It is the primary source of the legislative enactments that apply, amongst other things, to the financial and accounting arrangements of Australian Government entities.

It provides the legislative power to impose taxes under section 51(ii), and an exclusive right to impose customs and excise duties under section 90.

It establishes the Consolidated Revenue Fund (CRF) into which all revenues of the Commonwealth of Australia are paid (section 81) and provides that moneys cannot be drawn from the CRF except under an appropriation made by law (section 83).

**Administrative Arrangements Orders**

Under the Constitution, the Governor-General, on the advice of the Prime Minister, appoints Ministers, establishes Departments of State and formally allocates executive responsibility among Ministers through the Administrative Arrangements Orders (AAOs).

The AAOs are published in the Commonwealth Gazette. They set out the matters dealt with by each Department of State and the legislation administered by a Minister of State administering a Department. The AAOs for each Department of State cover the principal matters and legislation administered by all entities within the relevant portfolio.

There is a wide range of laws and regulations in relation to matters such as defence, foreign affairs, economic policy, trade, immigration and social security.

Acts of particular significance to the presentation of financial statements are referenced below.

**Acts enabling statutory office holders, agencies, authorities and other bodies**

Legislation administered under the AAOs includes Acts enabling statutory office holders, agencies, authorities and other bodies. Examples include the Commonwealth Ombudsman (office holder), the Australian Consumer and Competition Commission (agency) and the Australian Broadcasting Corporation (authority). These entities, together with the Departments of State (in the AAOs), Parliamentary Departments, other agencies prescribed by regulation and Government-owned companies form the bulk of the entities reporting financial statements under the FMA and CAC Acts.

In the case of statutory authorities, the enabling legislation usually provides for the establishment, functions and management of the entity. Management provisions generally include organisational arrangements such as Board responsibilities, staffing and financing.
Some Acts provide for the raising of revenue. These principally include Acts on taxation and customs duty, administered by the Australian Taxation Office (ATO) and the Australian Customs Service respectively. For example, the *Income Tax Assessment Act 1936*, administered by the ATO, provides the authority for the collection of income tax revenue from individuals and entities liable to taxation. There are also many other Acts, administered by a range of entities, that provide for levies, licence fees and other charges imposed by Government. Collectively, these Acts provide for the bulk of Government revenue.

Special appropriations are provided for in Acts that are not the Annual Appropriation Acts. They are generally those contained in specific legislation, typically establishing a monetary entitlement or setting out the terms and conditions on which the moneys are to be paid. These appropriations provide the authority for the majority (approximately eighty per cent) of Government expenditure. There are different kinds of special appropriations including those which:

- provide appropriation of a specific amount for a particular purpose over an extended period of time (e.g. *Appropriation (HIH Assistance) Act 2001*),
- establish a method for calculating the amount to be spent, often triggered by eligibility criteria (e.g. welfare payments under the *Social Security Act 1991*), or
- provide an automatic appropriation in certain situations (e.g. repayments by the Commonwealth under section 28 of the FMA Act).

Standing appropriations are a sub-category of special appropriations. They are generally defined as those special appropriations which provide for the automatic payment of funds where an entitlement exists. The entitlement is usually calculated in accordance with a law rather than being specified by amount in a special appropriation.

Special accounts are established for specific purposes under sections 20 and 21 of the FMA Act. They are standing appropriations which provide the authority for expenditure up to the uncommitted balances recorded in the accounts. Special Accounts are ledger accounts in the CRF that allow money to be set aside for a particular purpose or purposes. They are generally used to support the delivery of programs that are funded by indirect taxes or other compulsory imposts, contributions by other Governments, or contributions by members of the community.
The Annual Appropriation Acts are the source of funding for approximately twenty per cent of all Government expenditure. The remaining is funded by special appropriations.

The Annual Appropriation Acts generally appear in pairs because the provisions which appropriate money for the ordinary annual services of the government must (under section 54 of the Constitution) be separated from those provisions that appropriate money for the services of the government other than ordinary annual services.

- Annual appropriations for the ordinary annual services of the government include the ordinary operating costs of government entities and typically include salaries, accruing employee entitlements and operating expenses.
- Annual appropriations for other than ordinary annual services of the government covers financial assistance to the States, Territories and local government and non-operating costs commonly referred to as ‘capital costs’.

The Annual Appropriation Acts are expressed by year. In general, departmental appropriations are available until they are spent while administered expense appropriations are subject to an annual determination by the Minister for Finance and Deregulation.

The Financial Management and Accountability Act 1997 (FMA Act) provides for the proper use and management of public money, public property and other public resources. It applies to all Departments of State, Departments of the Parliament and certain other bodies prescribed by regulation.

Many of the detailed rules are contained in Finance Minister’s Orders made under section 63, and regulations made under section 65 of the Act (see below).

Relevant aspects of the legislative provisions for financial statements include:

- promotion of efficient, effective and ethical use of public resources: section 44
- establishment and maintenance of an audit committee: section 46
- maintenance of accounts and records as required by the Finance Minister’s Orders: section 48
- preparation of annual financial statements: section 49
- provision of additional financial statements and information: section 50
- authorisation of the Chief Executive to give instructions to agency officials: section 52, and
- audit of the annual financial statements by the Auditor-General: section 57.

The FMA Act requires the Finance Minister to publish annual financial statements for the Commonwealth as soon as practicable after the end of each financial year: section 55. These financial statements are known as the Consolidated Financial Statements for the Australian Government.

An agency’s input into these statements is derived from its audited annual financial statements, prepared in accordance with section 49 of the FMA Act and the Finance Minister’s Orders.
The Commonwealth Authorities and Companies Act 1997 (CAC Act) contains reporting, accountability and other rules for Commonwealth controlled authorities and Commonwealth companies. It is usual for CAC Act entities to be subject to additional legislation establishing the entity (see above), or, in the case of companies, the Corporations Act 2001 (see below).

Relevant aspects of the legislative provisions include:
- role of the Auditor-General: sections 8 and 35
- preparation of an annual report and providing it to the responsible Minister: sections 9 and 36
- audit of relevant subsidiaries’ financial statements: sections 12 and 37
- maintenance of accounting records that properly record and explain transactions and the financial position: section 20
- establishment and maintenance of an Audit Committee: sections 32 and 44
- additional financial statements and information, if required: sections 13 and 38, and
- contents of the annual report and the auditor’s report on financial statements: Schedule 1.

The Corporations Act 2001 applies to all companies registered in Australia including those owned or controlled by the Australian Government. It sets out a range of provisions for the various types of companies. Part 2M.3 of the Act requires certain companies, schemes or entities to prepare annual financial statements and have them audited in accordance with the relevant provisions of the legislation.

The Auditor-General is a registered company auditor. Under section 21 of the Auditor-General Act 1997, the Auditor-General may accept appointment under the Corporations Act as the auditor of a subsidiary of a Commonwealth authority; or a Commonwealth company; or any other company in which the Commonwealth has a controlling interest.

The Auditor-General Act 1997 establishes the Office of Auditor-General and sets out the functions of the Auditor-General. Relevant provisions related to financial statements are:
- audits of financial statements: sections 11 (FMA Act agencies), 12 (Commonwealth authorities and subsidiaries) and 13 (Commonwealth companies and subsidiaries)
- financial statement audits by arrangement: section 20
- ANAO auditing standards: section 24
- extra reports to Parliament: section 25, and
- extra reports to Ministers: section 26.
Financial Management and Accountability Regulations 1997

The Financial Management and Accountability Regulations 1997 (FMA Regulations) cover matters necessary or convenient for carrying out or giving effect to the FMA Act.

Under regulation 6 of the FMA Regulations, the chief executive of an agency is authorised to give instructions to officials in that agency (Chief Executive’s Instructions) on any matter necessary or convenient for the carrying out or giving effect to the FMA Act or FMA Regulations.

Regulation 7 provides for the Commonwealth Procurement Guidelines (CPGs), which establish the core procurement policy framework and articulate the Government’s expectations of all departments and agencies (agencies) subject to the Financial Management and Accountability Act 1997 (FMA Act) and their officials, when performing duties in relation to procurement. While CAC Act entities are generally not subject to the CPGs, several CAC Act entities have been directed by the Finance Minister to apply certain aspects of the CPGs (see CAC Regulations below).

Regulations 9 to 13 set out the requirements that must be satisfied before a Chief Executive, or his or her delegate or authorised official, can enter into a contract, agreement or arrangement under section 44 of the FMA Act that will result in a commitment to spend public money.

Regulations 22A and 22B provide for the preparation and audit of annual financial statements of the Finance Minister.

The FMA Regulations also prescribe a number of agencies for the purposes of the FMA Act. These are agencies, which are not Departments of State, or Parliamentary Departments, to which the FMA Act applies (see Schedule 1 to the FMA Regulations).

Commonwealth Authorities and Companies Regulations 1997

The Commonwealth Authorities and Companies Regulations 1997 (CAC Regulations) cover matters necessary or convenient for carrying out or giving effect to the CAC Act.

The principal matters covered by the CAC Regulations are:
- a list of bodies that are prescribed as Government Business Enterprises or Statutory Marketing Authorities for the purposes of the CAC Act
- a list of Commonwealth companies for which the Minister for Finance and Deregulation is the responsible Minister, and
- a list of authorities and companies that are subject to the Commonwealth Procurement Guidelines.
The Financial Management and Accountability Orders 2008 are Finance Minister's Orders issued pursuant to section 63 of the FMA Act. They cover matters related to the FMA Act, and provide additional detail in relation to the responsibilities of Chief Executives and officials.

Relevant provisions for FMA agencies are:
- audit committee functions: Order 2.1
- fraud control report to the responsible Minister: Order 2.2
- maintenance of proper accounts and records: Order 2.3
- preparation of Budget Estimates: Order 2.4
- delegation of Chief Executive powers: Order 2.6
- delegations by the Finance Chief Executive: Order 2.7
- care and custody of public money: Orders 3.1 to 3.3
- business operation of an agency: Order 5.1, and
- payments for leave entitlements when employees move between agencies: Order 6.1.

These orders are sometimes referred to as General FMOs to differentiate them from the Financial Statement Orders (see below).


Subsection 49(2) of the FMA Act requires agency financial statements to be prepared in accordance with the Finance Minister's Orders (FMOs). These orders are issued annually under section 63 of the FMA Act to outline the requirements for the preparation of financial statements.

They are sometimes called Financial Statements FMOs to differentiate them from the orders issued in the Financial Management and Accountability Orders 2008 (see above).

The Finance Minister issues each year the Financial Management and Accountability Orders (Financial Statements) and the Commonwealth Authorities and Companies Orders (Financial Statements). These Orders are referred to as the Finance Minister's Orders (FMOs) and include Schedule 1 Finance Minister's Orders for Financial Reporting, Requirement for the Preparation of Financial Statements of Australian Government Entities. They set out requirements for the preparation of annual financial statements. Annexure A to Schedule 1, Forms of Financial Statements, sets out the prescriptive content, layout and formatting requirements.

To assist entities in preparing their statements, the Department of Finance and Deregulation publishes the Orders with additional related policy, guidance and explanations including illustrative financial statements called PRIMA (Primary Reporting and Information Management Aid).
Commonwealth Authorities and Companies Orders (Financial Statements) outline the requirements for the preparation of annual financial statements by authorities. These Orders are referred to as the Finance Minister’s Orders (FMOs) and are the equivalent of the Financial Management and Accountability Orders (Financial Statements). Both sets of orders include Schedule 1 Finance Minister’s Orders for Financial Reporting, Requirement for the Preparation of Financial Statements of Australian Government Entities. They set out requirements for the preparation of annual financial statements.

Finance Minister’s (A New Tax System) Directions 2005

Under the Australian Constitution, liability for Commonwealth taxes cannot extend to the Commonwealth or to an Australian Government entity. A framework has been implemented for the Commonwealth, underpinned by the ‘The New Tax System’ legislation to make Australian Government entities subject to The New Tax System on a notional basis. The Finance Minister’s (A New Tax System) Directions 2005, effective from 25 January 2005, apply to all Australian Government agencies and authorities that cannot be made liable to the Goods and Services Tax (GST), the Luxury Car Tax (LCT) and the Wine Equalisation Tax (WET) by a Commonwealth law. The Directions continue the framework that imposes administrative charges on Australian Government agencies and authorities to mirror the GST, the LCT, and the WET. From the perspective of these entities, the framework means that they are notionally subject to these taxes.

Finance Minister’s (CAC Act Procurement) Directions

The Finance Minister’s (CAC Act Procurement) Directions require relevant CAC Act entities to comply with mandatory procurement conditions where the procurement of property or services other than construction services exceeds $400,000 or $6 million in the case of construction services. These Directions took effect from 1 January 2005 on the implementation of the Australia – United States Free Trade Agreement (AUSFTA). In February 2009 there were 20 CAC Act entities listed under Regulation 9 of the Commonwealth Authorities and Companies Regulations 1997 to which the mandatory conditions of the CPGs apply.

Public Service Act 1999

The Public Service Act 1999 provides, amongst other things, a legal framework for the effective management and leadership of the Australian Public Service and defines the powers, functions and responsibilities of Agency Heads.23 The relevant provisions for FMA agencies are:

- Prime Minister’s directions to Agency Heads: section 21
- responsibilities of Secretaries and Heads of Executive Agencies: sections 57 and 66, and
- annual report: sections 63 and 70. Annual report requirements (see below).

23 Agency Head is defined in section 7 of the Public Service Act 1999 as: the Secretary of a Department; or the Head of an Executive Agency; or the Head of a Statutory Agency. These positions cover most agencies operating under the Financial Management and Accountability Act 1997.
The Charter of Budget Honesty Act 1998 sets out principles and requirements that guide the government’s management of fiscal policy, including making transparent the government’s fiscal position.

Section 18 requires the Treasurer to publish and table the Final Budget Outcome (FBO) report by 30 September each year.

The FBO report contains fiscal outcomes for the General Government Sector, public financial corporations and public non-financial corporations including information on actual revenue, expenses, net capital investment, Federal/State financial relations and other information for the financial year.

The information provided by entities in their annual financial statements enables the Government to compile the FBO report. In practice, the FBO deadline imposes a tighter timetable on entities in their preparation of audit-cleared financial information than do other reporting requirements.

The Public Accounts and Audit Committee Act 1951 established the Joint Committee of Public Accounts and Audit (JCPAA) and outlines the duties and powers of the Committee. The JCPAA’s duties include examining all reports of the Auditor-General, reporting on any circumstances connected with the financial accounts and statements of Commonwealth agencies, and reporting on any matter referred by the Parliament.

The FMOs require financial statements to comply with applicable Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB).

The FMOs require financial statements to comply with interpretations issued by the AASB. The interpretations comprise guidance on urgent financial reporting issues and are listed in Accounting Standard AASB 1048 Interpretations and Application of Standards. They have authority under the Corporations Act and are mandatory for members of the accounting profession.

The FMOs require financial statements to have regard to the Australian conceptual accounting framework comprising AASB Framework for the Preparation and Presentation of Financial Statements and Statements of Accounting Concepts 1 and 2 (SACs). The conceptual framework sets out the objective, qualitative characteristics and elements of financial reports, together with assumptions underlying the reports and recognition criteria for the elements of financial statements. The framework also defines a reporting entity.
Annual Reporting requirements

Annual report requirements are set out in:
- Requirements for Annual Reports for departments, executive agencies and FMA Act bodies – prepared pursuant to subsections 63(2) and 70(2) of the Public Service Act 1999 and approved each year by the Joint Committee of Public Accounts and Audit, and
- Section 9 of the CAC Act – requires the directors of Commonwealth authorities to prepare an annual report and Part 1 of its Schedule 1 specifies the content that must be included.

Fraud Control Guidelines

The current Commonwealth Fraud Control Guidelines were issued by the Minister for Justice and Customs in May 2002 under regulation 19 of the FMA Regulations. The Guidelines outline the principles of fraud control within the Commonwealth and set national minimum standards to assist entities to carry out their responsibilities to combat fraud against their programs. The Guidelines outline entity responsibilities for fraud prevention, reporting of fraud information, fraud investigation case handling and training of fraud investigators and fraud prevention officers.

The Guidelines apply to all entities that are subject to the FMA Act and CAC Act entities that are at least 50 per cent budget funded for their operating costs. Other Government entities are encouraged to comply with the Guidelines.

Australian Government Cost Recovery Guidelines July 2005

The Australian Government Cost Recovery Guidelines July 2005 outline the key objectives, principles and processes of cost recovery arrangements. The Guidelines require the Expenditure Review Committee to review all cost recovery arrangements with receipts in excess of $10 million. Entities are required to prepare Cost Recovery Impact Statements if the arrangements are significant.

The Guidelines apply to all FMA Act agencies and to relevant CAC Act entities that have been notified, under sections 28 or 43 of the CAC Act, to apply the cost recovery policy.

Commonwealth Competitive Neutrality Policy Statement 1996

The Commonwealth Competitive Neutrality Policy Statement 1996 details the application of competitive neutrality principles within the Commonwealth sector and is a requirement under the Competitive Principles Agreement executed in 1995.

The Departments of the Treasury and Finance and Deregulation issued the Australian Government Competitive Neutrality Guidelines for Managers in February 2004 to assist users with the implementation of competitive neutrality (CN) and understanding CN obligations.

Competitive neutrality requires that significant government business activities price their goods and services on a comparable basis to private sector entities, incorporating costs attributable to the business activity and generating a commercial rate of return. Competitive neutrality adjustments to cost structures may require that government businesses make CN payments to the Official Public Account.

24 The responsible Minister may notify the directors of a Commonwealth authority (section 28) or wholly-owned Commonwealth company (section 43) in writing of general policies of the Commonwealth Government that are to apply to the authority or company. The responsible Minister must consult with the directors before notifying them of the policies.
Auditing and Assurance Standards contain the basic principles and essential procedures, together with related guidance, promulgated by the Auditing and Assurance Standards Board. The Standards apply in addition to any ethical or legal requirements relevant to a particular engagement. They are to be applied to all financial statement audits and are also to be applied, adapted as necessary, to all audits of other financial and non-financial information, other assurance engagements, and to all audit related services.

The Standards issued by the AUASB are legislative instruments under the Legislative Instruments Act 2003.

Finance guidance

The FMOs require financial statements to have regard to Estimates Memoranda, FinanceBriefs, Finance Circulars, Financial Management Guidances and other guidance issued by Finance.

PRIMA financial statements

PRIMA Agency and PRIMA Non-Commercial Authority illustrative financial statements are produced by Finance on an annual basis.

Each publication provides a better practice model for statutory financial reporting as well as outlining developments in the Finance Minister’s requirements and in accounting standards.

Chief Executive’s Instructions

Chief Executive’s Instructions (CEIs) are the primary mechanism for an FMA agency to set out the processes to promote the proper use of Commonwealth resources, including public money and property, by officials.

Chief Executives use their instructions to:

- direct officials to carry out provisions of the FMA Act, the FMA Regulations and the FMA Orders, and
- promulgate policies and procedures designed to ensure that the entity’s resources are used in an efficient, effective and ethical manner.

They are issued under the authority of the FMA Act and carry the force of law.

Note: While there is no equivalent provision for Board instructions in the CAC Act, most CAC Act entities issue instructions of a similar nature.
APPENDIX B: MANAGEMENT ASSERTIONS

The following is a summary of management assertions regarding the recognition, measurement, presentation and disclosure of the various elements of the financial statements.

In relation to classes of transactions and events for the period under audit:

<table>
<thead>
<tr>
<th>Assertion</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occurrence</td>
<td>Transactions and events that have been recorded have occurred and pertain to the entity.</td>
</tr>
<tr>
<td>Completeness</td>
<td>All transactions and events that should have been recorded have been recorded.</td>
</tr>
<tr>
<td>Accuracy</td>
<td>Amounts and other data relating to recorded transactions and events have been recorded appropriately.</td>
</tr>
<tr>
<td>Cut-off</td>
<td>Transactions and events have been recorded in the correct accounting period.</td>
</tr>
<tr>
<td>Classification</td>
<td>Transactions and events have been recorded in the proper accounts.</td>
</tr>
</tbody>
</table>

In relation to account balances at period end:

<table>
<thead>
<tr>
<th>Assertion</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existence</td>
<td>Assets, liabilities, and equity interests exist.</td>
</tr>
<tr>
<td>Rights and obligations</td>
<td>The entity holds or controls the rights to assets, and liabilities are the obligations of the entity.</td>
</tr>
<tr>
<td>Completeness</td>
<td>All assets, liabilities and equity interests that should have been recorded have been recorded.</td>
</tr>
<tr>
<td>Valuation and allocation</td>
<td>Assets, liabilities, and equity interests are included in the financial report at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.</td>
</tr>
</tbody>
</table>

In relation to presentation and disclosure:

<table>
<thead>
<tr>
<th>Assertion</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occurrence and rights and obligations</td>
<td>Disclosed events, transactions, and other matters have occurred and pertain to the entity.</td>
</tr>
<tr>
<td>Completeness</td>
<td>All disclosures that should have been included in the financial report have been included.</td>
</tr>
<tr>
<td>Classification and understandability</td>
<td>Financial information is appropriately presented and described, and disclosures are clearly expressed.</td>
</tr>
<tr>
<td>Accuracy and valuation</td>
<td>Financial and other information are disclosed fairly and at appropriate amounts.</td>
</tr>
</tbody>
</table>

Source: Australian Auditing Standard ASA 502 Audit Evidence
Important Factors in Financial Statement Preparation
PART 2

Important Factors in Financial Statement Preparation

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1. INTRODUCTION

The impact of globalisation on the Australian economy and increasing community expectations are affecting on the way public sector entities manage their financial affairs. In particular, developments in the international and national accounting and auditing environments have affected the financial statement responsibilities of public sector entities. These, together with the increasing complexity of public sector administration and compressed timeframes for producing the statements, mean that the preparation of financial statements in an ever-changing environment represents a significant challenge to most entities.

This section discusses a number of key elements that, when implemented effectively, should assist entities to meet their responsibilities to prepare accurate and timely financial statements.

1.1. Financial statement preparation

The following factors contribute to an entity meeting its entity specific and whole-of-government financial statement responsibilities:

- **demonstrating ownership and commitment**: characterised by Chief Executive/Board and senior management support and effective financial management and oversight arrangements
- **maintaining robust risk management practices and internal controls**: characterised by the timely and comprehensive identification and assessment of risks and robust controls to prevent, detect and/or mitigate risks of misstatement
- **adopting good financial reporting practices throughout the year**: characterised by the preparation of regular accrual financial reports throughout the year
- **establishing open and constructive relationships between key stakeholders**: characterised by open and constructive relationships between all the parties involved
- **managing staff and other resources effectively**: characterised by sufficient and appropriately qualified and trained staff and contractors, where necessary, at the right time, together with clearly defined roles and responsibilities, and
- **meeting whole-of-government responsibilities**: characterised by the provision of accurate and timely information to Finance.

These factors, together with well planned and managed preparation processes that are discussed in Part 3 of the Guide, contribute to an entity’s capacity to meet its financial statement responsibilities in an efficient, effective and timely manner.

1.2. Financial statement matrix

In addressing these six factors, entities would be expected to consider a range of matters including the entity’s size, complexity, and the nature of its business.

Each entity’s financial statement arrangements will be at a different level of maturity. To assist entities in reviewing their respective arrangements, a matrix based on three levels of maturity detailed below is shown in Figure 2:

- **Developing**: partial accrual financial reports are produced; financial statements have been completed by the due date, mostly through individual initiative and commitment
- **Mature**: there is management commitment to financial management, and to the preparation of accurate and timely financial statements, and
- **Better practice**: there is a strong commitment to financial management practices at all levels underpinning the timely preparation of the financial statements.
2. DEMONSTRATING OWNERSHIP AND COMMITMENT

2.1. Establishing the right environment

In an entity where Boards and senior management can demonstrate that the preparation of annual financial statements is an important responsibility, directly assisting in operating their business, staff at all levels are more likely to be committed to the timely and accurate preparation of the statements. On the other hand, entities where the financial statements are portrayed as just a necessary compliance requirement are less likely to generate the necessary degree of commitment from staff. Such entities are also less likely to devote the necessary time and resources to establishing effective financial statement arrangements.

A supportive and committed entity will provide the necessary leadership, implement the required strategies and structures, and commit the necessary resources to the preparation of financial reports and statements during the year as well as at year-end. Entity management will also identify opportunities to articulate to staff at all levels the benefits of sound financial management, including preparation of the financial statements.
It is generally recognised that the preparation of timely and accurate financial statements with an unmodified audit opinion is an important indication of effective financial stewardship by the entity. Demonstrated sound financial management can also foster confidence in the entity being able to meet its broader responsibilities. Comprehensive and reliable financial information can also provide credible information needed for effective program management and accountability.

Contributing to the production of the Final Budget Outcome (FBO) and Consolidated Financial Statements (CFS) is also an important responsibility of individual entities; the production of these statements depends on individual material entities’ financial statements being completed and audited in a timely manner.

Entity Boards and senior management can draw on a range of practical measures to demonstrate that their entity’s financial statements represent an important strategic project, including:

- establishing arrangements that provide for the necessary approval, review and oversight of financial management strategies and activities
- regularly monitoring the entity’s financial management performance
- ensuring that the CFO has the necessary authority to contribute effectively
- ensuring the CFO has the necessary resources to provide effective financial management support and assistance
- establishing an effective Audit Committee
- establishing and maintaining an appropriate regime of delegations and authorisations
- ensuring that arrangements are in place to enable the entity to meet its legislative responsibilities
- establishing cross-entity teams or working parties to identify and discuss developments that have the potential to impact the entity’s financial statements
- including specific financial management responsibilities in individual performance agreements, and
- including the preparation of the entity’s financial statements on the agenda of executive and senior management meetings and staff forums.

2.2. Financial management strategic planning

‘Better practice’ is rarely, if ever, achieved the first time. Entities that achieve better practice will generally do so as a result of a well-planned strategy that is implemented over a period of time. The adoption of an ad hoc and potentially diverse approach increases the risk that an entity will not improve its performance in this area commensurate with the time and resources devoted to it.

Entity executives should therefore consider the benefits of developing a focussed strategy or plan that articulates, in a formal way, the actions and commitments required to achieve and maintain better practice in financial management, including the preparation of the financial statements. Key elements of such a strategy or plan will include the following:

- preparing a summary of existing processes for preparing the financial statements
- identifying opportunities to improve, where required, the quality and timeliness of financial data to support the financial statements. This involves conducting an objective assessment of systems and controls under-pinning the statements to determine whether systems could be

25 Further information is available in The Role of the CFO – Guidance for Commonwealth Agencies, Department of Finance and Deregulation, April 2003.

26 The responsibilities of an Audit Committee are discussed in the ANAO Better Practice Guide: Public Sector Audit Committees, February 2005.
better integrated, and processes streamlined or eliminated. The better management of staffing ‘peaks’ and excessive reliance on temporary staff through a more balanced work program may also result in cost savings and free up relevant staff for other important functions.

- determining short and long term resource requirements, including the availability of a cadre of appropriately qualified and experienced finance professionals. Consideration of resource requirements should include periodically reviewing the number and mix of resources needed.
- calculating the estimated cost of implementation of agreed actions, and
- establishing processes for monitoring progress and completion within agreed timeframes.

### 2.3. Better practice checklist: Demonstrating ownership and commitment

- a strong financial management culture is well established across the organisation
- there is ongoing commitment and support by management for effective financial controls, and improvements in related work practices are encouraged
- the benefits of producing reliable and timely financial statements are well understood by management and staff
- robust arrangements are established and maintained for the approval, review and oversight of financial management strategies and activities
- there are appropriate accountability arrangements such as management sign-offs and individual performance reviews
- the CFO has the required skills, qualifications and experience, as well as the necessary authority, to carry out his/her responsibilities, and
- a strategy or plan has been developed that improves the preparation of the financial statements.

### 3. MAINTAINING ROBUST RISK MANAGEMENT PRACTICES AND INTERNAL CONTROLS

The timely and comprehensive identification and assessment of risks, both financial and operational, that may give rise to misstatements in the financial statements is critical to the production of good quality financial information. Better practice entities have robust internal control systems and practices in place to detect, prevent, and mitigate risk of misstatement.

#### 3.1. Risk management

In any dynamic business or operating environment a range of risks will exist that have the potential to adversely affect an entity’s ability to initiate, record, process, and report financial data and transactions. Examples of risks impacting on the preparation of financial statements include:

- **unavailability of skilled resources:** a lack of appropriately trained personnel will hinder an entity’s ability to properly perform its financial management and reporting responsibilities
- **unsuitable management information systems:** an inefficient and/or ineffective management information system may result in a high degree of manual processing with a greater risk of error

The timely and comprehensive identification and assessment of risks, both financial and operational, that may give rise to misstatements in the financial statements is critical to the production of good quality financial information.
Unincorrect recording of transactions: errors in recordkeeping are likely to result in mis-classification of financial statement items and posting of amounts to incorrect reporting periods

Unrecorded transactions: the non-recording of transactions will result in incomplete records and financial reporting

Non-compliance with legislation: various Government laws impact on an entity’s administration, recordkeeping and financial reporting. Non-compliance with certain laws could result in the under-collection of revenue, overpayment of entitlements and over-delivery or non-delivery of Government services. Incorrect interpretations of complex legislation may also result in the inappropriate recognition of transactions or incompleteness of transactions

Restructures: restructures resulting from internal or external events may be accompanied by staff changes and changes in supervision and the segregation of duties. The transfer of assets and liabilities may also result from a government decision or an Administrative Arrangements Order. These changes can have a significant impact on the financial statement preparation process

Fraudulent activity: the availability, and extensive use, of information and communication technologies has provided increased opportunities for fraud, particularly identity fraud. Fraud results in the erosion of Government finances and places extra burden on the remaining financial resources. Fraud also includes intentional misstatements, including omissions of amounts or disclosures, to deceive users of the financial statements, and

Untimely reporting of information: delays in financial reporting may mean that the information is out-of-date and of little value to users.

3.2. Internal controls

Better practice entities implement a comprehensive regime of internal controls to effectively manage the risks that impact on the financial statement preparation process. It is recognised that many of these controls will have a broader financial management purpose but will also address financial statement risks. Examples of such internal controls are those relating to legal compliance, the management and safeguarding of assets, and the expenditure of moneys.

There is a substantial body of guidance available to entities to assist them in developing and implementing the key components of an effective internal control environment and appropriate fraud control arrangements, including ANAO Better Practice Guides.

While a substantive discussion about internal controls is beyond the scope of this Guide, some of the key areas where an effective control framework is necessary for financial statements purposes are:

- Control activities: activities such as delegations, authorisations, reconciliations, data processing, segregation of duties, physical security of assets, systems access and security are important controls that individually or in combination with others, can help prevent, or detect and correct misstatements in classes of transactions, account balances, or note disclosures

- Policies: well defined policies should be developed to set clear directions on how an entity approaches and discharges its external accountability responsibilities; links the financial statement process to other business processes such as budgeting and business operations; and clearly defines roles and responsibilities, structures, plans, performance and management oversight arrangements
procedures: clearly documented procedures that provide guidance for all those who have financial management responsibilities. In this context, procedures include Chief Executive’s Instructions or their equivalent, financial and administrative procedures, financial management information system manuals, checklists and templates. To be effective, these must be kept up-to-date and readily accessible, and

information systems: better practice entities have financial management information systems capable of producing complete, accurate and reliable financial and related information. It is also important that system functionality supports processing and information requirements for the financial statements.

The following aspects of internal control warrant separate discussion:

- compliance with legislative and policy requirements, and
- fraud control.

Compliance with legislative and policy requirements

Compliance with the law and relevant government policies is a critical aspect of public administration. Entities need to have in place formal arrangements that are designed to ensure staff members and service providers comply with relevant legislative policy requirements.

Entities should, as a minimum, identify and review periodically, the legislative and policy requirements with which it must comply. Better practice entities also implement appropriate educational and learning and development programs aimed at providing relevant staff with sufficient knowledge and understanding of their specific responsibilities.

Legislative and policy requirements affecting financial control and accountability are outlined at Appendix A of Part 1. A fundamental requirement is for expenditure not to exceed appropriations made by the Parliament. Entities that exceed appropriation limits may breach the provisions of the Appropriation Acts, the FMA Act and the Constitution.

Certificate of Compliance

Commencing from the 2006–07 financial year, Chief Executives of each FMA agency are required to provide an annual Certificate of Compliance (CoC). Directors of GGS CAC Act authorities and wholly-owned companies are also required to provide a report on compliance with relevant aspects of CAC Act legislation.

The Certificate of Compliance process requires the Chief Executive of an FMA agency to certify, having regard to advice provided by the agency’s internal control mechanisms, management and the audit committee, that the agency:

- has complied with the provisions of the FMA Act, the Financial Management and Accountability Regulations 1997 and the Financial Management and Accountability Orders 2005
- has exercised the powers delegated by the Finance Minister in accordance with the delegation
- has complied with Australian Government requirements on foreign exchange risk management
- has complied with legal and financial requirements for the management of Special Accounts
- has complied with the financial management policies of the Commonwealth
- is operating within the agreed resources for the current financial year, and
- has adopted appropriate management strategies for all currently known risks that may affect the financial sustainability of the agency.

Certificates of Compliance are required to be provided by 15 October each year.
Fraud control

The misappropriation of assets, for example, the theft of physical assets or payment for fictitious goods and services, will diminish the financial resources of an entity. In addition, fraudulent financial reporting, such as the falsification of accounting records and the intentional omission of transactions and misapplication of accounting principles, has the potential to mislead users of the financial statements. Management of an entity should therefore implement procedures designed to prevent the occurrence of such circumstances.

Further information on fraud control can be obtained in the ANAO’s Better Practice Guide Fraud Control in Australian Government Agencies27 and the Commonwealth Fraud Control Guidelines28.

3.3. Better practice checklist: Maintaining robust risk management practices and internal controls

- risks to achieving reliable and timely financial statements are considered as part of an annual review of the financial management strategy or plan
- sufficient time and financial statement resources are devoted to managing risks
- roles and responsibilities regarding risk management for financial statement purposes are clearly understood and applied throughout the entity
- clearly understood reporting mechanisms exist to alert senior management to new and changing risks regarding financial statements
- reliable controls are embedded in day-to-day operations to manage risks and to enable compliance with relevant legislative financial management requirements
- ineffective or unnecessary controls are identified and replaced/corrected to reduce costs and/or reallocate resources
- adequate monitoring of internal controls is in place to ensure that they are applied effectively and appropriate action is taken when control breakdowns are identified
- accounting and business systems record complete and accurate financial information throughout the year
- proper financial accounts and records of the entity’s operations are maintained,
- control activities are performed effectively to help prevent, detect or correct error or fraud, and
- rigorous quality control and assurance processes over financial statement preparation are in place.

27 ANAO, August 2004.
28 Refer to Part 1, Appendix A, page 18.
4. ADOPTING GOOD FINANCIAL REPORTING PRACTICES THROUGHOUT THE YEAR

Adopting good financial reporting practices throughout the year is the major factor contributing to most entities being able to complete their financial statements in a timely and efficient manner.

Within-year reporting is integral to making year-end preparation processes demonstratively more effective because financial statements have been systematically prepared and reviewed as an important, albeit routine, part of ‘doing business’, throughout the year.

4.1. Monthly financial reporting

Better practice entities reiterate that the key to the success is the clear alignment of their monthly financial reporting processes with year-end financial preparation processes, including the production of accrual monthly reports. Their year-end process is viewed as only a special month-end task; not a problematic one-off event.

Where monthly financial reports are similar in character to annual financial statements, entities experience less difficulty and delay in completing year-end processes because:

» management has a sound understanding of the financial position of the entity during the year and is able to anticipate and respond to budget pressures
» business areas and the finance team are familiar with financial reporting requirements, and are well trained to complete the required tasks within agreed timeframes
» the finance team and business areas are ‘on the same wave length’, and work together to achieve common goals, making the co-ordination process easier, and
» errors and problems are identified and rectified, to the extent possible, well in advance of the year-end.

Better practice entities view financial management and reporting as a continuous process that encompasses budget allocations through to the preparation of monthly financial reports and annual financial statements. The financial management by these entities is characterised by the following practices:

» the preparation of accrual monthly financial reports, including keeping the Chief Executive/Board informed of any significant changes in accounting policies and treatments
» monthly reporting to the Chief Executive/Board includes an analysis of the financial position and the projected financial outcome at year-end; this analysis will include recommendations designed to address any significant variations from budget, and
» a detailed budget review, at least half yearly, providing entities with the opportunity to revise their internal budget based on year-to-date actual performance.

Better practice entities will also streamline and simplify routine end of month processes, such as calculating and estimating (where appropriate) accruals, performing reconciliations and processing journal entries and clearing suspense accounts. Within-year financial reporting will also be used to identify, and address, to the extent practicable, issues that have the potential to adversely effect the preparation of the financial statements at year-end.

An example of a monthly financial report is shown as Item 1 in Part 4.

29 Depending on the nature of an entity’s business and financial activities, the preparation of full accrual financial reports on a quarterly basis may be considered adequate.

30 Such reports will generally be one component of a suite of financial reports and information provided to the Chief Executive/Board.
4.2. Better practice checklist: Adopting good financial reporting practices throughout the year

- Full accrual monthly financial reports are prepared, including an analysis of the financial position.
- Within-year financial reporting is used to identify, and address, to the extent practicable, issues that have the potential to adversely affect the preparation of the financial statements at year-end.
- Balance sheet reconciliations are completed monthly, with due diligence checks of the reconciliations being conducted six monthly by senior managers.
- End-of-month processes are streamlined and used to minimise the work required at year-end, and
- Errors and problems are identified and addressed progressively throughout the year.

5. Establishing open and constructive relationships between key stakeholders

5.1. Introduction
Together with other strategic issues, the establishment and maintenance of open and effective working relationships between stakeholders is an important ingredient in the production of accurate and reliable financial statements and, more broadly, having in place a robust financial management regime. The key stakeholders involved in the preparation of financial statements include:
- the Chief Executive/Board
- the Audit Committee
- the Chief Financial Officer
- Internal Audit
- external audit, and
- other public sector entities.

The responsible Minister and relevant parliamentary committees maybe key stakeholders, depending on the nature, size and particular issues that arise in the preparation and audit of an entity's financial statements.

5.2. Chief Executive/Board
The Chief Executive/Board\(^\text{31}\), as signatory to the financial statements, is responsible for producing an accurate and timely set of financial statements that meet all relevant legislative and accounting requirements. The Chief Executive/Board is also responsible for establishing and maintaining formal management arrangements for reviewing and approving the financial statements. It is therefore

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\(^{31}\) Many entities, particularly FMA agencies, have established Executive Boards or senior management groups that have administrative responsibility for the management of the entity. The role that these Boards or groups will have in overseeing/approving the entity's financial statements, including their relationship with the other stakeholders mentioned above, should be clearly established.
important that the Chief Executive/Board has well established and clearly defined relationships with each of the other stakeholders mentioned above. It would be expected that, as part of an entity’s corporate governance arrangements, formal protocols would exist that outline, at least in general terms, the relationship that the Chief Executive/Board has with the Audit Committee and the head of the entity’s internal audit function. Such protocols would be expected to, at a minimum, provide for the Chief Executive/Board to have direct access to the Audit Committee, via the Chair, and the Head of Internal Audit.

In view of the Chief Financial Officer’s specific responsibilities in relation to an entity’s financial statements, it also would be expected that the relationship and reporting lines between the Chief Executive/Board and the CFO would be formally articulated and fully understood by all stakeholders.

It is also better practice for the Chief Executive/Board to have in place agreed arrangements that provide direct access by external audit where circumstances warrant such access.

5.3. Audit Committee

The review by the entity’s Audit Committee of the financial statements is a significant function of all audit committees, with the acceptance of the financial report by the Chief Executive/Board being the culmination of one of the Audit Committee’s key responsibilities. To be able to perform this function effectively, the Audit Committee must be kept abreast, on an ongoing basis throughout the year (and not just at year end), of all significant issues that may affect the financial statements.

Reporting to the Chief Executive/Board

In the context of the Audit Committee’s responsibilities for reviewing the entity’s financial statements, the Committee should report formally to the Chief Executive/Board on the outcome of its review. Matters that should be included in this report would be expected to include:

- the extent to which appropriate action has been taken by the entity in response to audit recommendations and identified adjustments to the financial statements
- whether the financial statements are supported by appropriate management sign-offs, and whether the underpinning systems of internal control are adequate
- details of any matters of substance that have arisen from the Audit Committee’s private discussions with the external and internal auditors
- issues arising from the requirement for Chief Executives of FMA agencies to provide their portfolio Minister and the Finance Minister with an annual certification in relation to the financial management and health of their agencies
- any observations that the Committee may have about the overall preparation of the financial statements, and
- the Committee’s recommendation for the Chief Executive/Board to sign the financial statements.

The Audit Committee and the CFO

The relationship between the CFO and the Audit Committee is a crucial one in the context of the Committee’s financial statement responsibilities. The Audit Committee should put arrangements in place that provide for the CFO to advise the Committee in a timely manner of all significant accounting and financial reporting issues that may affect the financial statements, and for the Committee to seek assurance that any such issues are being addressed in a timely manner.

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32 Some entities see benefit in establishing a financial statement sub-committee that has specific responsibility for reviewing the entity’s financial statements.

It is considered better practice for the CFO to be invited to attend Audit Committee meetings as an observer, rather than as a Committee member. This situation helps to preserve the distinction between the responsibilities of the Audit Committee, and the CFO who is part of the entity’s management team.

The Audit Committee and Internal Audit

Depending on the role and mandate of an entity’s internal audit function, Internal Audit can play an important role in the preparation of an entity’s financial statements. The relationship between the Audit Committee and Internal Audit is an important one in this context.

Internal Audit is a key source of independent and objective assurance advice on an entity’s internal control and risk framework. The role that Internal Audit plays in the context of an entity’s financial statements should be consistent with its overall roles and responsibilities, as outlined in the internal audit charter, and given practical effect through the implementation of an annual work program.

Areas where Internal Audit can assist in the preparation of financial statements include:

- reviewing new systems during the implementation stage to help ensure that adequate control mechanisms and arrangements are put in place
- producing objective assistance in developing financial management systems to ensure compliance with relevant accounting requirements and the provision of timely and reliable information for financial reporting purposes
- reviewing high risk financial statement items
- reviewing the robustness of management sign-offs
- following up remedial actions to assess whether they have been implemented in a timely manner
- undertaking quality assurance reviews of data quality and financial statement processes. This may include reviewing working papers for compliance with FMOs and relevant entity policies, and
- providing assurances about the effective and ethical use of resources and legal compliance, specifically targeting high risk issues that may have a material effect on the financial statements.

The role that Internal Audit may play in the preparation of financial statements should be discussed and agreed with the external auditor at an early stage to help avoid duplication of effort and to maximise the reliance that external auditors will place on the work of Internal Audit.

A prerequisite for the involvement of Internal Audit is that internal audit staff have the necessary knowledge and skills to undertake the work involved. Generally, a substantial involvement by Internal Audit through, for example, the review of system controls underpinning the financial statements and/or undertaking a quality assurance role, is more likely to be effective than a minor role that may not enable relevant internal audit staff to obtain the necessary knowledge of the financial statement process.

The Audit Committee and external audit

The relationship between the Audit Committee and the entity’s external auditor is also an important one. The attendance of external audit at Audit Committee meetings throughout the year provides an effective opportunity for both parties to raise issues, ask questions, and seek feedback in a constructive and timely manner. The primary consideration of issues and the adoption of a ‘no surprises’ policy by both parties will go a long way towards engendering a trusting and cooperative relationship.
Important matters that should feature in discussions between the Audit Committee and external auditors include:

» issues of either a strategic or operational nature that have an impact on the entity’s financial statements. Such matters may include external developments affecting the entity, emerging business risks, significant new projects or programs, restructuring plans, legislative changes and major policy developments

» how significant risks or material misstatement, whether due to fraud or error, are being addressed by the entity; what controls are in place to handle such risks; and how well they are being managed

» the entity’s approach to any developments or changes in accounting standards, Finance Minister’s Orders, or other reporting requirements

» the approach adopted in relation to materiality in the preparation of the financial statements and the qualitative and quantitative factors that are considered when making materiality judgements

» progress by the entity in rectifying previous audit findings and implementing audit recommendations

» the extent of Internal Audit’s coverage and/or involvement in the preparation of the financial statements and the related issue of the extent to which external auditors may use this work, and

» any other matters that may impact on the quality and timeliness of the financial statements.

5.4. Chief Financial Officer

An entity’s CFO has the primary responsibility for preparing the financial statements in accordance with relevant legislative and policy requirements. The CFO will also generally have operational responsibility for the main financial systems that underpin the financial statements. A key element in the CFO fulfilling these responsibilities is the maintenance of open and constructive relationships with relevant business areas of the entity, external audit, Finance and other entities that collect moneys and/or expend moneys on the entity’s behalf.

The CFO and business areas

The CFO relies on input from business areas in preparing the financial statements. Well-established relationships between the CFO and these areas are therefore crucial. It is generally the responsibility of the CFO to identify, in consultation with the relevant business areas, the nature and timing of the necessary information flows between the finance area and business areas. Demonstrating positive leadership and adopting an open and constructive approach, rather than a policing role, is more likely to lead to business areas meeting their responsibilities in the context of an entity’s financial statements.

The CFO contributes to effective and constructive relationships with business areas by:

» assisting business areas understand the entity’s financial statement requirements and external audit coverage

» providing them with support and assistance in fulfilling their responsibilities regarding the financial statements; this includes providing training on relevant accounting issues and internal controls

» engaging business areas to help ensure a common understanding of reporting deadlines and deliverables

» maintaining open dialogue with a view to identifying areas of potential weaknesses or risks and seeking input on how systems and procedures can be improved, and

An entity’s CFO has the primary responsibility for preparing the financial statements in accordance with relevant legislative and policy requirements.

Well-established relationships between the CFO and business areas are crucial.
Building a culture of continuous improvement in financial management, assisting business areas implement relevant internal controls, and, as necessary, undertaking remedial action.

Better practice organisations look for opportunities for finance staff to be placed in business areas for a period of time as well as staff from business areas to have work placements in the finance area. This approach is particularly useful in cases where a business area has a significant input to an entity’s financial statements, making it critical to have a common understanding and commitment to matters that need to be addressed in the preparation of an entity’s financial statements.

**The CFO and external audit**

The CFO and external audit work closely, often on a day-to-day basis, on the preparation and audit of the financial statements. Regular and open communication is therefore essential if the entity and the external auditors are to meet their respective responsibilities in a timely and professional manner.

It is the CFO’s responsibility to identify and bring to external audit’s attention in a timely manner all matters that may have an impact on the entity’s financial statements. Better practice entities will strive for the adoption of a ‘no surprises’ approach by both parties and will foster a relationship based on mutual co-operation and understanding, rather than adopting an attitude which can be characterised as one where an issue is discussed only where external audit identifies it during the course of its audit coverage. The exact timing and content of communications between the CFO and external audit will be determined by such issues as continuity of staff, changes in business risks and/or the control environment of the entity, the nature and extent of external audit findings, and recommendations arising from past and current audits.

Particular actions that can be taken by the CFO include:

- assisting external auditors to plan their audits by providing information such as emerging risks, application of new or changed accounting policies and unusual transactions
- taking a proactive approach to implementing effective internal controls in areas that underpin the entity’s financial statements
- responding promptly to issues identified during the course of an audit
- implementing any necessary corrective action in a timely manner, and
- adhering to agreed deadlines and agreeing with external auditors the nature and extent of documentation to support the financial statements.

**The CFO and Finance**

Finance plays an important role in the financial statement process as the central agency responsible for administering the FMA and CAC Acts and for promulgating relevant orders and guidance relating to financial statements. The CFO should establish agreed lines of communication with Finance representatives to help ensure that any issues arising in the context of financial statements for which it is appropriate to seek advice from Finance are identified and resolved in a timely manner. Any issues that have implications for the preparation of the CFS should also be referred to Finance in a timely manner. The attendance of the CFO at CFO Forums co-ordinated by Finance can assist in the understanding of the roles and responsibilities of Finance and identify emerging financial reporting issues.

The timely provision of monthly and end-of-year financial information in the required format to Finance to enable the preparation of the Final Budget Outcome and the Consolidated Financial Statements is also an important responsibility of an agency’s CFO.
Other public sector entities

Increasingly, the preparation of an entity’s financial statements can involve obtaining information from other entities that expend moneys and/or collect revenue on another entity’s behalf. This interdependency requires the entities concerned to be clear about their respective responsibilities and related timeframes. These should be formally communicated by the ‘receiving’ entity to the ‘providing’ entity in a document such as a memorandum of understanding. The exact nature and timing of information required, together with certification requirements, should be discussed and agreed at an early stage in the financial statement preparation process. For significant or material items, performance measures and quality assurance standards of ‘providing’ entities’ internal controls should be included.

5.5. Better practice checklist: Establishing open and constructive relationships between key stakeholders

- the respective roles and responsibilities of stakeholders are well understood and contained in relevant charters and memoranda of understanding
- the matters that are important for stakeholders in discharging their financial statement responsibilities are well defined and understood. For example, the use of memoranda of understanding between ‘receiving’ and ‘providing’ entities
- issues are raised as soon as they are identified and resolution strategies are agreed and monitored
- relationships between stakeholders are open and constructive, and
- reports to relevant stakeholders are informative and identify key issues and risks including actions taken to address them.

6. MANAGING STAFF AND OTHER RESOURCES EFFECTIVELY

The successful preparation of accurate and timely financial statements requires capable and committed staff. Qualifications, selection, training, roles and responsibilities, and an understanding of financial reporting and accountability principles/issues are important factors in building staff capabilities and commitment.

6.1. Qualifications, skills and training

Preparation of the financial statements involves a sound understanding of, and experience in, financial management practices, legal compliance, risk management, technology and internal controls, as well as the ability to apply other complex accounting policies and principles in an appropriate manner. It also requires interpersonal and project management skills to ensure that the required financial information can be collected and presented against very tight timeframes. Knowledge of the business is also essential.

The nature of the public sector financial reporting framework, coupled with changing standards, has reinforced the need for entities to have staff, or the capacity to engage outside assistance, who not only have strong technical accounting knowledge but can translate accounting and financial information to support management decision-making processes.
To maintain an appropriate skills base, better practice entities invest significant effort and resources in attracting, developing and maintaining high calibre finance professionals. Where necessary, external financial expertise should be engaged to supplement an entity’s internal financial skills base. Some better practice entities with mature systems and processes have found it cost-effective to outsource the more routine transaction processing aspects, retaining only the analysis and review functions in order to concentrate their resources on the more high value-adding task of reporting to senior management. It is important that entities manage their financial and accounting skills knowledge base by maintaining an appropriate resource mix using contractors and consultants if necessary, recognising the importance of preserving corporate knowledge.

To effectively manage workload peaks and to have access to the required skills at the right time, many entities will employ a combination of on-going, non-ongoing and contract staff. Effective resource management should also include a periodic review of the mix of resources required.

6.2. Roles and responsibilities

Production of accurate and timely financial statements extends across many activities and will generally involve many staff in an entity. A key aspect of effectively managing an entity’s resources is to ensure that staff have a clear understanding of their roles, responsibilities, authority and expected standards of performance. It is better practice for these to be clearly articulated and promulgated as part of an entity’s policies and procedures, and will generally be grouped into: CFO and the finance team; business managers and their staff; and all staff. Example Instructions on the preparation of financial statements are at Item 5 of Part 4.

The CFO and the finance team

The CFO and the finance team have the primary carriage of the preparation and coordination of the annual financial statements. The importance of this role reflects the fact that the CFO signs the financial statements along with the Chief Executive/Board. The CFO’s financial statement responsibilities include:

- preparing the financial statements within the required timeframe. This involves ensuring that the statements are supported by an entity’s accounts and records; that all figures and information are capable of audit verification, and that the financial statements comply with relevant legislative policy and professional requirements
- explaining material variances of reported amounts from budgeted and previous year actual amounts
- providing leadership in developing financial management strategies and policies
- providing periodic (generally monthly) financial reports and related analysis to the Chief Executive/Board and other levels of management
- promoting sound accounting policies and practices, including implementing and providing guidance on applicable accounting standards, and
- maintenance of the chart of accounts and financial management information systems.

An example CFO checklist is provided at Item 2 of Part 4.

Business managers and their staff

Business managers and their staff also play an important role in the production of accurate and timely financial statements. Business areas are the source of many day-to-day accounting activities, and will often be responsible for managing most of an entity’s assets and liabilities. Their
primary responsibility is to ensure that information is reported accurately and in a timely manner, and that internal controls are effectively applied. Other responsibilities can include:

- processing and entering transactions accurately into financial management information systems on a timely basis
- providing financial and non-financial information in the format and timeframes requested by the CFO, and
- maintaining complete documentation relevant to their areas of control, in order to substantiate all financial amounts. Such documentation should be available for review by entity management and audit.

Responsibilities, including certification requirements, should be set out in instructions and guidance material issued by the CFO. This material should provide specific details about necessary information requirements, including associated supporting documentation and deadlines for submission of information to the CFO.

**Staff of the entity**

Financial management is the responsibility of all staff who exercise delegations and expend entity moneys. In doing so, it is important that staff are aware of their responsibility to comply with relevant legislative and policy requirements and maintain records in accordance with an entity’s recordkeeping policies.

### 6.3. Better practice checklist: Managing staff and other resources effectively

- proper attention is given to recruiting, training and retaining highly skilled finance professionals
- practical strategies for succession planning and longer-term financial workforce needs are in place
- there is an organisational structure with clear lines of responsibility and accountability in relation to financial statement preparation
- the finance team and business areas are sufficiently resourced to meet their respective financial statement responsibilities
- the mix of resources utilised is effective in managing peak financial statement workloads
- appropriate training and support are provided to staff who exercise delegations and expend moneys
- the roles and responsibilities of relevant staff are understood and communicated clearly as a basis for setting accountability and performance expectations, and
- opportunities are taken to maximise interaction between the finance team and business areas.
PART 3

Preparing Entity and Whole-of-Government Financial Statements

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1. INTRODUCTION

The preparation of annual financial statements is a significant project for most entities. This is due to several factors including the complexity of the applicable financial reporting framework, the need for suitably qualified and skilled financial staff, the operation of multiple business information systems, devolution of financial responsibility, and reporting deadlines required by Government.

The planning and preparation of financial statements involves a range of managerial and technical tasks and considerations, many of them inter-related and requiring a wide range of knowledge, skills and experience. In totality, the process is a complex one that requires careful and timely planning, disciplined and structured consideration of a range of technical issues coupled with a regime of review and quality assurance. This Part of the Guide discusses these factors and includes a cross-reference to a number of example and proforma documents that make up Part 4 of the Guide.

2. EFFECTIVE PLANNING, MANAGEMENT AND CO-ORDINATION

2.1. Planning considerations

Planning is a critical process in any successful project. It provides an entity and its stakeholders with the opportunity to determine the most effective way of conducting a project or an activity within an expected range of conditions.

The main planning activities include:

- identifying the requirements and risks
- evaluating previous experience and performance
- developing and communicating with all relevant parties a work plan and supporting procedures and instructions
- reviewing changes in the business environment to assess their impact on the financial statements, and
- identifying and deciding on accounting requirements.

Each of these activities is discussed below. A better practice planning checklist is included at page 45.

Identifying the requirements and risks

All entities report under a financial reporting framework relevant to their legal status. Such a framework enables comparability between entities and between years. It also provides for the understandability, relevance and reliability of financial information provided to users.

Each entity needs to be familiar with relevant requirements of the applicable financial reporting framework. This includes legislation, policy requirements and related guidance that may impact on its financial management and reporting responsibilities. Details of relevant material are shown in Appendix A to Part 1 on page 9.

The CFO and other relevant staff should keep abreast of developments affecting financial statements so that new or changed requirements are incorporated into revised procedures and practices as early as possible. It is important that the financial statement team identify new or
varied requirements arising from changes in legislation and accounting standards and assess their impact on the entity’s financial statements. Important sources of information include AASB pronouncements, FinanceBriefs, and client seminars conducted by the ANAO for financial statement preparers. There should also be ongoing dialogue with Finance and external audit on new or revised reporting requirements, and on the implementation of any audit recommendations.

Planning documentation should outline factors that can affect the preparation processes, such as risks, materiality, dependencies, stakeholders, resource requirements, changes to reporting requirements and lessons learnt from previous years. The document will serve as a useful basis to develop the detailed work plan and seek management approval of the plan.

Evaluating previous experience and performance

Learning from past experiences is an important input to planning as it provides the opportunity to develop better ways of doing things and to implement continuous improvement.

A discussion of aspects to be considered in reviewing past performance is at Section 6 of this part of the Guide.

Developing a work plan, supporting procedures and instructions

Having established the financial reporting requirements and having evaluated the previous year’s performance, better practice entities develop a work plan for preparing current year’s financial statements. The plan should cover:

» What is to be done? (that is, meet the legislative requirements and the needs of stakeholders)
» How is it to be done? (that is, form and content, use of technology, input from internal and external parties, frequency of communication, level of documentation)
» Who is going to do it? (that is, internal and external resources), and
» When is it to be done? (that is, timetable)

The work plan should be used as a primary mechanism to reinforce the importance of the preparation of the financial statements and outline the main events and actions involved. It will necessarily include varying types of tasks, ranging from updating of accounting policies to the completion of bank reconciliations. In some instances, particular tasks, such as an upgrade of the financial management and information systems, may not be possible in the current year and may need to be scheduled for a future year.

The financial statement team should start the process by making a list of critical events, and then build the ‘How, Who and When’ of the plan around these. Critical events can include:34

» finalisation of accounting policies for the year
» consultation with external audit on the audit strategy
» provision of shell financial statements prior to year-end for the Audit Committee’s and external audit’s clearance, incorporating current reporting requirements
» closing-off of the general ledger at year-end
» preparation of the first trial balance at year-end
» issue of the first draft of the financial statements
» processing of accrual adjustments in accordance with cut-off arrangements

34 This list is not exhaustive and is presented for illustration purposes only. A more extensive list is provided in the example work plan at Item 4 of Part 4.
The team should consider the sequence of critical events and estimate the elapsed times that would be appropriate for each event. Working backwards from the most critical date, which is generally regarded to be the signing of the financial statements, is often the most effective means of determining realistic timeframes. Entities should note that the largely sequential nature of many of the tasks undertaken in the closing process means that a missed deadline can significantly delay the entire process and jeopardise the timeliness of the financial statements. Accordingly, critical deadlines need to be identified and emphasised.

Management issues affecting on the preparation process that will need to be addressed include:

- completing monthly reporting requirements
- recruiting additional or replacement staff
- implementing system changes and updates
- assessing the need for legal and accounting advice
- communicating with third parties, e.g. valuers, actuaries, solicitors, and
- ensuring the availability of suitably qualified staff during the close-off process.

The plan should, to the extent possible, incorporate all aspects of financial reporting for both internal and external purposes. It should be developed so that it can be readily updated each year. In this way, planning builds on the experience from the previous year, taking into account aspects that can be improved. Most importantly, the plan should clearly assign individual responsibilities and indicate timelines for carrying out each task.

The draft plan should be distributed to relevant parties for comment with the final plan being agreed with the Audit Committee and external audit, and approved by the CFO.

As a general rule, the work planning process should commence in the first quarter of the financial year, and reviewed where significant events impacting on the plan occur. As a general rule, the work planning process should commence in the first quarter of the financial year, and reviewed where significant events impacting on the plan occur. Such events will include the release by Finance of updated FMOs and the PRIMA financial statements and the external audit strategy for the entity.

An example work plan is included as Item 4 of Part 4.

The work plan should be supported by a set of instructions, outlining relevant responsibilities, and the various requirements to be met during the process of preparing the financial statements. These instructions should be endorsed by the Chief Executive/Board. An example of such instructions is provided at Item 5 of Part 4.

35 Better practice Audit Committees will be involved at an early time in significant issues that may impact the financial statements.
The work plan and instructions will only be of value if they are communicated to all relevant parties for effective implementation.

Each stakeholder participating in the plan should be provided with a copy of the plan and instructions, and be briefed on their individual responsibilities. Briefing may be arranged face to face or by video or telephone conferencing. In this way all stakeholders should understand their roles in carrying out the plan and the key milestones and timelines to be achieved. Increasingly, stakeholders involved in the financial statements will include other entities from which data and information is required for inclusion in the statements. It is therefore important that the responsibilities of all these entities be included in the work plan and details regarding required timeframes be communicated and agreed with them. Internal stakeholders would normally include the financial reporting team, information systems staff, business managers and Internal Audit. In addition, any formal instructions issued with the plan need to be clear and easy-to-follow, and be supported by training, where appropriate.

Communication needs to be two-way. That is, it should not be initiated solely by the financial statement team, but also from those other parties contributing to the preparation of the financial statements. The plan should therefore establish appropriate communication channels between the parties and encourage open, two-way and timely interactions. For example, any system breakdowns that could affect the integrity of financial information or delay the preparation of the financial statements should be communicated to the financial statement team as soon as they become apparent.

Implementation of the work plan should be monitored closely on an ongoing basis by the financial statement project manager. Monitoring should involve the recording of the actual completion dates for critical events to compare against planned dates and revision of the plan, as necessary. The Chief Executive/Board and the Audit Committee should be kept informed of progress against the plan on a regular basis.

Consider changes in the business environment

Changes in an entity’s business environment can impact the preparation of an entity’s financial statements. It is therefore important that the finance team keep abreast of changes or potential changes in an entity’s operations to determine if decisions need to be made about the accounting and/or financial reporting implications of new events or transactions.

Government policy initiatives in particular may have accounting and/or financial reporting implications and it is important that business areas of entities engage the finance team at an early stage so that the financial statement implications of policy initiatives are able to be considered in a timely manner. In some cases the accounting or financial reporting issues arising from policy initiatives will have broader APS implications that will require close liaison with Finance and external audit.

As the timing of business developments is dictated by government or business priorities, they are unlikely to dovetail with the financial statement process. This requires entities to be alert to the financial statement implications of these developments on an ongoing basis, not just at the time of the financial statements being prepared.

The checklist at Item 3 of Part 4 outlines a number of business issues that can have financial statement implications.
Identify and decide on accounting requirements

The FMOs prescribe in detail the requirements for the presentation, disclosure and certification of financial statements of public sector entities. They are principally based on requirements of the Australian Accounting Standards and other pronouncements by the AASB, and are accordingly reissued annually as AASB requirements change. Early identification of changes in AASB and FMO requirements, as well as any necessary decisions flowing from the requirements, facilitates faster completion of the financial statements.

The following steps can be taken to assist an entity in identifying and implementing changes in accounting requirements:

- assign specific responsibility for monitoring, identifying and assessing new and revised requirements. Attendance at the CFO forums organised by Finance and ANAO client seminars are two avenues for keeping up with the latest accounting developments in the public sector
- where changes to accounting requirements will affect, in a substantive way, the entity’s accounting policies and presentation and disclosure in the financial statements, position papers should be prepared outlining the implications of the changes, including how those changes will be implemented. Relevant accounting policy notes should be developed. External audit and the Audit Committee should be consulted promptly and their agreement obtained at an early date
- conduct reviews of the statements at least annually, and assess whether the most appropriate accounting policies have been selected and whether presentation can be improved. Changes to an accounting policy should be made only if required by an Australian Accounting Standard, or if they would result in the financial statements providing more reliable or more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flows
- present the shell or draft proforma statements and accounting policy notes to the Audit Committee and external audit for review and agreement at an early stage, well in advance of the year-end, and
- brief the Chief Executive/Board on how significant changes in requirements and/or accounting policies impact the financial performance and position of the entity and obtain approval of proposed changes, where appropriate.

Better practice planning checklist

Better practice entities will establish the following practices in planning the preparation of their financial statements:

- identifying requirements and risks at an early stage
- liaising regularly with stakeholders
- formally allocating responsibilities – errors are reduced when rigorous reviews of information received are performed and accountability for error correction is assigned to the originating unit
- determining realistic elapsed times for each activity. Information about elapsed time assists in planning the total resource requirements, enabling a more realistic estimate of workloads and completion dates, as well as early identification of resource gaps
- preparing detailed plans covering all activities, responsibilities and timelines. Exact times are defined for tasks that have very tight deadlines, or for tasks that have consequential effects on other activities. Relevant stakeholders are consulted to agree and plan deadlines
- obtaining early finalisation and approval of the work plan and prompt promulgation to relevant staff so that they can plan to meet the required deadlines. The work plan is also agreed with external audit and aligned with their timetable
- preparing clear, easy-to-follow instructions and checklists that are linked to the work plan, providing detailed and specific guidance on a wide range of tasks, such as accrued and unearned income, accruals and prepayments, journal entry processing and reconciliations. Instructions can include clearly documented chart of accounts, process flow charts and user instructions
- strictly enforcing deadlines
- establishing arrangements that enable the finance team to consider in a timely manner the financial statement implications of business developments
- identifying accounting requirements at an early stage, and
- seeking continuous and demonstrable improvement. A culture of continuous improvement might include the phasing-in of improvements so that practices are embedded into day-to-day work programs and are not ‘one-off’ experiences. Feedback on ‘what went right and what went wrong’ in order to learn from past experience is an important input to planning work requirements.

2.2. Determining the most efficient and effective approach

Risk assessment of financial statement items

A useful starting point in determining the most efficient and effective approach to the preparation of an entity’s financial statements is the conduct of a risk analysis at each financial statement item and accompanying note. Such an analysis can serve the following purposes:

- assist in the allocation of resources to the items of highest risk and identifying the timing of the required work
- provide a framework for the identification, documentation and review of the controls that exist in managing risks of misstatement in the financial statements, and
- identify areas where controls can be strengthened.
The degree of formality and rigour of the risk assessment will depend on a number of factors including the overall complexity of the financial statements, the maturity of an entity’s financial statement processes and the level of reporting risk the entity is prepared to accept.

An example financial statement risk analysis is at Item 6 of Part 4.

**Prepare in advance for year-end processes**

To improve data integrity and efficiency of year-end procedures, better practice entities prepare some of the year-end work well in advance of the year-end. A major benefit derived from the elimination of peaks in activity is that finance staff are able to operate in a less pressurised manner, thus allowing more time to perform critical tasks well. This in turn reduces the incidence of error, and is likely to improve the overall efficiency of the process.

Implementing procedures and practices that enable entities to spread workloads throughout the year, will depend on the following factors:

- senior management support
- robust accounting systems and processes that can produce complete and good quality data with minimum errors in a timely manner
- good coordination between business areas and financial reporting teams so that financial information is produced in accordance with an agreed timetable
- appropriately qualified and experienced staff, and
- discussion and agreement of the proposed approach with external audit.

**Timely performance of particular tasks**

Better practice entities review their year-end processes and identify tasks that are able to be done prior to year-end. This includes:

- deciding what actuarial and other valuations are needed well before year-end; and completing as many of those valuations as possible prior to year-end
- obtaining early management approval for key accounting policies, including shell financial statements
- calculating balances where it is expected that there will be no major changes between the date of calculation and year-end. Examples could include depreciation, valuations, commitments, lease liabilities and loans, and
- determining the accounting impact of any organisational changes prior to their implementation.

**Use of hard and soft closes**

Better practice entities also use hard and soft closes, or a combination of both approaches, to help prepare work in advance of year-end. A hard close is generally associated with the full production of financial statements, including notes, that meet legislative and policy requirements. By contrast, in a soft close the extent of verification and computation of individual balances is done on a selective basis, based on a risk assessment.

The decision to prepare a hard or soft close process will generally depend on the maturity of an entity’s systems and processes and the nature and complexity of its transactions and operations. Better practice entities have found that the need to conduct a hard and/or soft close tends to diminish as entities’ systems and processes mature, their ability to provide reliable and timely financial statements improves and accurate full accrual monthly financial statements are produced. Entities that have better practice financial statement arrangements in place are likely
to have sufficient confidence in their systems, controls and processes so that they do not require additional assurance from the conduct of a hard or soft close. Put simply, an entity’s judgement about the appropriate strategy to adopt will be influenced by:

- the availability of staff and/or contractors with the necessary skills and experience
- the level of confidence the Chief Executive/Board and management have in the entity’s existing financial systems, controls and related processes, and
- the level of assurance that the Chief Executive/Board and management require about the entity’s ability and capacity to meet its year-end financial statement responsibilities.

These factors should be considered, and discussed with the entity’s Audit Committee and external auditor on an annual basis so that all parties can be assured that a considered and timely decision is made.

A hard close typically involves performing reconciliations; examining transactions for undetected accruals or transactions processed into the wrong period (cut-off); verification of physical balances through stock counts; and an analysis of current period transactions and balances to highlight possible errors arising from mis-classification or mis-posting. Hard closes will also involve independent valuation and estimates for balances that are not able to be determined by other means. For example, the valuation of non-current assets and the actuarial assessments of certain liabilities.

In effect a ‘hard close’ is regarded as a full ‘dress rehearsal’ of the end-of-year processes to the extent practicable, recognising that some balances and processes can only realistically be calculated or conducted at or after year-end.

By contrast, a soft close involves ‘closing the books’ with enough precision to provide specified key financial information to management. In a soft close, certain less material balances may not be calculated; all financial statement reconciliations may not be undertaken, or may be replaced with variance analysis; certain accruals may not be calculated, or may be calculated other than at period end, or they may be estimated; and cut-offs for transaction processing may be brought forward, prior to period end.

Better practice entities plan to improve their processes progressively over a number of years by using a combination of hard and soft closes to increase their capability to produce accurate and timely information.

The aim of a hard close prior to year-end, for say a nine or ten month period, enables an entity to expedite the finalisation of the financial statements at year-end and to achieve timely audit clearance. Issues that can impede the financial statement preparation and the audit clearance process including those related to the adequacy of disclosures, the appropriateness of valuations, the determination of contingencies and the calculation of provisions, are addressed prior to the preparation of the full year’s financial statements. To maximise the effectiveness of the hard close approach, external auditors should be consulted on the feasibility and efficiency of conducting an audit of the hard close statements. A decision on whether external auditors will conduct an audit will be influenced by the capacity of entities to prepare satisfactory auditable financial statements within an agreed timeframe. The audit approach will therefore depend on each entity’s particular circumstances and entities should consult external audit at an early date so that both parties can discuss and agree an approach that is of mutual benefit. Entities may also see benefit in Internal Audit or contractors reviewing the outcome of the hard close.
A key determinant of the timing of a hard or soft close is the nature and timing of key financial transactions or events. For example, an entity that processes significant financial transactions in May/June may benefit from conducting a hard close as at the end of March or April. By contrast, an entity whose business cycle is relatively stable and consistent each month may be able to schedule a hard close as at the end of April or May, noting that the later a hard close is undertaken, the less time entities have to resolve issues prior to preparation of the year-end statements.

Improve processes, tasks and functions

Review the closing process
The first step in reviewing the closing process is to examine current preparation processes and document who does what and when during the year, and at year-end. By mapping all, or selected key processes, a clear picture can be gained of the work steps and related controls required, making it easier to streamline and standardise work activities, eliminate unnecessary steps, strengthen controls, and prevent process errors. Ongoing improvements and review of individual processes can also help to ensure that the close process remains efficient.

Optimise the processing of journal entries
Many entities process a number of journals at the end of each month or at year-end for a variety of reasons including posting accruals, allocating costs and reclassifying income and expenditure. In many instances, these journals are manually compiled and processed, and some are of a recurring nature. Some entities seek to automate the computation and processing of recurring journals to improve the efficiency of processing, and to minimise the occurrence of human error. It is also better practice for entities to review journals that are raised to correct processing errors. These journals are a non-value-added activity because it results from an earlier breakdown in transaction processing. By analysing the type and frequency of errors, entities can find and eliminate their root cause, saving significant resources in the year-end close process.

Improve specific processes
Resources spent on following up and waiting for late supplier invoices can result in unnecessary costs being incurred. These costs can be minimised by the better use of purchase orders. The purchase order system can be used more effectively by designing it to streamline the approval process, manage liabilities and expenditure, and to increase the reliability of accruals at year-end.

Consistent with the increasing automation of transactions, the use of online bank reconciliations and electronic purchasing, payment and remittance systems can also increase the speed of year-end processing. More regular processing during the year, including early capture of data at source, minimises error rates and improves data integrity.

Use of technology
Increasingly, entities are using technology to automate, simplify and streamline particular tasks and functions. Commercial software is available to assist entities to automate and simplify a range of processes, including production of monthly reports and year-end financial statements. Many entities are now in a position to produce a draft of their financial statements ‘with the click of a mouse’. By mapping each general ledger account to the relevant financial statement balance or note disclosure, entities no longer need to produce their statements manually. Apart from obvious efficiencies involved, automation eliminates the risk of keying and transposition errors and enables multiple draft statements to be produced with minimal effort. The integrity of this mapping
should be periodically confirmed, and strict controls need to be in place to manage any software upgrades or changes.

Figure 3 below is a simple illustration of how Appropriation general ledger codes can be linked to relevant items in the financial statements and related notes.

Figure 3: Use of technology – an illustration

Automated reporting software can also help to align various reporting requirements with financial statement processes and to manage versions and updates.

The performance of reconciliations typically requires substantial resources. The adoption of financial systems that integrate with business and other related systems generally reduces the number of reconciliations that are required.

Minimise rework

In addition to a centralised financial system, better practice entities require data entry at source, preferably on-line and in real time. They hold staff accountable for the accuracy and integrity of the data in the general ledger. They foster a culture of ‘getting it right’ the first time, with errors returned to the originator of the data for correction.

2.3. Management and co-ordination

Ensure effective project management practices

Effective project management arrangements underpin successful financial statement preparation processes.

The primary aim of successful project management is the completion of defined work within given time constraints and resource limits to achieve a quality outcome. It encompasses arrangements such as planning, control, monitoring and coordination.

The following matters are likely to improve an entity’s ability to manage the task of preparing financial statements effectively and efficiently.
Appointment of a project manager

Careful consideration should be given to the appointment of a project manager responsible for controlling, monitoring and coordinating the whole process, to ensure that allocated tasks are completed on time and to a high standard.

Ideally the project manager should have sufficient experience and technical expertise to understand the critical tasks required so that risks that might prevent achievement of the work plan can be managed properly. The project manager also needs to have the authority and interpersonal skills to be able to gain cooperation and to influence staff members who are not performing to required standards.

In appointing an appropriate project manager with these attributes, the CFO should consider issues such as the experience and skills of the finance team, his or her availability to support the manager, the complexity of the tasks and existing relationships with business areas. For example, the role of a project manager could be shared between the CFO and a senior member of the finance team if the tasks are particularly complex.

Day-to-day management

In controlling and monitoring the process, the project manager should actively monitor progress in implementing the work plan and, where practical, have in place contingency arrangements in the event of staff departures or major illness, system failures, or non-delivery of information from external stakeholders.

Better practice entities will implement some or all of the following:

- establishing a control and monitoring process that is endorsed by senior management and agreed by relevant stakeholders
- establishing regular communications (for example, emails, meetings, bulletins, intranet) throughout the year to share concerns, progress, knowledge and information regarding the preparation process with both internal and external stakeholders. Two-way communication helps ensure that any issues or problems are highlighted promptly and resolved to lessen their impact on the work plan
- establishing protocols for meetings so that progress against timetables is tracked: for example, planned meetings at certain critical stages of the process, and details of contact officers
- committing to providing timely and constructive feedback to stakeholders so that weaknesses can be rectified promptly and successes can be reinforced. This includes communicating appreciation of effort
- providing advice and guidance to staff members in the finance team and business areas
- reviewing the work plan periodically, and revising it as needed
- providing up-to-date work plans regularly to relevant stakeholders so that they are aware of the progress of their tasks in relation to others. This promotes a clearer understanding of the importance of meeting deadlines and the roles that people play in producing the statements
- checking periodically whether staff have sufficient time to carry out their work, and whether instructions have been followed
- building in quality checks, such as reviews of supporting documentation and working papers at critical milestones, to assess progress and quality
- maintaining contingency plans such as options for using back-up staff, employing temporary staff, or reaching prior agreement with staff to work overtime as required
addressing significant issues promptly, considering their effect on the financial statements and implementing corrective action, and

periodically briefing senior management and the Audit Committee regarding the financial statement preparation process and progress with the agreed timetable.

Manage resources

The effective management of staff and system resources is a critical component of the preparation of the financial statements, particularly, given the time available to complete the many tasks involved in the preparation stage. While recognising that many areas of an entity contribute to the financial statements, this section focuses on the staff and systems that will generally be the responsibility of the CFO.

**Skills, knowledge and experience of staff**

In assessing and selecting staff for the financial statement team, it is important that the team collectively possesses the appropriate capabilities and knowledge to prepare the financial statements. These include:

- an understanding of, and practical experience in preparing financial statements of a similar nature and complexity
- a sound understanding of accounting standards and practice, financial reporting and accountability, and legal and reporting requirements
- appropriate technical knowledge, including knowledge of relevant systems. An understanding of basic audit processes and standards is useful for liaison with external auditors
- relevant knowledge of the business of the entity
- ability to prepare good financial statement working papers
- an understanding of government-specific requirements
- ability to apply professional judgement, and
- an appreciation of the financial statement closing procedures, systems of risk management, internal controls, and financial management policies and procedures.

Alternatives for addressing identified gaps may include engaging contract staff with the necessary knowledge and skills; arranging additional training to enhance staff proficiencies; and eliminating some roles, tasks or responsibilities through reprioritisation or the re-engineering of processes.

The involvement of back-up staff members and succession planning also help to retain knowledge of the process and minimise disruptions should key staff depart from the team.

At a minimum, staff training should focus on three key areas – training in year-end procedures, government-specific requirements and new professional and policy requirements – so that statements are produced to required professional standards. Training should be timed so it does not clash with end-of-year deadlines and priorities.

In many entities, some members of the financial statement team will be members of the Institute of Chartered Accountants in Australia (ICAA) or CPA Australia. They are required to observe the professional statements and the code of professional conduct set by these bodies. The rules require members, amongst other things, to comply with minimum acceptable standards of professional conduct, and to comply with the accounting standards.

Members of professional accounting bodies are required to:

- carry out their professional work in accordance with the technical and professional standards relevant to that work
Good relationships between team members helps maximise performance and improve coordination within the team, thus minimising the risk of situations where the ‘left hand does not know what the right hand is doing’. Developing shared goals and objectives that all team members are committed to, and following a disciplined approach in the completion of all tasks are some of the building blocks for successful team relationships. Establishment of ground rules for conduct and accountability of individual team members and regular meetings to share information and ideas are practical examples of building a team and generating sustained commitment.

Roles of team members

Roles that are important to the successful completion of the financial statement preparation process should be identified so that they can be assigned to the appropriate personnel. Key roles in preparing financial statements include:

- **project manager**: responsible for developing, monitoring and implementing the work plan
- **audit liaison officer**: a central point of contact for all internal and external audit related matters and responsible for analysing the financial impact of audit findings and recommendations
- **technical specialists**: responsible for particular technical or specialist aspects on matters that need to be addressed as part of preparing the statements
- **business relationship manager**: responsible for managing relationships with business managers and their staff, and
- **quality assurance reviewers**: responsible for assuring the quality of the financial statement working papers and the financial statements as a whole.

These roles are not mutually exclusive. A team member may fulfil more than one role, and a particular role can be fulfilled by more than one team member, depending on the size and complexity of the entity. For example, the CFO may undertake the role of a project manager while one of the key staff members in the finance team may manage the day-to-day preparation process. It is important that the allocation of responsibilities allows sufficient flexibility so that team members can assist in other roles where required.

System resources

Sound understanding of financial management information systems and their capabilities can also make the process more effective. For example, conducting quality assurance checks, printing certain reports for review and processing final correcting journals during the closing process can be performed more efficiently if the finance team understands the systems from which balances and information are sourced. At the planning stage, members of the finance team should also assure themselves that financial systems are reliable and that technical support is available in
the event of breakdowns or problems. Peak workloads and deadlines should be advised to the IT area so that the timing of scheduled maintenance and system upgrades do not impact on the preparation process.

**Liaison with external audit**

Having open and professional working relationships between the financial statement team and external audit is a key success factor in facilitating the completion and signing of the financial statements. Such a relationship is characterised by a clear understanding of the respective responsibilities of both parties, regular communication, and a policy of 'no surprises'.

**Key considerations**

The following strategies are commonly employed by public sector entities and external audit to expedite the audit process:

**Audit liaison officer**

An audit liaison officer is appointed as a central point of contact for all audit related matters. The responsibilities of the officer will generally include:

- organising financial statement working papers within an agreed timetable. A discussion on standards of working papers is at Section 3.6 of this part. An example of documentation usually required by audit is provided at Item 10 of Part 4. Prior consultation with external auditors regarding their expectations and documentation requirements facilitates the preparation and audit processes.

- ensuring the availability of key staff, including business managers, internal and external experts and Internal Audit during the audit process

- arranging audit access to an entity's financial management information systems and related business systems

- assessing the impact of internal and external audit reports on the financial statements

- ensuring regular meetings to keep both parties abreast of progress in the preparation of the financial statements and audit to exchange ideas on solutions, provide opportunities for feedback, facilitate reaching agreements and eliminate surprises. The frequency of these meetings is influenced by the size and complexity of the statement preparation task, and

- coordinating and responding to audit reports and management letters promptly.

External audit sets out the terms of the audit in an engagement letter which in turn is confirmed by the Chief Executive/Board. Better practice entities liaise with external audit to facilitate the audit engagement and often develop an audit assistance package to formalise arrangements. An example audit assistance package is at Item 7 of Part 4.

**Seeking technical advice from external audit**

The preparation of the financial statements involves selecting and applying appropriate accounting policies and financial management practices that comply with legislative and financial reporting requirements. The iterative nature of the preparation and audit processes, and the ongoing dialogue between the CFO and the external auditors will necessarily involve discussions about the interpretation and application of appropriate accounting standards, policies and procedures.

In seeking technical advice and assistance from external audit, it is important that the respective responsibilities of both management and the external auditor are reflected in the agreed arrangements. As a general rule, the entity should first conduct appropriate research and gather...
supporting documentation and evidence on the issue(s) concerned. This may involve seeking specialist advice. The entity will then be in a position to provide external audit with a considered technical assessment and proposed approach as a basis for discussion and consideration. The entity should also provide external audit with relevant supporting material, including any specialist advice received. This should be done in a timely manner and preferably as soon as practicable after an issue has been identified. Leaving issues ‘on the back burner’ or not discussing them with external audit, increases the risk that they will affect the timely finalisation and audit of the financial statements.

It is recognised that clarification and/or confirmation of the entity’s position on a host of minor technical and procedural matters is part and parcel of an ongoing relationship between the entity and external audit, and these would generally be resolved during regular dialogue between the parties.

Liaison with Finance

As mentioned in Part 1, section 2.3, Finance is responsible for developing and promulgating accounting and related budgeting policy matters and financial statement presentation and disclosure requirements and provides clarification and guidance on these requirements. It is often advisable that entities seek clarification from Finance on accounting policies and FMO requirements before finalising a management position. This can also assist Finance in preparing whole-of-government policy guidance that takes into account particular issues raised by entities.

Entities also should bring to the attention of Finance matters that have the potential to impact the preparation of the Australian Government consolidated financial statements.

3. TECHNICAL, REVIEW AND RECORDKEEPING CONSIDERATIONS

3.1. Set and apply materiality

Introduction

Better practice entities will design and implement systems and controls with the objective of ensuring the complete, accurate and valid recording of all financial transactions as a basis for the preparation of the entity’s financial statements.

The Finance Minister’s Orders (FMOs) require entities to apply the concept of materiality in preparing and presenting financial statements, and to comply with AASB 1031 Materiality. The way this standard is applied can have an important influence on the accuracy and completeness of an entity’s financial statements.

It is important to recognise that materiality applies to the preparation of an entity’s financial statements. Under the materiality concept, information in the financial statements is material if

37 As stated in AASB 1031, paragraph 8, general purpose financial reporting involves making decisions about the information to be included in general purpose financial reports, and how it is presented. In making these judgements, considerations of materiality play an essential part. This is because the inclusion of information which is not material, or the exclusion of information which is material, may impair the usefulness of the information provided to users.

38 Australian Auditing Standard ASA 320 also requires the auditor to consider materiality in the planning and conduct of a financial statement audit.
its omission, misstatement or non-disclosure has the potential to adversely affect decisions about the allocation of scarce resources made by users of the entity's statements, or the discharge of accountability by the entity. Materiality is thus defined by reference to its impact on the decision-making process, and relates the need for accuracy of information to users of the information or the use to which the information is put.

The concept of materiality recognises that excessive detail is not generally fundamental to making and evaluating decisions concerning the allocation of scarce resources. It recognises that achieving greater accuracy, or greater precision in financial statements will generally demand greater use of resources, higher costs and a longer elapsed time. Assessments of performance and financial position are often based on broad levels of magnitude and relationships between items and groups of items in the statements, rather than on exact numbers. On the other hand, assessments of the stewardship of management and potential conflicts of interest may require more detail.

Some key points in setting and applying materiality are:

- materiality requires the exercise of judgement by preparers, except where the FMOs prescribe a specific level or a particular item
- materiality levels determined at the entity level should be lower than that determined for the consolidated financial statements
- some financial statement items are material by nature
- materiality decisions should be considered at all times during the financial year, and not only for end-of-year reporting. In order to promote efficient management of the closing the books process, internal guidance could be given as to thresholds to be applied
- in applying the concept of materiality, both qualitative and quantitative factors need to be considered, and
- when an item or an aggregate of items is not material, application of the materiality notion does not mean that those items would not be recognised, measured or disclosed, but rather that the entity would not be required to recognise, measure or disclose those items in accordance with the requirements of an Australian Accounting Standard.

**Applying materiality**

An entity’s approach to materiality forms the basis of guidance to preparers in using their judgement in identifying the risk of material errors in the statements as a whole.

An agreed approach to materiality should be established at the planning phase in consultation with the Audit Committee and the Chief Executive/Board. In determining its approach, an entity should consider factors such as:

- the users of the financial statements, their information needs and economic decisions. An understanding of these factors can improve understanding of what constitutes material information to them
- the characteristics of the entity, including the nature and size of operations, prior year results, and recent financial performance
- the quantitative and qualitative thresholds that the accounting standards outline
- classes of transactions, account balances and disclosures that have underlying systemic internal control weaknesses and have the potential to cause significant financial loss
- classes of transactions, account balances and disclosures that are susceptible to legislative non-compliance and/or are based on complex legislation.
The FMOs define certain information as material. Such information includes appropriations, special accounts, compensation and debt relief, Director/Executive remuneration and auditors remuneration.

**Disclosure and measurement**

The accounting standards require that financial information that satisfies the definition of materiality be recognised, measured or disclosed in the financial statements. The omission, misstatement or non-disclosure of such information has the potential to adversely affect the reliability of accounting information and decisions made by users.

Examples of circumstances that may affect the recognition, measurement and disclosure of information include:

- a mis-classification of assets that would not be material in amount if it affected two categories of plant and equipment but might be material if it changed the classification between a non-current and a current asset category (for example property, plant and equipment to inventory)
- amounts too small to warrant disclosure in normal circumstances may be considered material if they arise from abnormal or unusual transactions or events
- a failure to disclose separately a non-recurrent item of revenue may be material at a lower threshold than would otherwise be the case if the revenue turns a loss into a profit
- a mis-classification of transactions may not be material in amount if it related to similar departmental categories or administered items in the same outcome class but might be material if the mis-classification were between departmental and administered items, and
- setting an asset recognition threshold too high may result in a material understatement of assets and depreciation, and an overstatement of expenses.

**Analysis and adjustment of errors or misstatements**

Better practice entities will promote an environment in which the correction of errors or misstatements is seen as the appropriate course of action, regardless of whether or not they are considered to be material. Such an approach will also help to remove the difficulties that can arise in relation to the effect on current year financial statements of uncorrected prior year misstatements.

Errors or misstatements are often identified by review and quality assurance processes during the year, as well as at year-end when the financial statements are prepared. If uncorrected, errors or misstatements, either individually or collectively, may have a material effect on the financial statements.

Potentially material errors or misstatements identified during the year should be investigated and analysed to determine the causes. Potentially material errors or misstatements identified during the year should be investigated and analysed to determine the causes. A misstatement may not be an isolated occurrence. Entities should review the underlying reasons for misstatements to satisfy themselves that there is no systematic breakdown in internal control. Any necessary corrective action should be implemented well in advance of year-end, in consultation, where appropriate, with the Audit Committee and external audit.
Setting appropriate materiality thresholds for adjustments of errors or misstatements for year-end processing will help the finance team avoid being consumed in matters that are clearly trivial while posting adjustments and corrections.

When errors or misstatements are identified during the year-end process, it is important for entities to:

» analyse the misstatements to consider their implications for the financial statements
» assess whether there are any further likely misstatements in the accounts or items or in other areas
» quantify the errors or misstatements and correct them unless they are clearly trivial
» accumulate all uncorrected misstatements and assess their effect on the financial statements, and
» advise appropriate levels of management, the Audit Committee and external audit of all adjusted and unadjusted errors or misstatements.

Practical steps

Some practical steps that entities should consider when setting and applying materiality are to:

» develop guidance material on disclosure and measurement and adjustment of errors well in advance of the year-end; both qualitative and quantitative factors should be considered; this should be done in consultation with external audit
» align the entity’s approach to the application of materiality to be consistent with that adopted by external audit
» obtain agreement from the Audit Committee and the Chief Executive/Board on the approach and guidelines. This will assist the Audit Committee in its review of the financial statements, and inform the Chief Executive/Board about the basis on which the statements have been prepared, when they sign the statements
» issue internal guidelines and instructions to relevant stakeholders on the application of materiality. Documenting materiality levels in operational procedures and providing training in their application helps to improve consistency across the entity, and
» review the guidelines and instructions annually; and periodically monitor their application.

3.2. Employ analytical procedures

Rigorous and objective analytical procedures undertaken during the financial statement preparation process will help to improve the accuracy of the statements. Analytical procedures are used to identify unusual relationships and items in the statements that may affect their accuracy and completeness.

Conditions that can cause variations in relationships and items include, for example, specific but unusual transactions or events, accounting changes, business changes, breakdowns in internal controls, random fluctuations, or errors. Procedures can range from simple comparisons of items

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39 Matters which are “clearly trivial” are matters that are clearly inconsequential, whether taken individually or in aggregate, whether judged by any criteria of size, nature or circumstances.

40 It is recognised that in some circumstances there will be legitimate reasons why different materiality thresholds will be applied by the entity and external audit. The most common reason will be when the entity and external audit make different judgements about the risk of material statements in the financial statements as a whole or in particular balances.
to complex analytical models of relationships. More sophisticated procedures are often used to analyse administered items.\(^{41}\)

**Analytical processes**

Consider points for the analytical review process includes:

> use analytical procedures throughout the year to review monthly financial statements. Reviewing against budget, previous years’ results, and month-on-month results can identify items such as expected expenditure amounts that have not been invoiced or accrued. Unusual items can be identified and explained, thus minimising problems at year-end

> apply analytical procedures to each line item of the financial statements during the preparation process to help provide additional assurance

> as well as conducting comparisons of current figures against past periods, also perform an analysis of what might be expected in view of known circumstances. Predictive analytical procedures are usually more useful, but they require a deeper understanding of the business. The finance team could seek assistance from business areas in preparing such analysis

> review information provided by business areas and seek explanations for variances. Information from one unit can be compared with another to identify any unusual trends. Information from business areas can also be compared with other related information in the statements to check consistency. The procedure helps to highlight possible errors before final compilation of the statements

> improve business and analytical skills of team members who are responsible for analysing the statements. Analytical procedures require significant business expertise and judgements as well as a good understanding of accounting principles and processes

> investigate promptly any unusual relationships and items in the statements and implement corrective action. Consider the possibility of systematic breakdowns in internal controls and whether there might be similar errors in other accounts or items, and

> conduct in-depth analytical reviews of the financial statements, particularly the first and final drafts. This process should involve providing explanations of significant changes in financial results from the previous year, and from budget. This information is also required for annual report purposes.\(^{42}\)

**Examples of analytical procedures**

Various analytical procedures can be used. The list of examples below is not intended to be exhaustive. In selecting and applying procedures, an entity should consider factors such as the complexity and nature of the entity; the availability and reliability of information used for comparison; and the skills and knowledge of the analysts.

> **Simple comparisons:** comparing a current year item to a norm, for example, percentage or dollar value changes from prior year results; comparing actual amounts to budgets; or reasonableness relationships such as staff numbers to payroll and depreciation to non-current assets

> **Trend analysis:** analysing financial statement items expressed as a percentage of a selected base year, and

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\(^{41}\) Administered items are defined by FMOs as those items controlled by the Australian Government but managed or overseen by entities or otherwise classified by the Government as administered. They may be subject to conditions and eligibility rules established by legislation or Australian Government policy, or involve specific decisions by Ministers.

\(^{42}\) Paragraph 11 of Requirements for Annual Reports for departments, executive agencies and FMA Act bodies specifies that an explanation of such significant changes must be included in the entity’s annual report. The Report of Operations Schedule to the Commonwealth Authorities and Companies (Report of Operations) Orders 2008 specifies that significant changes during the financial year must be included in the entity’s annual report.
» *Ratio analysis:* examining relationships between financial statement items to either identify or confirm changes in expected relationships. Examples of ratios include quick asset ratio, current ratio and receivables turnover.

Predictive analytical techniques can include more complex procedures such as financial modelling, as well as relatively simple procedures. Predictive techniques are useful in analysing administered items where transactions are:

» usually closely related to non-financial information such as the number of organisations in receipt of grants, and

» not always directly comparable to prior periods because of changes in eligibility rules, demographics, demand patterns and government policy.

Business areas in public sector entities often perform analytical procedures as a means of managing their program or administered items. The finance team should seek to compare analytical data prepared by business areas with information in the financial statements, to ensure that the statements as a whole are consistent with business activities and that there are no unexplained significant variations. When undertaking analytical reviews, an entity should focus on material or high risk items where any undetected errors could have a serious effect on the accuracy of the financial statements.

3.3. Collect required information from relevant sources

As a general rule, processing and reporting activity is centralised in the entity’s finance team, but key transactions are recorded by business areas. Therefore business areas and the finance team need to work cooperatively to collect and compile the required information.

**Internal stakeholders**

To collect the required information effectively, entities determine what information is available in the financial management information system and what needs to be collected manually. Following the identification of the work area that can provide the information, most entities collect the information via a reporting package (usually a standardised information collection pack) at year-end.

The reporting pack can be expected to contain instructions such as the following:

» *information, returns and/or action required:* a clear explanation of what is required and how it is to be completed. Information is sought from business areas as well as specific areas which provide information on behalf of the whole of the organisation. It also specifies whether a ‘nil’ return is required to be completed, even if there are no transactions to report

» *responsibility:* setting out the respective responsibilities of business areas and the finance team. Relevant managers should be asked to certify that the information in the pack and in the financial systems that relate to their area of responsibility is complete and correct. **Item 8 of Part 4** provides an example of the management certification of information in the pack

» *record keeping requirements:* specifying any entity’s policy, administrative guidelines or legal requirements that need to be adhered to. A signed copy of each return, including supporting documentation, is retained and made available for audit if required

» *deadlines and contact officer:* contact details of officers who can provide clarification or guidance are included. Strict adherence to deadlines is emphasised

» *amendments to reported information on returns:* setting the business rules on amendments and corrections subsequent to the submission of the original returns, and

» *evaluation:* seeking feedback from business areas on potential improvements in respect of timing and content. **Item 9 of Part 4** provides an example of a feedback form.
The information generally required from business areas relates to prepayments, asset stocktake discrepancies, internally developed software, executive remuneration, contingencies – gains and losses, commitments – payable and receivables, accrued expenses, unearned revenue, open purchase orders and goods received/invoice receipt, and resources free of charge.

For each item, the pack provides background information, definitions, accounting treatment, reporting requirements and instructions or steps necessary to complete the return.

In addition, better practice entities organise and structure their year-end activities in a way that encourages ongoing communication and sharing of accountability between the business areas and the finance team. Examples include:

- regular communication through meetings during the year to brief business areas on the latest developments in accounts processing and requirements
- training seminars held prior to the distribution of the information pack
- policies and procedures kept up-to-date and accessible
- hotline assistance and advice on accounting matters
- prompt feedback to business areas so that errors are corrected by the originators of transactions in the business areas
- rotation of staff members between the finance team and the business areas, and
- suggestions for continuous improvement are sought from business areas.

External parties

Some information may be required from third parties, for example under a Service Level Agreement or memorandum of understanding. Protocols and processes for obtaining information should be established, and the annual timetable for receipt of information should be agreed at an early stage. Details of the level of accuracy of data required and the necessary operation of internal controls during the year should be formalised. Information received should be quality assured and analysed before incorporating it into the financial statements.

Obtain third party confirmations

Confirmation from third parties is a normal audit verification requirement. Early receipt of information helps expedite both the preparation and audit processes. Confirmation from third parties such as banks and legal advisers should also be sought at an early stage.

3.4. Develop accounting estimates

Due to inherent uncertainties in business activities, some financial statement items cannot be measured with precision, and must be estimated.\(^{43}\) Such accounting estimates require the exercise of judgement, based on pre-determined assumptions. As a result, the risk of material misstatement may be greater when accounting estimates are involved. It is essential that entities establish and control a management process to develop and produce reliable accounting estimates.

The determination of an accounting estimate may be simple or complex, depending on factors such as the nature and materiality of the item, complexity of the business activity, availability of information and the extent of uncertainty of future conditions, transactions or events.

Accounting estimates are frequently required for items such as the provision for doubtful debts, useful lives and residual values of non-current assets, employee entitlements, taxation revenue,

\(^{43}\) Accounting Standard AASB 108, Accounting Policies, Changes in Accounting Estimates and Errors, paragraph 32.
and costs arising from litigation settlements and judgements. In many cases, accounting estimates are derived from the collation of data or are calculated using a formula based on experience, such as the use of standard rates for depreciating each category of non-current assets. However, a high degree of specialised knowledge and judgement may be required in the case of complex accounting estimates where the risk of developing unreliable estimates increases.

The management process in developing accounting estimates usually involves:

- identifying applicable financial reporting requirements including conditions or methods for the recognition, measurement and disclosure of the item
- using appropriate accounting policies and prescribing estimation processes
- developing soundly based assumptions about future conditions, transactions or events that affect the estimates
- collecting sufficient, relevant and reliable data on which to base accounting estimates, and
- periodically reviewing the circumstances that give rise to the estimates, and adjusting the estimates if necessary.

**Appropriate personnel**

Qualified personnel with the necessary skills and knowledge should be selected to prepare accounting estimates. If appropriate, experts within or outside the entity can be used. The officer(s) should have sufficient business and accounting knowledge of the item and a good understanding of its underlying business drivers, processes and controls. Skills in business modelling are often useful for complex estimates.

**Estimation methodology and techniques**

In establishing the most appropriate basis for the assumptions required, factors such as an entity’s external environment, actual results in prior years, the basis used for assumptions in similar circumstances, and policy decisions of management or government should be considered.

In some cases, assumptions will be based on government statistics such as inflation rates, interest rates, exchange rates, mortality rates and employment rates. In other cases, the assumptions will be specific to the entity and will be based on internally generated data.

Assumptions need to be interdependent, and in such situation they need to be made on a consistent basis. An assumption that may appear reasonable when used in isolation may not be reasonable when used in conjunction with, or taking into account, other assumptions.

**Risk assessment**

In assessing the risks of material misstatements in accounting estimates, entities should identify factors that may affect their reliability and assess whether the level of estimation variance lies within an acceptable tolerance level. For example, a change in assumption could materially affect the estimate recognised in the financial statements. However, the existence of recognised measurement techniques may mitigate the degree of uncertainty associated with an estimate.

Sensitivity analysis can be used to analyse the effect of uncertainty. Varying the level of inputs or assumptions may help to determine the degree of variation in the monetary amount of an accounting estimate. It also helps to identify the assumptions that are likely to create the most significant variation or degree of unreliability. An assessment of the degree or range of variation provides a basis for assessing the potential risk of error in the financial statements. Disclosure of estimation uncertainty may assist entities to meet the applicable financial reporting requirements.
A change in circumstances such as new legislation may require the entity to revise or develop new accounting estimates. Entities should incorporate mechanisms in their risk management process to identify the need for revised or new accounting estimates.

Quality of data

Sufficient, relevant and reliable data should be gathered and accumulated to support any accounting estimates. Data collected should be quality assured and analysed before being used to determine estimates. Independent confirmation from third parties or the use of experts can also help improve the quality of data. Appropriate analysis of the age and probability of collection of individual accounts receivable, for example, is important to estimate the provision for doubtful debts. Formal advice from legal advisers also provides added assurance regarding estimates of the financial implications of any actual or potential litigation or other legal actions.

Review and approval

Personnel with appropriate skills and authority should be used to review and approve estimates. The reviewer should consider issues such as sources of relevant factors, development and reasonableness of assumptions and the quality of data used. Recalculating the estimate and reviewing information used may be necessary in some circumstances.

Prior period accounting estimates should be compared with subsequent results to assess the reliability of the process used to develop the estimates. Regular reviews of methodology should also be instigated.

Documentation

Documentation to support accounting estimates is particularly important. Good documentation helps to maintain consistency between years and provides a management trail on how decisions were made, assumptions employed, sources of data, and the management of risk arising from significant variations. It also assists management to provide explanations of variances and to improve its estimation techniques.

Useful documentation includes information on management policies and processes, sources and reliability of data, selection or construction of significant assumptions and changes in accounting estimates from one period to another. Information usually derives from government policy, budget documentation, legislative requirements, minutes, authorisation and business management information systems.

Alternative assumptions that have been considered and rejected should also be documented to explain how management decisions were made.

3.5. Implement quality control and assurance processes

An important aspect of the financial statement preparation process is the establishment and implementation of a quality control and assurance regime that is designed to provide assurance about the accuracy and completeness of the statements, and that they comply with all relevant legislative and policy requirements. While the extent and nature of such a regime will vary between entities, it is expected that entities would, as an integral element of the process, put in place review arrangements at key points during the preparation process. The primary focus of these arrangements should be heightened in aspects that are significant and/or where the risk of error or misstatement is the highest. Responsibility for the arrangements should be clearly articulated in relevant planning documentation and priority given to adherence to the arrangements and
documentation requirements. Officers with responsibility for this work would be expected to have a level of objectivity and independence to maximise its effectiveness.

Matters that can usefully be covered by a quality control and assurance regime include:
» the calculation of balances that require complex computation and the collation of information from a variety of sources
» large and unusual transactions and journal entries
» key documentation supporting the financial statement balances, including lead schedules
» complex accounting matters, such as tax accounting and consolidations
» information provided by business areas, and
» key reconciliations.

Involvement of internal audit and contract staff
Some entities find it beneficial for Internal Audit and/or contract staff to be involved in the conduct of quality assurance processes. The involvement of these parties brings an element of independence to the task, but will only be of benefit if the people involved have sufficient understanding and knowledge of the technical requirements and the entities’ particular processes and arrangements.

3.6. Prepare comprehensive documentation
High standard documentation that supports and validates the financial statements is essential to establishing a management trail, as well as expediting the quality assurance review and audit processes. An example of documentation requirements is provided at Item 10 of Part 4.

Supporting documentation, also known as working papers, are prepared, collated and used in preparing the financial statements. It should include analyses, third party confirmations, management representation and sign-offs, checklists, technical advice, extracts of important documents, correspondence concerning significant matters and work schedules.

The benefits of comprehensive and well-structured working papers include:
» providing support for the certification by the Chief Executive/Board in discharge of their responsibilities
» facilitating the preparation and quality assurance review processes, minimising rework, and providing information on how decisions are made on significant matters
» providing the necessary explanation of items in the financial statements, assisting preparation of responses to questions from executives, Ministers and Parliamentary committees and external auditors, and
» having a record of information for the next set of financial statements, including identification of significant matters and comparisons in planning future work.

Standards for working papers
The type and content of supporting documentation required is a matter of professional judgement, but also depends on factors such as the nature and complexity of the business; nature and conditions of the entity’s internal controls and its financial systems; and the technology used during preparation. In assessing the documentation to be collated and prepared, it may be useful to consider what would be necessary to explain the financial statements, and to provide sufficient information on the principal decisions taken.
Standardising the form and organisation of working papers is likely to improve the efficiency with which the financial statements are prepared and reviewed. Standardisation facilitates the delegation or allocation of work, while at the same time providing a means to control its quality.

At a minimum, working papers should have the following characteristics:

- a clear title that properly describes the working paper and contains the date of creation
- a brief statement of the purpose of the working paper
- clear links to the specific balances or notes to the financial statements
- alterations are clearly identified, dated and explained
- identification and dates of sign-offs of the preparer and reviewer, including the timing, and
- clear cross-reference to sources of information such as supporting documents, files, reports or ledger codes, with sufficient detail for the sources to be retrieved with minimal time and effort.

To facilitate the audit process, working papers should only be provided to the auditors after they have been verified and signed off. It is important to ensure that figures and disclosures provided to the auditors are accurate and supported by evidence, to avoid loss of time when external auditors revisit the corrected information. In addition, as most changes in accounting data have flow-on implications for other balances, re-working can seriously disrupt an agreed timetable.

Prior consultation with external auditors regarding audit expectations and requirements helps to facilitate the preparation and audit processes. In this context, it is important to provide external audit with working papers and supporting schedules documenting the financial statement figures and draft financial statements that have been subject to an appropriate level of review and quality assurance.

Issues such as safe custody, distribution, retention, storage and confidentiality including backup of electronic documents should be documented and understood by relevant staff members. Delays may result, for example, if key working papers are misplaced or lost during the process.

**Use of lead schedules**

A key example of standardised working papers is the lead schedule. A lead schedule is a summary schedule that explains the composition of a financial statement item, identifying the detailed general ledger accounts making up the item. Each general ledger account is, in turn, supported by appropriate working papers and cross referenced to the trial balance. Lead schedules are usually filed in front of each segment of the working papers, providing easy reference for preparation and review. Lead schedules should only record the final, verified balances that agree with the final financial statements.

A lead schedule serves as a systematic means of providing assurance to management that all figures are complete, accurate, supported by evidence, the balances have been reviewed, variances from previous years and budgets are explained, and checking or sign-off has occurred.

The use of lead schedules to support each financial statement item is a better practice method of standardising and organising working papers and other documentation to support and explain financial statement balances.

The content and format of lead schedules will depend on the specific circumstances of individual organisations. However, they should:

- provide all the documentation needed to support each financial statement line item
- contain analytical reviews explaining movements from budget and the prior year, and
- include sign-offs from responsible officers for preparation and review.
A standardised checklist attached to the lead schedule assists in reviewing and sign-offs. Schedules of accounting adjustments for errors found during preparation processes are important documentation to monitor accumulated errors and adjustments made. **Items 11 and 12 respectively of Part 4** provide examples of a lead schedule and an accounting adjustments schedule.

Better practice entities have automated their lead schedule system by:

- resetting to the current year; this involves moving the balances from the previous year end to the comparatives column in each lead schedule. This creates a comparative set of figures that are useful for analytical and review work. In some cases the figures may need to be adjusted due to changes in accounting standards and policies. This automated process is usually done once each year and well in advance of the year-end aimed to ensure that correct figures are used
- uploading the current year-end balances in the financial management information systems to lead schedules in a specified, pre-determined manner, and
- updating the lead schedule numbers each time new entries are posted to the general ledger. Movements in balances are detailed in computer-generated worksheets to track and explain updates.

Automation reduces the scope for potential for errors, and is faster in extracting and formatting relevant financial data. While most balances can be automated, some manual entries may be required because of the specific nature of presentations required.

Lead schedules for whole-of-government information consist of accounts grouped into revenue/expense and asset/liability categories in accordance with the information requirements determined by Finance.

### 3.7. Using the work of an expert

A common feature of financial statement preparation is the need to obtain specialist expertise and knowledge to provide reports, opinions, valuations or statements to assist entities in the value of certain financial statement items at year end. Examples where independent expert assistance is used include:

- valuations of land and buildings
- actuarial assessments of superannuation and long service leave liabilities and doubtful debt provisions
- measurement of work completed or work in progress on construction contracts;
- advice on the treatment of specialised accounting matters; or
- legal opinions on legislation, subsidiary instruments or agreements.

Often the financial statement items that may require specialist expertise and knowledge will be material and will involve fair value measurement and disclosure for a number of asset and liability balances at year end. As such, as part of the financial statement preparation process, the following steps can be undertaken to assist an entity in obtaining the required assurance about the work undertaken by an expert:

- determine the need to use the work of an expert
- determine the appropriate scope of the work and the responsibilities of the parties
- assess the professional competence and objectivity of the expert
- manage the engagement, and
- evaluate the work of the expert.
Determine the need for an expert

When determining the need to use the work of an expert, management would generally consider:
- the availability of in-house knowledge and expertise
- the benefits and cost involved
- the risk of material errors based on the nature, complexity and materiality of the subject matter
- the timing of the expert’s involvement during the various phases of the financial statements, and
- the availability of accurate and reliable data and information.

Determine the appropriate scope of the work and the responsibilities of the parties

The planning and engagement stage is important in clarifying the scope of the work required and the respective responsibilities of both parties. At this stage, management should ensure that the scope of the expert’s work is adequate for the intended purposes and that the expert is aware of the entity’s requirements.

Once an expert has been engaged, matters that need to be clearly determined and communicated in writing to the expert include:
- the scope of the work to be undertaken and the specific matters that the expert’s report must cover. To assist the entity in reviewing the expert’s work, it would be expected that, as a minimum, the expert’s report would include: the assumptions used; an outline of the approach or methodology used; the key calculations that underpin the final estimates/valuation; relevant characteristics of the data used; and any limitations or qualifications to the work performed.
- the intended use of the expert’s work and the expected disclosure of the expert’s identity and details of work undertaken
- determining the responsibilities of both parties for the accuracy and reliability of the source data to be used by the expert (generally it would be expected that the entity is responsible for this)
- determining the responsibilities of both parties in relation to the accounting aspects of the engagement, including the application of applicable accounting standards
- the protocols for accessing relevant data and information, including any security considerations
- ensuring the contractual arrangements provide for access to the expert by the ANAO and/or a person nominated by the ANAO
- the expert’s quality assurance or peer review arrangements, and
- the timeframes in which the services are to be provided.

The following matters are particularly important when an expert is engaged to assist in measuring fair value:
- the measurement objective, as fair value accounting estimates are expressed in terms of the value of a current transaction or financial statement item based on conditions prevalent at the measurement date
- the need to incorporate judgements concerning significant assumptions that may be made by others such as experts employed or engaged by the entity or the auditor
- the availability (or lack thereof) of information or evidence and its reliability

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44 IAASB Staff Audit Practice Alert, Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment, October 2008 pg 2.
the breadth of assets and liabilities to which fair value accounting may be, or is required to be applied
the choice and sophistication of acceptable valuation techniques and models, and
the need for appropriate disclosure in the financial statements about measurement methods and uncertainty, especially when relevant markets are liquid.

Assess the professional competence and objectivity of the expert

When proposing to use an expert, management should assess the professional competence and objectivity of the person or firm who they propose to engage. Factors to consider include experience, professional reputation, accreditation or membership of an appropriate professional body. References should generally be obtained to assist in substantiating the expert’s credentials.

Management may also wish to consider what steps are necessary to gain assurance that there is no conflict of interest with respect to the work undertaken by the expert. One way to assist in obtaining such assurance would be to seek confirmation directly from the expert on how they will satisfy the entity that any potential conflicts of interest have been declared and are being managed effectively.

Manage the engagement

It is important that the engagement is actively managed to help ensure the work performance of the expert is satisfactory and the entity’s requirements are met. The key tasks involved in managing the engagement are to ensure that:

- the expert is provided with all necessary information and data required for the purpose of the engagement
- staff are available to assist the expert where required
- any clarification sought or questions from the expert are responded to promptly, and
- the expert is advised of any emerging issues in the entity’s operations that could affect his/her work or the integrity of information provided.

Evaluate the work of the expert

It is reasonable that management relies on the professional expertise of the expert. However, to be in a position to assess whether the expert’s assessment or valuation is suitable for inclusion in the entity's financial statements, management should review the work undertaken and be able to ask relevant questions, and evaluate the answers so that the entity is satisfied that the assessment or valuation is appropriate for inclusion in the financial statements. The review would generally involve:

- establishing whether the source data used is accurate and appropriate in the circumstances. For example, is the source data used by the actuary in the valuation of accrued long service leave liabilities consistent with the accounting information from the entity's human resource system?
- obtaining an understanding of the assumptions and methodology used and assessing whether they are appropriate and reasonable in the context of the entity’s business and are consistent with any applicable legislation or accounting standards. Questions that could be asked include: are the assumptions within acceptable ranges and consistent with industry practice? are the valuation methods consistent with those used in prior periods? does the expert’s sensitivity analysis highlight those assumptions and methods that can significantly affect the results?
The extent of management’s review will depend on a number of factors such as the materiality of the item(s) in question, the complexity of the subject matter and any changes in the entity’s business environment that may impact on the subject matter concerned, and the extent of variations in the estimate(s) from the previous year. In circumstances where there is a material variation from the previous year, it is incumbent on the entity to fully understand the reasons for the variation and to be able to provide an explanation to the Audit Committee and external audit.

4. MANAGEMENT SIGN-OFFS AND CERTIFICATION OF THE FINANCIAL STATEMENTS

The Chief Executive/Board is required to certify that the financial statements, in their opinion, give a true and fair view of the matters required by the FMOs, and that the financial statements have been prepared on the basis of properly maintained financial records. For the Chief Executive/Board to be in a position to provide this certification and to provide the required written representations to external audit (known as management representation letters) a process of management sign-offs is commonly used by entities.

In addition, the Chief Executives of FMA agencies are required, commencing from the 2006–2007 financial year, to provide their portfolio Minister and the Minister for Finance and Deregulation with an annual certificate (called the Certificate of Compliance) in relation to the financial management and health of their agencies.

Assurance over legislative compliance and the effectiveness of internal controls underpin both certification processes. Accordingly approaches to management sign-off to underpin the two processes should be integrated, to the extent possible, to improve efficiencies.

Pro forma management representation letters for FMA and CAC Act entities are at Item 13 of Part 4.

Management sign-offs

Management sign-offs are designed to provide assurance to the Chief Executive/Board on the quality of the entity’s financial statements and on management’s compliance with a range of internal control and legislative compliance issues that underpin the statements. Such sign-offs are generally accepted as an integral component of management’s responsibility and accountability. The content and form of management sign-offs should be agreed as part of the planning process and be communicated at an early date to all relevant entity managers. It is customary for such sign-offs to be provided to the Audit Committee to assist the Committee in its review of the financial statements.

In view of the CFO’s pivotal role in the preparation of financial statements, it is common practice for the CFO to provide a separate sign-off. As part of the sign-off process, it would be expected that the CFO would conduct a final, overall review of the statements aimed to ensure that:

- the numbers and disclosures are consistent with business activities
- risks in respect of material misstatements have been identified and managed
- there are satisfactory explanations of any significant fluctuations between years and against budget, and
- the statements comply with legislative and policy reporting requirements.
Where the CFO reviews the monthly statements with similar rigour, the year-end review procedure will generally not be as onerous, because significant matters can be identified and dealt with in a timely manner.

**Items 14 and 15 of Part 4** provide examples of management and CFO sign-offs respectively.

**Audit Committee review**

Following its review of the financial statements, the Audit Committee independently makes a recommendation to the Chief Executive/Board concerning certification of the financial statements.

As mentioned in **Part 2**, review of an entity’s financial statements is an important aspect of a Committee’s responsibilities. Many Committees will schedule a separate meeting to consider the draft financial statements. The ANAO Better Practice Guide on Audit Committees contains further guidance on issues that Audit Committees may wish to address in their review of the financial statements.

**Item 16 of Part 4** provides a checklist for the Audit Committee in its review of the financial statements. The content of the checklist is substantially the same as the checklist in Part 3, Section 3, of the ANAO Better Practice Guide on Audit Committees.

### 5. REPORTING AND PUBLISHING THE FINANCIAL STATEMENTS

#### 5.1. Annual report requirements

Each entity is required to include the audited financial statements and accompanying audit report in its annual report (the relevant legislative provisions are outlined in **Part 1** of this Guide). In addition, most entities are either required, or consider it appropriate, to place a copy of their annual report on their respective websites (see also, **Part 1**). In this way, all prospective users have access to the financial statements and audit report of all entities.

Entities are also required to provide a commentary on financial information in their annual report, separately from the financial statements.45

#### 5.2. Reporting to the responsible Minister

With minor exceptions relating to certain companies, the financial statements and the accompanying audit report are provided to the responsible Minister by the Auditor-General.

#### 5.3. Security over the financial statements

The integrity of the audited financial statements and the audit report must be preserved at all times. That is, the audited financial statements and audit report must be protected from unauthorised access or accidental amendment. The original signed hard copies of the financial statements and audit report should be held on file as a permanent record. This should help to ensure that when

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45 FMA Act entities under the **Requirements for Annual Reports** issued by the Department of the Prime Minister and Cabinet in accordance with subsections 63(2) and 70(2) of the Public Service Act 1999 and approved each year by the Joint Committee of Public Accounts and Audit; CAC Act authorities under Clause 10 (especially paragraph ‘(d)’ of the Report of Operations Schedule issued under the Commonwealth Authorities and Companies (Report of Operations) Orders 2008; and CAC Act companies under section 298 (directors’ report) of the Corporations Act 2001.
the financial statements and audit report are replicated, they are exactly the same as the original statements and audit report.

Accordingly, entities need to safeguard the original signed hard copies of the financial statements and audit report and the electronic medium on which the financial statements were created. Both forms of the financial statements and the hard copy audit report should be considered ‘in-confidence’ and steps taken to prevent public disclosure.

5.4. Publication in the annual report

The management or governing body of each entity is responsible for publication of the certified financial statements and audit report in its annual report, and for ensuring the accuracy and completeness of the information presented therein. The audit of the financial statements does not relieve management or the governing body of these responsibilities.

Amendment of the audited financial statements

As a general principle, the financial statements should not be amended once they have been signed and the audit report has been issued. However, where errors or omissions are detected in the audited financial statements, entities should consider, in consultation with external audit, whether it would be appropriate to prepare amended statements. Factors that should be considered in these circumstances include:

» whether the error or omission could potentially mislead or misinform users of the statements
» the extent of amendments required, and
» the time it would take to amend the statements and have them audited by the external auditor.

Cross-referencing in the annual report

An entity may also wish to cross-reference an aspect of the financial statements to a relevant section of the annual report that was not possible in the audited financial statements due to insufficient information about the section at the time of signing the financial statements. For example, an entity may cross-reference the Outcomes and Outputs note in the financial statements to the Outcomes Resourcing Tables in the annual report.

Liaising with the annual report co-ordinator

Entities should use an unmarked hard copy or an unamended electronic copy of the financial statements and audit report that is in portable document format (PDF) for the purposes of being included in the annual report. This should reduce the risk of errors occurring in the printed version of the annual report and ensure that the relevant signatures and dates of signing are preserved. The relevant paper documents or electronic files should be provided to the annual report coordinator in accordance with an agreed timetable in conjunction with the annual report timetable.

CFO checking procedures

Although the CFO may not be responsible for producing the annual report, he or she and his/her team have an important role to play in checking each version that includes the financial statements, audit report, and any financial commentary. In particular, they must ensure that the information to be published exactly replicates the audited financial statements and audit report, and, in the case
of a financial commentary, the information is consistent with the financial statements. Practices that will help in this process include the following:

**Prior to financial statements signing**
- Financial statements being reviewed for style and format before being provided for audit
- Financial statements being prepared for audit in the same format as they are to be published, and

**After certification**
- The Chief Executive/Board certification and audit report being scanned from original documents
- Printer’s proofs of hard copy reports being reviewed by an independent person or by more than one person
- Responsible officers certifying that required checks of the published information have been conducted
- The auditors being provided with the opportunity to check the printer’s proofs, and
- Frequent communication with the annual report coordinator.

### 5.5. Placing the annual report on the website

The annual report should be placed on the entity’s website as soon as practicable after the report has been tabled in Parliament. The entity's website must have an appropriate level of security to prevent any unauthorised changes to the report, and to detect and monitor all changes made.

PDF is a preferred form among current technologies for reporting on the website as there is a low risk of errors occurring on uploading, and it provides security of the information once on the website.

The entity may wish to use hyperlinks from one item to another in the annual report and/or financial statements. This is most commonly done from the contents page so that a user can go directly to the desired part without going through all the earlier parts of the report and/or financial statements. Hyperlinks in the financial statements should only link to other items in the financial statements and the audit report, as links outside of these may be to unaudited information, which should not be associated with the audit report.

The external auditor issues a separate audit report for electronic presentation on the entity’s website. Management should ensure this audit report is loaded on the website in lieu of the audit report provided on the financial statements for inclusion in the hard copy annual report.

### 5.6. Errors in annual reports

While the procedures outlined above should prevent errors, there is still a risk of error occurring in the printed annual report. As a result, copies of the financial statements and audit report (and other contributions by the CFO or his/her team) should be checked as soon as practicable after the annual report is printed.

In rare circumstances, errors remain undetected in the tabled, and publicly available, annual report. In these situations, the entity should correct both the hard copy and website copy, as appropriate. Where an error results in a material misstatement, omission or non-disclosure of information,46 or

---

46 op. cit. AASB 1031 Materiality.
is considered by the entity to require correction for other reasons, the entity should discuss the issue with the external auditors and arrange for a corrigendum to be tabled in the Parliament, if necessary.

The entity should also advise, to the extent practicable, any other persons or entities known to have been provided with a copy of the report.

6. MONITORING AND REVIEW ARRANGEMENTS

6.1. Introduction

In view of the importance of preparing accurate and timely financial statements, and consistent with a culture of continuous improvement, entities should build into their processes a ‘post mortem’ review of their performance. This may involve the establishment of appropriate performance measures.

6.2. Performance measures

Entities should consider the benefits of developing performance measures for key elements of the financial statement process and reporting on actual performance once the statements have been finalised. Aspects of performance that could be measured include:

- the extent and nature of changes between the first draft and the signed financial statements
- compliance with the reporting framework, and
- efficiency and timeliness of activities.

Any performance indicators established should be readily measurable and recorded. Examples of performance indicators that may be useful include the:

- number and value of journal entries processing corrections to the accounts
- number of runs of the trial balance produced
- number of issues of non-compliance with legislation
- number of issues of non-compliance with accounting standards
- number and significance of issues raised by audit (internal and external)
- number of entries to the general ledger during the closing period
- number of automated journal entries as a percentage of total journal entries
- percentage of activities completed on schedule (e.g. reconciliations), and
- number of days late where a reporting timeline is not met.

By reporting performance information of this type, entities can assess where opportunities exist for improvements in existing processes and procedures. Any unsatisfactory results should be investigated to ascertain the reasons why, and to implement remedial action, if appropriate. Improvements might include a shift in resources (for example, where timelines are not being met) or greater use of technology (for example, where there is a high number of manual journals). Also, timeline targets should be shortened where experience demonstrates that it is feasible to do so.
6.3. Annual review by the CFO

Reporting on performance should be supplemented by an annual review of the financial statement production process. Such a review is very important to the planning process, as it provides the opportunity to make improvements for the succeeding year.

An evaluation of the previous year’s experience and performance of the entity should involve key members of the financial statement preparation team as well as representatives of any other contributors to the financial statements, for example, the business areas or personnel section. It should also involve any new members of the team so they can appreciate the strengths and weaknesses of the previous year’s process. Input should also be obtained from the Chief Executive/Board, the Audit Committee, and internal and external audit. The CFO or the current year team leader needs to communicate with the relevant parties and conduct a post mortem of last year’s process. Larger organisations with many contributors may find it useful to supplement discussions with a survey of business areas and other stakeholders.

Aspects that could be considered in the review include:

- the involvement of senior management
- leadership and expertise within the CFO group
- appropriateness of information systems and other records
- extent and reliability of internal controls
- completeness and accuracy of the draft financial statements
- availability and knowledge of accounting staff resources
- understanding and cooperation of business area management
- the extent of the contribution made by external specialists
- the extent and timing of work undertaken by Internal Audit
- arrangements with external audit for conducting its work
- the involvement of the Audit Committee in reviewing financial statements
- any issues raised by the CFO and Chief Executive/Board impacting on the financial statements
- meeting of timelines for completing individual tasks, and
- the adequacy of contingency plans.

The review team should make a record of the key issues identified and distribute the document among the various contributors for comment/confirmation. The record should outline any corrective action to be taken, and allocate responsibility for those actions. For example, new procedures or system enhancements may be required. The outcome of the review and proposed actions should be discussed with the Audit Committee and, importantly, used as an input to the current year’s preparation process.

6.4. Independent reviews

Most processing activities benefit from independent review from time to time. Although the preparation of the financial statements is subject to audit by external audit, entities should consider other forms of review, particularly where the process is in need of significant improvement or where work redesign and automation are desirable. Entities may wish to engage Internal Audit, or external contractors, to conduct such a review.
### ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>AAO</td>
<td>Administrative Arrangements Order</td>
</tr>
<tr>
<td>AAS</td>
<td>Australian Accounting Standards</td>
</tr>
<tr>
<td>AASB</td>
<td>Australian Accounting Standards Board</td>
</tr>
<tr>
<td>ANAO</td>
<td>Australian National Audit Office</td>
</tr>
<tr>
<td>ASA</td>
<td>Australian Auditing Standard</td>
</tr>
<tr>
<td>ATO</td>
<td>Australian Taxation Office</td>
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<tr>
<td>AUASB</td>
<td>Auditing and Assurance Standards Board</td>
</tr>
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<td>CAC Act</td>
<td><em>Commonwealth Authorities and Companies Act 1997</em></td>
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<td>Chief Executive's Instructions</td>
</tr>
<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>CFS</td>
<td>Consolidated Financial Statements</td>
</tr>
<tr>
<td>CPGs</td>
<td>Commonwealth Procurement Guidelines</td>
</tr>
<tr>
<td>CRF</td>
<td>Consolidated Revenue Fund</td>
</tr>
<tr>
<td>FBO</td>
<td>Final Budget Outcome</td>
</tr>
<tr>
<td>Finance</td>
<td>Department of Finance and Deregulation</td>
</tr>
<tr>
<td>FMA Act</td>
<td><em>Financial Management and Accountability Act 1997</em></td>
</tr>
<tr>
<td>FMA Regulations</td>
<td><em>Financial Management and Accountability Regulations 1997</em></td>
</tr>
<tr>
<td>FMIS</td>
<td>Financial Management Information System</td>
</tr>
<tr>
<td>FMOs</td>
<td>Finance Minister’s Orders</td>
</tr>
<tr>
<td>GFS</td>
<td>Government Finance Statistics</td>
</tr>
<tr>
<td>GGS</td>
<td>General Government Sector</td>
</tr>
<tr>
<td>GST</td>
<td>Goods and Services Tax</td>
</tr>
<tr>
<td>IASB</td>
<td>The International Accounting Standards Board</td>
</tr>
<tr>
<td>ICAA</td>
<td>Institute of Chartered Accountants in Australia</td>
</tr>
<tr>
<td>JCPAA</td>
<td>Joint Committee of Public Accounts and Audit</td>
</tr>
<tr>
<td>SAC</td>
<td>Statements of Accounting Concepts</td>
</tr>
</tbody>
</table>
REFERENCES


The Canadian Institute of Chartered Accountants 2004, CEO and CFO Certification Improving Transparency and Accountability, CICA, Toronto.


PART 4
Toolkit
PART 4
Toolkit

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ITEM 1: EXAMPLE MONTHLY FINANCIAL REPORT

The submission of periodic, generally monthly, financial reports to the Chief Executive/Board is a common requirement in most entities. These reports will often be one of a suite of reports and other information considered by the Chief Executive/Board. They usually consist of a narrative commentary and a combination of graphs and bar charts to highlight information important to the entity’s business. Reports of this nature need to be tailored to the particular business requirements of each entity, as no one format will suit all circumstances.

The following example comprises a proforma executive overview and financial tables and charts that summarise and highlight the financial position and performance of the entity. The XYZ entity management reports following the proforma executive overview were provided by one of the entities contributing to the Guide. The data included in the reports do not reflect the actual financial circumstances of the entity concerned.

Reference: Part 2, Section 4.1, Page 29.

PROFORMA EXECUTIVE OVERVIEW (see Note)

To assist the Chief Executive’s/Board’s and senior management’s consideration of an entity’s monthly financial report, a summary of the key issues, developments and recommendations should be prepared. While the context, style and presentation of the summary should reflect the needs of the Chief Executive/Board and senior management of each entity, it could be expected to contain the following information.

Summary operating results
- details of the overall operating results to date, compared to budget
- details of the operating result to date for each business area/cost centre, compared to budget
- forecast operating result for the entity and each business area/cost centre
- major contributions to any significant variations from budget

Financial risks and business pressures
- a summary of new and emerging financial risks and pressure points: It is quite common for entities to adopt a ‘traffic light’ system (red, amber, green) to rank and highlight such events

Cash
- details of the entity’s cash position and any projected or abnormal cash demands

Debtors and creditors
- a summary of creditor performance i.e. percentage of invoices paid within agreed timeframes, e.g. 30 days
- details of movements in debtor balances including any significant overdue debtors

Major projects
- a summary of the current state of nominated major projects including funding and other resourcing implications of any project slippages. A ‘traffic light’ system is also often used for this segment of the report.
Administered items
» a summary of year to date and projected full year results for administered revenues and expenses

Recommendations
» the report should include specific recommended actions for the Chief Executive/Board and senior management to consider

Note
It is now common practice for Chief Executive/Board and senior management monthly reports to include a range of non-financial information to provide a more balanced view on the entity’s performance. For example, many reports include information on the entity’s work force, business risks, progress against performance indicators, major policy initiatives and any significant security matters. A discussion on these matters is however outside the scope of this Guide.
# XYZ ENTITY
**Management Report**

December 200X

## Financial Summary

<table>
<thead>
<tr>
<th></th>
<th>Month To Date</th>
<th>Year To Date</th>
<th>Full Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Departmental Performance – $’000</strong></td>
<td>Actual</td>
<td>Budget</td>
<td>Variance</td>
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<tr>
<td>Revenue</td>
<td>25,455</td>
<td>23,820</td>
<td>1,635</td>
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<tr>
<td>Expense</td>
<td>24,410</td>
<td>23,690</td>
<td>(720)</td>
</tr>
<tr>
<td>Operating surplus/(deficit) before tax</td>
<td>1,045</td>
<td>130</td>
<td>915</td>
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<tr>
<td>Tax expense</td>
<td>230</td>
<td>39</td>
<td>(191)</td>
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<tr>
<td>Operating surplus / (deficit)</td>
<td>815</td>
<td>91</td>
<td>724</td>
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<table>
<thead>
<tr>
<th><strong>Special Account Operations – $’000</strong></th>
<th>Month To Date</th>
<th>Year To Date</th>
<th>Full Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>12,325</td>
<td>10,680</td>
<td>1,645</td>
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<td>Expense</td>
<td>11,200</td>
<td>10,140</td>
<td>(1,060)</td>
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<td>Operating surplus/(deficit) before tax and indirect items</td>
<td>1,125</td>
<td>540</td>
<td>585</td>
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<tr>
<td>Tax expense</td>
<td>230</td>
<td>39</td>
<td>(191)</td>
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<tr>
<td>Operating surplus / (deficit)</td>
<td>536</td>
<td>91</td>
<td>445</td>
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<table>
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<tr>
<th><strong>Budget Funded Operations – $’000</strong></th>
<th>Month To Date</th>
<th>Year To Date</th>
<th>Full Year</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>13,130</td>
<td>13,140</td>
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<td>Expense</td>
<td>13,210</td>
<td>13,550</td>
<td>340</td>
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<td>Operating surplus/(deficit) before tax and indirect items</td>
<td>(80)</td>
<td>(410)</td>
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<td>Indirect revenue</td>
<td>360</td>
<td>410</td>
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<td>Operating surplus / (deficit)</td>
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<tr>
<td>Tax expense</td>
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<td>0</td>
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<tr>
<td>Operating surplus / (deficit)</td>
<td>280</td>
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## Financial Forecast

### Cumulative Operating Surplus/(Deficit)

**Special Accounts**

- **Actual**
- **Budget**
- **Forecast**

<table>
<thead>
<tr>
<th>Month</th>
<th>Special Accounts Operating Surplus/(Deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>$0 million</td>
</tr>
<tr>
<td>Aug</td>
<td>$1 million</td>
</tr>
<tr>
<td>Sep</td>
<td>$3 million</td>
</tr>
<tr>
<td>Oct</td>
<td>$5 million</td>
</tr>
<tr>
<td>Nov</td>
<td>$7 million</td>
</tr>
<tr>
<td>Dec</td>
<td>$9 million</td>
</tr>
<tr>
<td>Jan</td>
<td>$11 million</td>
</tr>
<tr>
<td>Feb</td>
<td>$13 million</td>
</tr>
<tr>
<td>Mar</td>
<td>$15 million</td>
</tr>
<tr>
<td>Apr</td>
<td>$17 million</td>
</tr>
<tr>
<td>May</td>
<td>$19 million</td>
</tr>
<tr>
<td>Jun</td>
<td>$21 million</td>
</tr>
</tbody>
</table>

### Cumulative Operating Surplus/(Deficit)

**Budget Funded Operations**

- **Actual**
- **Budget**
- **Forecast**

<table>
<thead>
<tr>
<th>Month</th>
<th>Budget Funded Operations Operating Surplus/(Deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>$0 million</td>
</tr>
<tr>
<td>Aug</td>
<td>$1 million</td>
</tr>
<tr>
<td>Sep</td>
<td>$3 million</td>
</tr>
<tr>
<td>Oct</td>
<td>$5 million</td>
</tr>
<tr>
<td>Nov</td>
<td>$7 million</td>
</tr>
<tr>
<td>Dec</td>
<td>$9 million</td>
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<tr>
<td>Jan</td>
<td>$11 million</td>
</tr>
<tr>
<td>Feb</td>
<td>$13 million</td>
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<tr>
<td>Mar</td>
<td>$15 million</td>
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<td>Apr</td>
<td>$17 million</td>
</tr>
<tr>
<td>May</td>
<td>$19 million</td>
</tr>
<tr>
<td>Jun</td>
<td>$21 million</td>
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XYZ ENTITY
MANAGEMENT REPORT
December 200X

Cash

<table>
<thead>
<tr>
<th></th>
<th>Current Balance '000</th>
<th>Last Month's Balance '000</th>
<th>Movement '000</th>
<th>Year-end Forecast '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Account Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating cash</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Account 1</td>
<td>60,530</td>
<td>62,000</td>
<td>(1,470)</td>
<td>54,100</td>
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<tr>
<td>Special Account 2</td>
<td>320,150</td>
<td>332,600</td>
<td>(12,450)</td>
<td>248,150</td>
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<tr>
<td>Capital appropriation</td>
<td></td>
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<tr>
<td>Special Account 2</td>
<td>149,860</td>
<td>165,400</td>
<td>(15,540)</td>
<td>64,200</td>
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<td>Total Special Account Operations Cash</td>
<td>530,540</td>
<td>560,000</td>
<td>(29,460)</td>
<td>366,450</td>
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<td>Budget Funded Operations</td>
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<tr>
<td>Operating cash</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Program 1</td>
<td>120</td>
<td>120</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Program 2</td>
<td>8,420</td>
<td>8,600</td>
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<td>Program 3</td>
<td>23,150</td>
<td>22,100</td>
<td>1,050</td>
<td>12,200</td>
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<td>Program 4</td>
<td>1,130</td>
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<td>630</td>
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<tr>
<td>Capital appropriation</td>
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<tr>
<td>Program 3</td>
<td>2,980</td>
<td>3,460</td>
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<td>Total Budget Funded Operations Cash</td>
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<td>34,780</td>
<td>1,020</td>
<td>22,740</td>
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<tr>
<td>Total Departmental Cash</td>
<td>566,340</td>
<td>594,780</td>
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Debtors and Creditors

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<td>$'000</td>
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<tr>
<td>Month</td>
<td>Jun</td>
<td>Jul</td>
<td>Aug</td>
<td>Sep</td>
</tr>
<tr>
<td>Debtors in thousands</td>
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<table>
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<td>Creditors</td>
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<tr>
<td>$'000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Month</td>
<td>Jul</td>
<td>Aug</td>
<td>Sep</td>
<td>Oct</td>
</tr>
<tr>
<td>Number of invoices paid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of invoices paid on time</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Human Resource Summary

<table>
<thead>
<tr>
<th></th>
<th>1,250</th>
<th>1,200</th>
<th>1,150</th>
<th>1,100</th>
<th>1,050</th>
<th>1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff numbers by month (FTE)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of staff</td>
<td>May</td>
<td>Jun</td>
<td>Jul</td>
<td>Aug</td>
<td>Sep</td>
<td>Oct</td>
</tr>
<tr>
<td>Staff by Group (FTE)</td>
<td>DIV 1</td>
<td>DIV 2</td>
<td>DIV 3</td>
<td>DIV 4</td>
<td>DIV 5</td>
<td>DIV 6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>250</th>
<th>200</th>
<th>150</th>
<th>100</th>
<th>50</th>
<th>0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff by Group (FTE)</td>
<td>DIV 1</td>
<td>DIV 2</td>
<td>DIV 3</td>
<td>DIV 4</td>
<td>DIV 5</td>
<td>DIV 6</td>
</tr>
</tbody>
</table>
**XYZ ENTITY**
**MANAGEMENT REPORT**

December 200X

---

### Major Projects

<table>
<thead>
<tr>
<th>Project expenditure - $'000</th>
<th>MTD</th>
<th>Year to date</th>
<th>Full Year</th>
<th>Whole of Life</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Special Account Operations</strong></td>
<td>Actual</td>
<td>Actual</td>
<td>Budget</td>
<td>Variance</td>
</tr>
<tr>
<td>Capital Projects funded by capital injection</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project 1</td>
<td>1,210</td>
<td>5,621</td>
<td>(639)</td>
<td>2,889</td>
</tr>
<tr>
<td>Project 2</td>
<td>384</td>
<td>888</td>
<td>(276)</td>
<td>612</td>
</tr>
<tr>
<td>Project 3</td>
<td>15</td>
<td>250</td>
<td>(10)</td>
<td>600</td>
</tr>
<tr>
<td>Project 4</td>
<td>8</td>
<td>98</td>
<td>(1,069)</td>
<td>336</td>
</tr>
<tr>
<td><strong>Capital Projects funded internally</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project 5</td>
<td>132</td>
<td>1,193</td>
<td>1,400</td>
<td>207</td>
</tr>
<tr>
<td>Project 6</td>
<td>2,010</td>
<td>2,572</td>
<td>6,200</td>
<td>(3,628)</td>
</tr>
<tr>
<td>Project 7</td>
<td>0</td>
<td>0</td>
<td>1,273</td>
<td>(1,273)</td>
</tr>
<tr>
<td>Project 8</td>
<td>8</td>
<td>1,855</td>
<td>2,000</td>
<td>(145)</td>
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<tr>
<td><strong>Total Project Expenditure</strong></td>
<td>3,767</td>
<td>11,838</td>
<td>18,099</td>
<td>(6,261)</td>
</tr>
</tbody>
</table>

---

### Year To Date Project Expenditure

![Year To Date Project Expenditure Chart](chart1.png)

---

### Full Year Project Expenditure Forecast

![Full Year Project Expenditure Chart](chart2.png)
Administered Financial Performance - Cash Expenditure

Receipts – $’000

<table>
<thead>
<tr>
<th>YTD Actual</th>
<th>Full Year Forecast</th>
<th>Full Year Budget</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$’000</td>
<td>$’000</td>
<td>$’000</td>
<td>$’000</td>
</tr>
<tr>
<td>Outcome 1</td>
<td>25,000</td>
<td>42,150</td>
<td>40,000</td>
</tr>
<tr>
<td>Outcome 2</td>
<td>120,000</td>
<td>210,000</td>
<td>210,000</td>
</tr>
<tr>
<td>Outcome 3</td>
<td>3,500</td>
<td>4,500</td>
<td>4,500</td>
</tr>
<tr>
<td>Total</td>
<td>148,500</td>
<td>256,650</td>
<td>254,500</td>
</tr>
</tbody>
</table>

Payments – $’000

Operating Appropriation

<table>
<thead>
<tr>
<th>YTD Actual</th>
<th>Full Year Forecast</th>
<th>Available</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$’000</td>
<td>$’000</td>
<td>$’000</td>
<td>$’000</td>
</tr>
<tr>
<td>Annual Appropriation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bill 1 - Outcome 1</td>
<td>150</td>
<td>150</td>
<td>180</td>
</tr>
<tr>
<td>Bill 1 - Outcome 2</td>
<td>56,125</td>
<td>110,010</td>
<td>115,000</td>
</tr>
<tr>
<td>Bill 1 - Outcome 3</td>
<td>4,210</td>
<td>12,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Special Appropriation - Outcome 2</td>
<td>22,143</td>
<td>35,160</td>
<td>35,000</td>
</tr>
<tr>
<td>Special Appropriation - Outcome 2</td>
<td>22,143</td>
<td>35,160</td>
<td>35,000</td>
</tr>
<tr>
<td>Total Operating Appropriation</td>
<td>82,628</td>
<td>157,320</td>
<td>162,180</td>
</tr>
</tbody>
</table>

Capital Injections

<table>
<thead>
<tr>
<th>YTD Actual</th>
<th>Full Year Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>$’000</td>
<td>$’000</td>
</tr>
<tr>
<td>Bill 2 - Outcome 1</td>
<td>500</td>
</tr>
<tr>
<td>Bill 2 - Outcome 3</td>
<td>435</td>
</tr>
<tr>
<td>Special Appropriation - Outcome 2</td>
<td>5,165</td>
</tr>
<tr>
<td>Total Capital Injections</td>
<td>6,100</td>
</tr>
</tbody>
</table>

Annual Bill 1 Appropriation

<table>
<thead>
<tr>
<th>YTD Actual</th>
<th>Forecast</th>
<th>Approp Avail</th>
</tr>
</thead>
<tbody>
<tr>
<td>$’000</td>
<td>$’000</td>
<td>$’000</td>
</tr>
<tr>
<td>Bill 2 - Outcome 1</td>
<td>500</td>
<td>750</td>
</tr>
<tr>
<td>Bill 2 - Outcome 3</td>
<td>435</td>
<td>1,200</td>
</tr>
<tr>
<td>Special Appropriation - Outcome 2</td>
<td>5,165</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Special Appropriation

<table>
<thead>
<tr>
<th>YTD Actual</th>
<th>Forecast</th>
<th>Approp Avail</th>
</tr>
</thead>
<tbody>
<tr>
<td>$’000</td>
<td>$’000</td>
<td>$’000</td>
</tr>
<tr>
<td>Special Appropriation - Outcome 2</td>
<td>5,165</td>
<td>10,000</td>
</tr>
</tbody>
</table>
ITEM 2: CHECKLIST FOR THE CHIEF FINANCIAL OFFICER

The Chief Financial Officer (CFO) of an entity generally has primary responsibility for the preparation of the financial statements and is often a co-signatory, with the Chief Executive/Board, in certifying the financial statements. The CFO is therefore the appropriate person to ensure that the necessary processes have been conducted and that the financial statements present fairly in accordance with the financial reporting framework.

The checklist is intended to be a useful tool in considering a range of issues relating to the preparation of an entity’s financial statements and may assist the CFO in discharging his/her responsibilities and form the basis of providing assurance to the Chief Executive/Board that the CFO has taken an appropriate level of care and review in preparing the financial statements.

The checklist does not necessarily cover all possible issues or questions and should be tailored to reflect the particular circumstances of each entity. It also needs to be tailored to reflect, where applicable, the line of responsibility and reporting structure of the entity, and the relationship the CFO has with other key officers involved in the preparation of the financial statements. This includes the finance team as well as business managers who may contribute to the financial statements. It may also be appropriate for certain sections/questions of the checklist to be completed by other people within the entity.

The checklist is structured in two Parts:

Part 1: covers general management issues, and

Part 2: deals with technical issues and specific items in the financial statements.

Questions with an asterisk (*) cover matters included in the proforma management representation letters at Item 13 of this Toolkit.

The checklist also identifies, with the use of colour coding, the issues that require consideration in each of the following phases of the financial statement preparation process:

- **PL**: Planning, including ongoing financial management
- **PR**: Preparation
- **AU**: Audit
- **SR**: Management sign-off and certification.

## Part 1: CFO checklist on management of the financial statements

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Management reporting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PL</td>
<td>» Are full accrual financial reports prepared regularly <em>(e.g. monthly)</em>?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Have regular analysis and reviews been performed and problems been identified and addressed promptly?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2 Management of resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PL</td>
<td>» Have effective human resource policies and procedures been implemented to recruit, train, promote, remunerate and retain skilled finance professionals?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Are sufficient resources, with appropriate knowledge and skills, committed to the financial statement preparation process?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Do officers involved in the financial statement preparation process understand their responsibilities and the expectations placed on them to achieve a quality product within the agreed timetable?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3 Risk management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PL</td>
<td>» Have effective risk management practices regarding financial statements and related accounts and records been consistently applied throughout the entity?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Are risks to achieving reliable and timely financial statements considered as part of an annual review of the financial management strategy or plan?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Are arrangements in place to monitor any proposed changes to the entity's business strategy or processes <em>(including any major acquisitions or new policy initiatives)</em> that may affect the financial statements?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Do clearly understood reporting mechanisms exist to alert senior management to new and changing risks regarding financial statements?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.4 Internal controls</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PL</td>
<td>» Are internal controls in place to ensure compliance with legislation and regulations that affect the financial statements <em>(e.g. enabling legislation, Appropriation Acts)</em>?*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Have ineffective or unnecessary controls been identified and eliminated to reduce costs and/or reallocate resources?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Is adequate monitoring of internal controls in place to ensure that they are being applied in the way intended and appropriate action is taken on any reported exceptions?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PR</td>
<td>» Are policies and procedures well defined and kept up to date to provide clear guidance to staff?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR</td>
<td>» Have proper financial accounts and records been maintained in relation to the entity’s financial operations?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Are the internal controls within the entity sufficiently robust to prevent, detect or correct error and fraud?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Were the accounting and business systems that record financial information operating effectively throughout the year?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Are quality control and assurance arrangements in place to provide assurance about the integrity of the financial information reported in the financial statements?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.5 Planning, management and coordination</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planning:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PL</td>
<td>» Has a work plan or equivalent, and timetable for the financial statement preparation and audit process been prepared, discussed and agreed with relevant stakeholders?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Are formal arrangements in place to obtain appropriately certified information from other entities that is required to be included in the entity’s financial statements?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Are there contingency arrangements in place for any unexpected staff movements or unplanned leave that could affect the preparation of the financial statement process?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Are arrangements in place to regularly monitor and review implementation of the work to ensure the financial statements are completed in accordance with the agreed timetable?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Are measures in place to align the expected completion and audit of the financial statements with the scheduled meetings of the Audit Committee/Chief Executive/Board?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» Is the timing of the completion of the financial statement audit coordinated with that of the publication of the annual report?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part 1: CFO checklist on management of the financial statements</td>
<td>Yes</td>
<td>No</td>
<td>N/A</td>
<td>Explanation</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------------------</td>
<td>-----</td>
<td>----</td>
<td>-----</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td><strong>Financial adjustments:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PR Have all year-end adjustments been reviewed, approved and incorporated in the financial statements?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PR Are the effects of uncorrected misstatements in the financial statements immaterial, both individually and in aggregate, to the financial statements taken as a whole?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financial analysis:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR Have explanations been provided for any significant variations between the actual and the budgeted results for the current year and significant movements compared with the previous years’ statements?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Supporting documentation:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PR Is there adequate documentation supporting the financial statements including lead schedules, worksheets, third party confirmations, reconciliations, ministerial determinations and any records/reports that are used in the financial statement preparation?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Information from other entities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PR Has all information been obtained from other entities for inclusion in the financial statements?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PR Has this information been certified in accordance with agreed arrangements?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Audit:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PR Have records and related information that affect the fairness of the financial statements been made available to external audit e.g. Board minutes, relevant ministerial approval/determinations?*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AU Have the reasons for not taking up any errors or misstatements identified by external audit been reported to the Chief Executive/Board/Audit Committee, where appropriate?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AU Has the proposed audit opinion including issues arising from the audit been discussed with external audit?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PR Have remedial measures been taken or proposed to address the issues raised by external audit to the extent that they may impact on the financial statements, including adjustments to the financial statements?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1.6 Quality assurance and certification</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PR Have the financial statements been subject to appropriate quality assurance reviews to ensure that they have been prepared in accordance with the entity’s plans, policies and procedures?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AU Are the contents of the Management Representation Letter fully substantiated by responsible officers and/or records?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Management sign-off:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR Are the financial statements supported by management sign-offs from relevant stakeholders and business areas?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR Are the management sign-offs from stakeholders and business areas supported by appropriate documentation, where applicable?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1.7 Reporting</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR Have all issues arising from the Audit Committee’s review of the draft financial statements been satisfactorily resolved?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Annual report:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR Are arrangements in place to ensure that the financial statements printed in the annual report and posted on the entity’s website are an exact replica of the signed audited financial statements?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part 2: CFO checklist on technical financial statement issues</td>
<td>Yes</td>
<td>No</td>
<td>N/A</td>
<td>Explanation</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------------------</td>
<td>-----</td>
<td>----</td>
<td>-----</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td><strong>2.1 Presentation and disclosure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Were materiality levels applied in the preparation of the financial statements discussed and agreed with the Chief Executive/Board/Audit Committee and external audit?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Have the relevant requirements under the Finance Minister’s Orders and the Australian Accounting Standards been identified and reflected in the financial statements?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Are arrangements in place to ensure that all material items are included in the financial statements?</td>
<td></td>
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<tr>
<td>- Have steps been taken to ensure that the financial statement items and corresponding notes:</td>
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<tr>
<td>- comply with the format and disclosure requirements of the FMOs, using the PRIMA financial statements as a guide</td>
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<tr>
<td>- reflect the re-classification of comparative year figures, where appropriate</td>
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<td>- are supported by lead schedules and other supporting documentation, which reconcile to the trial balance, where appropriate, and</td>
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<tr>
<td>- are free from arithmetical and typographical errors?</td>
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<tr>
<td>- Have any significant or non-recurring transactions, events or adjustments been dealt with appropriately in the financial statements?</td>
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<tr>
<td><strong>2.2 Accounting policies</strong></td>
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<tr>
<td>- Is the approach to accounting for revenue, expense, asset and liability recognition appropriate and consistent with the FMOs and the Australian Accounting Standards?</td>
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<tr>
<td>- Are changes in the entity’s accounting policies from previous reporting periods reflected in the financial statements, where necessary?</td>
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<tr>
<td>- Are changes in accounting policies reasonable and supportable and endorsed by Chief Executive/Board/Audit Committee and external auditor, where appropriate?</td>
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<tr>
<td><strong>2.3 Legislative compliance</strong></td>
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<tr>
<td>- Have all actual or potential breaches of legislation identified as part of the Certificate of Compliance process been reviewed to determine their impacts, if any, on the financial statement?</td>
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<tr>
<td>- Have breaches of legislation (including relevant taxation requirements) in respect of financial transactions been addressed appropriately?</td>
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<tr>
<td>- Have moneys been expended for the purpose for which they were appropriated and has the limit on any appropriation not been exceeded?*</td>
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<tr>
<td>- Has the financial impact of any outstanding legal or contractual matters been identified and reflected in the financial statements, where appropriate?</td>
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<tr>
<td>- Have delegated powers been appropriately exercised between the beginning of the financial year under audit and the date on which the Chief Executive/Board certifies the financial statements (specify date)?</td>
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<tr>
<td>- Has appropriate action been taken regarding communications from regulatory authorities concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect upon the financial statements?</td>
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<tr>
<td>- Have all financial aspects of the operations been undertaken in accordance with applicable legislation, policies, and instructions?</td>
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<tr>
<td><strong>2.4 Annual appropriations</strong></td>
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<tr>
<td>- Are the transactions and balances as reported in the financial statements in accordance with the purpose described in the annual appropriation line item?</td>
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<tr>
<td>- Have section 8 determinations been correctly accounted for and disclosed in the financial statements?</td>
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<tr>
<td>- Are amounts reported against the GST annotated appropriations supported by valid tax invoices?</td>
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<tr>
<td><strong>2.5 Section 31 Relevant Agency Receipts</strong></td>
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<tr>
<td>- Are all section 31 Relevant Agency Receipts reported in the financial statements eligible for retention in accordance with regulations 15 and 16 of FMA Regulations?</td>
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</tbody>
</table>
## Part 2: CFO checklist on technical financial statement issues

<table>
<thead>
<tr>
<th>Item</th>
<th>Checklist</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2.6</strong> Special appropriations</td>
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<tr>
<td>• Have all special appropriations administered by the entity been reported in the financial statements in accordance with FMOs?</td>
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<tr>
<td>• Have all conditions or limitations described in the legislation enabling the special appropriation been complied with (for example, limited by amount and/or date, eligibility criteria, guidelines on applying funds or making grants or provisions for handling surplus funds)?</td>
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</tbody>
</table>

| **2.7** Special accounts under the FMA Act | | | | |  
| • Are special accounts reported in the financial statements supported by a valid determination from the Minister for Finance (section 20 accounts) or legislation (section 21 accounts) covering the full financial year? | | | | |  
| • Have all special accounts, including ‘Nil’ balances been included in the financial statements in accordance with FMOs? | | | | |  
| • Are all receipts and expenses to and from each special account for the purpose specified in the relevant determination or Act? | | | | |  

| **2.8** Drawing rights under the FMA Act | | | | |  
| • Does the entity hold drawing rights for each appropriation and special account? | | | | |  

| **2.9** Section 32 of the FMA Act transfers | | | | |  
| • Have section 32 transfers been properly accounted for and reported in the financial statements? | | | | |  

| **2.10** Investments (section 39 of the FMA Act and sections 18 and 19 of the CAC Act) | | | | |  
| • Have all investments during the financial year been made in compliance with the relevant legislative provisions (for example, approved forms of investment)? | | | | |  

| **2.11** Revenue (administered and enabling legislation) | | | | |  
| • Has revenue payable under legislation been brought to account in accordance with relevant legislative provisions? | | | | |  

| **2.12** Administrative Arrangements Order (AAO) | | | | |  
| • Have all assets and liabilities been properly transferred in accordance with FMO and AAO requirements? | | | | |  

| **2.13** Income statement | | | | |  
| • Are the figures reported in the income statement consistent with your expectations? For example, is the financial result of the entity in line with expectations? | | | | |  
| • Have all revenues and expenses been disclosed in accordance with FMO requirements? | | | | |  
| • Have all prior year adjustments been disclosed correctly in accordance with accounting standards? For example, have comparatives and the opening balance of retained earnings been adjusted? | | | | |  
| • Can any large items of revenue or expense recorded immediately prior and/or subsequent to balance date be satisfactorily explained? | | | | |  
| • Have all significant variations with budget been satisfactorily identified and explained? | | | | |  
| • Have all unbudgeted losses or large profits been satisfactorily explained? | | | | |  
| • Are there any significant increases or decreases in income/expense compared with previous year? For example, are there any significant variations in staff expenses and for long term liabilities? If so, obtain satisfactory explanation. | | | | |  
| • Have all unusual or non-recurring amounts in income/expense that affect the comparability of the financial statements with previous year been identified and explained? | | | | |  

<p>| <strong>SR</strong> | | | | |<br />
| • Have all significant variations with budget been satisfactorily identified and explained? | | | | |<br />
| • Have all unbudgeted losses or large profits been satisfactorily explained? | | | | |<br />
| • Are there any significant increases or decreases in income/expense compared with previous year? For example, are there any significant variations in staff expenses and for long term liabilities? If so, obtain satisfactory explanation. | | | | |<br />
| • Have all unusual or non-recurring amounts in income/expense that affect the comparability of the financial statements with previous year been identified and explained? | | | | |</p>
<table>
<thead>
<tr>
<th>Part 2: CFO checklist on technical financial statement issues</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2.14 Appropriations</strong></td>
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<tr>
<td>» Has an appropriation note been completed for all annual and special appropriations?</td>
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<tr>
<td>» Have the following been performed:</td>
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<tr>
<td>- appropriations and estimates (special appropriations) agree with budget papers</td>
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<tr>
<td>- balances carried forward agree with the financial statements from previous year</td>
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<tr>
<td>- section 31 Relevant Agency Receipts are reconciled to the financial management information system, and</td>
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<tr>
<td>- payments from appropriations are reported, including goods and services tax, and reconciled to the financial management information system and Finance’s appropriation system?</td>
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<tr>
<td>» Are the appropriation notes in accordance with Finance Minister’s Orders?</td>
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<tr>
<td>» Are relevant documentation and financial records available to fully support any adjustments to appropriations?</td>
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<tr>
<td><strong>2.15 Administered items</strong></td>
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<tr>
<td>» Have the Schedule of Administered Items and related notes been prepared in accordance with the FMOs?</td>
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<tr>
<td>» Is documentation available to support the Schedule and related notes, in particular, significant variations?</td>
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<tr>
<td><strong>2.16 Financial assets</strong></td>
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<tr>
<td>Cash on Hand and at Bank:</td>
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<tr>
<td>» Has a complete list of all bank accounts and advances as at year-end been prepared?</td>
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<tr>
<td>» Has confirmation of cash advances held by advance holders been obtained?</td>
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<tr>
<td>» Have all bank accounts opened/closed by delegates during the year been documented?</td>
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<tr>
<td>» Have bank statements been obtained for all bank accounts?</td>
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<tr>
<td>» Have bank reconciliations been performed and independently checked for all accounts?</td>
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<tr>
<td>» Have bank confirmations been forwarded to external audit?</td>
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<tr>
<td>Investments:</td>
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<tr>
<td>» Are all investments of an approved type?</td>
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<tr>
<td>» Have all supporting schedules of investments e.g. term deposits, investments in statutory authorities and shares in Government-controlled companies been confirmed with third parties or supported by other evidence?</td>
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<tr>
<td>» Have valuations of all investments been undertaken in accordance with the accounting standards?</td>
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<tr>
<td>» Have the carrying values of all investments been reviewed to ensure that the investments do not exceed their recoverable amounts?</td>
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<tr>
<td>» Have investments held for sale been properly disclosed in the financial statements, according to accounting standards?</td>
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<tr>
<td>Receivables:</td>
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<tr>
<td>» Have receivables been disclosed on a basis consistent with the entity’s accounting policy and Finance Minister’s Orders?</td>
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<tr>
<td>» Have procedures for determining the provision for doubtful debts and debt write-offs been carried out?*</td>
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<tr>
<td>» Are the provision for doubtful debts and any amounts written off adequate to provide for reduction on realisation of receivables?*</td>
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</tbody>
</table>
### Part 2: CFO checklist on technical financial statement issues

<table>
<thead>
<tr>
<th>2.17 Non-financial assets</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inventory:</strong></td>
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<tr>
<td>Has the valuation of inventories been undertaken in accordance with the accounting standards?*</td>
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<tr>
<td>Has the carrying value of inventories been reviewed to ensure that they do not exceed their recoverable amounts?*</td>
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<tr>
<td>Have inventories been reviewed for obsolescence?*</td>
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<tr>
<td>Has the work-in-progress been reviewed to ensure that it has been appropriately classified?</td>
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<tr>
<td>Has a reconciliation between the asset register &amp; general ledger account been undertaken &amp; adjustments made where appropriate?</td>
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</tbody>
</table>

| **Land and Buildings and Infrastructure, Plant and Equipment:** |     |    |     |             |
| Is the value of assets recorded in the financial statements as at year-end materially accurate using categories set out in the Finance Minister's Orders? Is it consistent with accounting standards? |     |    |     |             |
| Has a movement schedule showing opening balances, additions, depreciation, disposals, transfers, write-offs and closing balances for all asset classes been prepared? Has the work-in-progress been reviewed to ensure that it is appropriately classified? Have all transactions in the suspense accounts been cleared? |     |    |     |             |
| Does the entity have satisfactory title to all assets? Are there any liens or encumbrances on assets or any assets that have been pledged as collateral and have they been appropriately disclosed in the financial statements?* |     |    |     |             |
| Have asset capitalisation thresholds been reviewed to ensure that they remain appropriate? |     |    |     |             |
| Has a reconciliation between the asset register and general ledger account been undertaken and adjustments made, where appropriate? |     |    |     |             |
| Has the asset register been reviewed to ensure that there are no assets recorded at zero value? For assets recorded at zero values, have their estimated useful lives been assessed correctly? |     |    |     |             |
| Has a stocktake of assets been undertaken and a report on the results prepared in accordance with the entity’s policy? |     |    |     |             |
| Where assets have been revalued in accordance with the accounting standards and the Finance Minister’s Orders, have full details of the current valuation basis used been included in the notes? |     |    |     |             |
| Have the accounts been adjusted to reflect the most recent valuations of land and buildings, and infrastructure, plant and equipment? |     |    |     |             |
| Has an annual review of depreciation rates and methods and the expected useful life of assets been undertaken and appropriate adjustments made to financial statement disclosures? |     |    |     |             |
| Have the carrying values of assets been reviewed to ensure that they do not exceed their recoverable amounts?* |     |    |     |             |
| Have the assets been subjected to the impairment test and adjustments made in accordance with accounting standards? |     |    |     |             |
| Have all asset write-offs been appropriately approved and reflected in the financial statements? |     |    |     |             |
| Have ‘make good’ provisions relating to assets been properly accounted for in the financial statements according to the accounting standards & Finance Ministers’ Orders? |     |    |     |             |

| **Intangibles:** |     |    |     |             |
| Has a policy on capitalisation of intangibles been disclosed in the financial statements? Is it consistent with accounting standards and all intangibles capitalised in accordance with the policy? |     |    |     |             |
| Have all the intangibles been subject to impairment test & adjustments made in accordance with the accounting standards? |     |    |     |             |
### Part 2: CFO checklist on technical financial statement issues

<table>
<thead>
<tr>
<th>2.18 Liabilities</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Provisions and Payables:</strong></td>
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<tr>
<td>» Have reconciliations been performed between the accounts payable ledger and general ledger and adjustments made, where appropriate?</td>
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<tr>
<td>» Has the ageing of payables been analysed to detect any unusual items?</td>
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<tr>
<td>» Have appropriate thresholds and cut-off procedures been established and followed for accruing expenses?</td>
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<tr>
<td><strong>Employees entitlements:</strong></td>
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<tr>
<td>» Have all provisions been appropriately classified between current and non-current?</td>
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<tr>
<td>» Has an actuarial assessment of provisions for employees’ leave entitlements been carried out? Can the entity use the shorthand method to assist in calculating the long service leave expense?</td>
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<tr>
<td>» Have the provisions been discounted to present value, where appropriate? Has the appropriate discount rate been used and unwinding of the discount calculated accurately?</td>
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<tr>
<td><strong>Loans:</strong></td>
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<tr>
<td>» Have copies of supporting contracts and financing arrangements been maintained?</td>
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<tr>
<td>» Have maturity schedules been updated and used to determine the context of the relevant note to the financial statements?</td>
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<tr>
<td><strong>Leases:</strong></td>
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<tr>
<td>» Have copies of all lease agreements been maintained?</td>
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<tr>
<td>» Have lease agreements been reviewed to determine whether they should be accounted for as operating or finance leases?</td>
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<tr>
<td>» Have the reasons for determining the nature of the lease agreement been documented, and discussed and agreed with external audit?</td>
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<tr>
<td>» Have records been maintained to monitor finance lease commitments and maturity profiles?</td>
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<tr>
<td>» Are arrangements in place to distinguish and report the current and non-current lease liability?</td>
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<tr>
<td>» Have all lease incentives been properly accounted for in the financial statements according to the accounting standards?</td>
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<tr>
<td>» Have ‘make good’ provisions relating to leases been properly accounted for in the financial statements according to accounting standards?</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>2.19 Equity and Reserves</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>» Has a schedule been prepared that reconciles the trial balance to the amounts disclosed in the financial statements and notes, e.g. accumulated results, capital/contribution and assets revaluation reserve?</td>
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<tr>
<td>» Are relevant components of equity and reserves properly classified as a result of transactions with other entities resulting from changes in Administrative Arrangements Orders?</td>
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<tr>
<td>» Does the Statement of Changes in Equity comply with Finance Minister’s Orders?</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>2.20 Statement of Cash Flows</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>» Have worksheets and supporting documentation been prepared for the cash flow statement?</td>
<td></td>
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<tr>
<td>» Is the method of reporting cash flows from various activities consistent with the accounting standards?</td>
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<tr>
<td>» Does the cash flow reconciliation note reconcile to the cash flow statement?</td>
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</tbody>
</table>
Part 2: CFO checklist on technical financial statement issues

<table>
<thead>
<tr>
<th>2.21 Schedules and notes to the financial statements</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▶ Has a detailed schedule of commitments and leases been prepared that supports the figures disclosed in the notes?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▶ Have copies of agreements and payment schedules been maintained?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contingencies:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▶ Has a detailed schedule of contingent gains and losses been prepared that supports the figures disclosed in the notes?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▶ Has a schedule of remote contingencies and unquantifiable contingencies been maintained? Has the degree of certainty been assessed and determined?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▶ Has advice been obtained on the status of legal cases from each of the entity's legal advisers?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes to the financial statements:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▶ Have specific note disclosures been prepared as required by the FMOs e.g. executive remuneration, related third party transactions, auditor's remuneration, events after balance date, act of grace payments, waivers of debt?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▶ Have consolidation worksheets for the Income Statement, Balance Sheet, the Statement of Cash Flows and the Statement of Changes in Equity been prepared, where appropriate?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2.22 Subsequent events</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ Have any events occurred between the end of the financial year and the date on which the Chief Executive/Board certifies the financial statement, that are of such significance that they need to be formally advised to the Chief Executive/Board? Have these events been taken into account in the preparation of the financial statements?* Examples include significant transactions, restructures, fraud, irregularity, staff issues, ethical shortcomings, conflict of interest, and status of redundancy processes.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▶ Have any significant events occurred between the date of certification of the financial statements and the date the statements are authorised for issue that require amendment or disclosure in the statements?*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**ITEM 3: CHECKLIST OF CHANGES IN THE BUSINESS ENVIRONMENT**

This checklist provides a list of business developments that may have implications for an entity’s financial statements. For each item listed, one or more examples are provided along with the possible accounting or financial reporting impact.

The checklist is not exhaustive and does not attempt to cover all possible developments that occur in an entity’s business environment. Entities are encouraged to develop a list of business developments that are likely to occur in their own environment as a means of assisting to identify developments that need to be considered in the context of their financial statements.

Reference: Part 3, Section 2.1, Page 43.

<table>
<thead>
<tr>
<th>Business development</th>
<th>Examples</th>
<th>Possible accounting or financial reporting impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restructuring</td>
<td>Administrative Arrangements Order</td>
<td>▶ De recognise/recognise assets and liabilities transferred to/from other entities&lt;br&gt;▶ Disclose income and expenses for transferred activities, including information from transferring entities</td>
</tr>
<tr>
<td>Internal restructuring</td>
<td></td>
<td>▶ Revise formula for allocating corporate overheads to business units for output reporting</td>
</tr>
<tr>
<td>New or ceased activities</td>
<td>Commencing a new activity due to government policy</td>
<td>▶ Revise outcome and output structures&lt;br&gt;▶ Identify the split between departmental and administered items</td>
</tr>
<tr>
<td></td>
<td>Acquiring a business from the private sector or State government</td>
<td>▶ Identify the fair value of assets and liabilities&lt;br&gt;▶ Recognise goodwill on acquisition</td>
</tr>
<tr>
<td></td>
<td>Acquiring an interest in another entity</td>
<td>▶ Decide whether the entity concerned is a subsidiary, associate or joint venture&lt;br&gt;▶ For administered investments, decide whether to measure it on a net asset or cash flow basis&lt;br&gt;▶ Put in place arrangements for timely and accurate information from entity for financial reporting purposes</td>
</tr>
<tr>
<td></td>
<td>Ceasing an activity due to government policy</td>
<td>▶ Report line items for income and expenses of discontinued operations&lt;br&gt;▶ Impair or change useful life of assets no longer required&lt;br&gt;▶ Classify assets and liabilities as held for sale</td>
</tr>
<tr>
<td></td>
<td>Staff terminations</td>
<td>▶ Recognise a liability for redundancy payments</td>
</tr>
<tr>
<td>Revised service delivery or payment arrangements</td>
<td>Responsibility for the payment of grants or subsidies transferred from another entity</td>
<td>▶ Determine cut-off for recognition of expenses&lt;br&gt;▶ Transfer commitments information&lt;br&gt;▶ Develop accounting policies and procedures&lt;br&gt;▶ Arrange transfer of appropriations</td>
</tr>
<tr>
<td></td>
<td>Leased accommodation changes</td>
<td>▶ Review make good provisions&lt;br&gt;▶ Impair or review useful life of leasehold improvements</td>
</tr>
<tr>
<td></td>
<td>Moving to user charging for services previously provided free of charge</td>
<td>▶ Develop policy for recognising revenue&lt;br&gt;▶ Transfer assets from non-cash generating to cash-generating, with implications for calculating impairment losses in the future</td>
</tr>
<tr>
<td></td>
<td>Moving to lease rather than buy plant and equipment</td>
<td>▶ Determine whether the lease is a finance or operating lease</td>
</tr>
<tr>
<td>Major new projects</td>
<td>Development of in-house software</td>
<td>▶ Consider at inception whether the criteria for capitalisation as an intangible asset will be met&lt;br&gt;▶ Implement systems for capturing all capitalised outlays</td>
</tr>
<tr>
<td>Business development</td>
<td>Examples</td>
<td>Possible accounting or financial reporting impacts</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>-----------------------------------------------------</td>
</tr>
<tr>
<td>Changes in markets</td>
<td>Significant changes in the market value of assets held by the entity</td>
<td>• Consider whether professional valuation required</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Possible impairment trigger</td>
</tr>
<tr>
<td></td>
<td>Active market for some intangible assets or financial assets disappears</td>
<td>• Transfer affected assets from the fair value to the cost basis</td>
</tr>
<tr>
<td></td>
<td>Significant or prolonged decline in fair value of financial assets</td>
<td>• Impair affected assets</td>
</tr>
<tr>
<td></td>
<td>Debtors experiencing financial difficulties</td>
<td>• Impair affected assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Disclose increased credit risk</td>
</tr>
<tr>
<td></td>
<td>Decline in prices for items sold</td>
<td>• Remeasure inventories at net realisable value</td>
</tr>
<tr>
<td>Legal/contractual changes</td>
<td>Change in the terms of grant agreements</td>
<td>• Adjust timing of recognition of grant expense</td>
</tr>
<tr>
<td></td>
<td>Court judgements imposing financial obligations on government</td>
<td>• Recognise liabilities or contingent liabilities</td>
</tr>
<tr>
<td></td>
<td>Changes to FBT rates</td>
<td>• Adjust accruals for new FBT rate</td>
</tr>
</tbody>
</table>
# ITEM 4: EXAMPLE WORK PLAN

A work plan outlines the activities to be completed in the preparation process from initial planning through to finalisation, including the timeline and responsibility for the completion of each activity. The plan below assumes a hard close at the end of April and a year-end date of 30 June. It is better practice that the day of the week as well as the date be shown in the ‘due date’ column.

The example work plan should be tailored to meet the entity’s particular circumstances and needs. The plan does not necessarily cover all possible events and actions. Some smaller entities could have a shorter elapsed time if their tasks are less complex.

Reference: Part 3, Section 2.1, Page 42.

<table>
<thead>
<tr>
<th>Action required</th>
<th>Due Date</th>
<th>Responsibility</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pre year-end</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Commence financial statements planning.</td>
<td>12 Sept (Mon)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>2. CFO and external audit present their work plans to the Audit Committee for discussion.</td>
<td>18 Nov (Fri)</td>
<td>FT/external audit</td>
<td></td>
</tr>
<tr>
<td>3. Review of mapping of FMIS nominal accounts and reports with financial statement categories.</td>
<td>28 Nov (Mon)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>4. Assets stocktake completed and asset register updated.</td>
<td>31 Jan (Tues)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>5. External audit commences interim audit.</td>
<td>31 Jan (Tues)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>6. Valuation instructions and timetable to be finalised with valuers and actuaries (for example, valuations for non-current assets and estimates of employee entitlements).</td>
<td>27 Feb (Mon)</td>
<td>BA</td>
<td></td>
</tr>
<tr>
<td>7. Agreement from external audit and the Audit Committee on shell financial statements and proposed accounting treatment of significant or contentious transactions.</td>
<td>31 Mar (Fri)</td>
<td>FT/external audit</td>
<td></td>
</tr>
<tr>
<td>8. Distribution of final information collection pack (including proforma returns) to BA.</td>
<td>18 Apr (Tues)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>9. Information session on the information collection pack.</td>
<td>18 Apr (Tues)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>10. Completion of the mapping of FMIS nominal accounts with the electronic financial statement preparation tool.</td>
<td>21 April (Fri)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>11. Actuarial assessment of the salary on-costs (departmental and administered) to be completed.</td>
<td>28 Apr (Fri)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>12. Final close in FMIS for 30 April hard close. All revaluation amounts at 30 April to be reflected in FMIS by 30 April.</td>
<td>4 May (Thurs)</td>
<td>FT/BA</td>
<td></td>
</tr>
<tr>
<td>13. Forward financial instrument notes and variance analysis workbook to BA.</td>
<td>4 May (Thurs)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>14. Completion of reconciliations, cash control accounts, assets, employee provisions and Finance’s appropriation system data.</td>
<td>9 May (Tues)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>15. Submission of completed returns and financial instrument notes to FT.</td>
<td>9 May (Tues)</td>
<td>BA</td>
<td></td>
</tr>
<tr>
<td>16. Submission of 30 April Commitments and Contingencies Register to FT.</td>
<td>10 May (Wed)</td>
<td>BA</td>
<td></td>
</tr>
<tr>
<td>17. Submission of variance analysis workbook for 30 April and an analysis of major transactions expected between April and end of June to FT.</td>
<td>11 May (Thurs)</td>
<td>BA</td>
<td></td>
</tr>
<tr>
<td>18. Submission of balance sheet reconciliations for 30 April to FT.</td>
<td>12 May (Fri)</td>
<td>BA</td>
<td></td>
</tr>
<tr>
<td>19. Completion of working paper folders and preparation of financial statements.</td>
<td>16 May (Tues)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>20. Distribution of draft financial statements to the Audit Committee for consideration.</td>
<td>16 May (Tues)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>Action required</td>
<td>Due Date</td>
<td>Responsibility</td>
<td>Comment</td>
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</tr>
<tr>
<td>21. Comments on draft financial statements by the Audit Committee received.</td>
<td>19 May (Fri)</td>
<td>FT/AC</td>
<td></td>
</tr>
<tr>
<td>22. Submission of the financial statements for the period ended 30 April to external audit, incorporating comments from the Audit Committee.</td>
<td>23 May (Tues)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>23. External audit commences audit of the April Hard Close financial statements, working papers and supporting schedules. A review of significant transactions will also be undertaken.</td>
<td>24 May (Wed)</td>
<td>external audit/FT/BA</td>
<td></td>
</tr>
<tr>
<td>24. Bank confirmations prepared for all bank accounts and solicitor’s representation letters for 30 June.</td>
<td>6 June (Tues)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>25. Copy of the results of the portable and attractive stocktake, conducted by the business areas, including sign-offs, to FT.</td>
<td>15 June (Thurs)</td>
<td>BA</td>
<td></td>
</tr>
<tr>
<td>26. Final resolution of all accounting issues with external audit.</td>
<td>15 June (Thurs)</td>
<td>external audit/FT</td>
<td></td>
</tr>
<tr>
<td>27. External audit and CFO to report to the Audit Committee on matters arising from the hard close process and present any major issues impacting the year-end financial statements.</td>
<td>23 June (Fri)</td>
<td>FT/CFO/external audit</td>
<td></td>
</tr>
</tbody>
</table>

**Year-end**

<table>
<thead>
<tr>
<th>Action required</th>
<th>Due Date</th>
<th>Responsibility</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>28. All disposals, additions and revaluations of fixed assets to be processed through the Fixed Assets Register in the FMIS by 30 June. The cut-off time for submission of asset journals for year-end processing is 12:00 noon.</td>
<td>Day 0 (Fri)</td>
<td>BA</td>
<td></td>
</tr>
<tr>
<td>29. FMIS ‘final close’ for Period 12 journals at 6pm. Business Areas to assess and reflect movements in valuation of major assets and liabilities between 30 April and 30 June. Supporting documentation to be provided to FT.</td>
<td>Day 4 (Tues)</td>
<td>BA/FT</td>
<td></td>
</tr>
<tr>
<td>30. Submission of 30 June Commitments and Contingencies Register to FT.</td>
<td>Day 6 (Thurs)</td>
<td>BA</td>
<td></td>
</tr>
<tr>
<td>31. Submission of completed returns and financial instrument note workbooks for 30 June to FT. Returns are to be submitted by 3:00 pm.</td>
<td>Day 6 (Thurs)</td>
<td>BA</td>
<td></td>
</tr>
<tr>
<td>32. Feedback forms (Return D11) from Business Managers.</td>
<td>Day 6 (Thurs)</td>
<td>BA</td>
<td></td>
</tr>
<tr>
<td>33. Submission of valuations as at 30 June for non-current assets and superannuation liabilities.</td>
<td>Day 6 (Thurs)</td>
<td>BA</td>
<td></td>
</tr>
<tr>
<td>34. Business Areas to advise of any material post close off adjustments.</td>
<td>Day 6 (Thurs)</td>
<td>BA</td>
<td></td>
</tr>
<tr>
<td>35. Executive remuneration detail submitted to FT.</td>
<td>Day 7 (Fri)</td>
<td>HR</td>
<td></td>
</tr>
<tr>
<td>36. Submission of balance sheet reconciliations for 30 June by 3:00 pm.</td>
<td>Day 7 (Fri)</td>
<td>BA</td>
<td></td>
</tr>
<tr>
<td>37. Submission of variance analysis workbook for 30 June by 3:00 pm.</td>
<td>Day 7 (Fri)</td>
<td>BA</td>
<td></td>
</tr>
<tr>
<td>38. Completion of reconciliations including cash, control accounts, assets, employee provisions and Finance’s appropriation system data.</td>
<td>Day 7 (Fri)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>39. Material adjustments agreed with external audit. Business Areas to be advised of adjustments to be made.</td>
<td>Day 7 (Fri)</td>
<td>FT/external audit</td>
<td></td>
</tr>
<tr>
<td>40. Preparation of draft financial statements.</td>
<td>Day 11 (Tues)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>41. Distribute first draft of financial statements to the Audit Committee for consideration.</td>
<td>Day 11 (Tues)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>42. Comments on financial statements by the Audit Committee received.</td>
<td>Day 12 (Wed)</td>
<td>AC</td>
<td></td>
</tr>
<tr>
<td>43. Completion of working paper files and supporting schedules detailing year-end financial statement figures.</td>
<td>Day 13 (Thurs)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>44. Submission of first draft of financial statements to the external auditor.</td>
<td>Day 13 (Thurs)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>45. Valuation reports for non-current assets and actuarial reports for superannuation liabilities to FT.</td>
<td>Day 13 (Thurs)</td>
<td>BA</td>
<td></td>
</tr>
<tr>
<td>46. Submission of management and CFO sign-offs to the Chief Executive/Board and the Audit Committee.</td>
<td>Day 21 (Fri)</td>
<td>BA</td>
<td></td>
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<tr>
<td>Action required</td>
<td>Due Date</td>
<td>Responsibility</td>
<td>Comment</td>
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</tr>
<tr>
<td>47. Final financial statements and supporting schedules as at 30 June completed.</td>
<td>Day 21 (a.m.) (Fri)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>48. Sign-off of final financial statements for the year ended 30 June by the Audit Committee.</td>
<td>Day 25 (a.m.) (Tues)</td>
<td>AC</td>
<td></td>
</tr>
<tr>
<td>49. Completion of management representation letter by the Chief Executive/Board.</td>
<td>Day 25 (p.m.)</td>
<td>CE/CFO</td>
<td></td>
</tr>
<tr>
<td>50. Final financial statements for the year ended 30 June submitted to external audit.</td>
<td>Day 25 (p.m.)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>51. Final clearance provided by external audit.</td>
<td>Day 26 (Wed)</td>
<td>external audit</td>
<td></td>
</tr>
<tr>
<td>52. Financial statements signed by the Chief Executive/Board and audit report by the external auditor.</td>
<td>Day 28 (Fri)</td>
<td>external audit/CE/CFO</td>
<td></td>
</tr>
<tr>
<td>53. Provide audit-cleared information to Finance for its preparation of Australian Government Consolidated Financial Statements.</td>
<td>Day 28 (Fri)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>54. Annual certification of delegations to Finance.</td>
<td>Day 28 (Fri)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>55. Financial statements and audit certificate sent to publications section for inclusion in annual report.</td>
<td>Day 28 (Fri)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>56. Reconcile roll over of opening balances in FMIS.</td>
<td>Day 31 (Mon)</td>
<td>FT</td>
<td></td>
</tr>
<tr>
<td>57. Conduct post mortem.</td>
<td>Day 35 (Fri)</td>
<td>FT/BA</td>
<td></td>
</tr>
<tr>
<td>58. Conduct evaluation interview with the external auditor.</td>
<td>Day 41 (Thurs)</td>
<td>external audit/FT/CFO</td>
<td></td>
</tr>
</tbody>
</table>

**KEY**

- AC: Audit Committee
- BA: Business Areas
- CE: Chief Executive/Board
- CFO: Chief Financial Officer
- FMIS: Financial Management Information System
- FT: Finance Team or members of the Finance Team
- HR: Human Resource Unit
ITEM 5: EXAMPLE INSTRUCTIONS ON THE PREPARATION OF FINANCIAL STATEMENTS

The purpose of these instructions is to help communicate to all relevant staff the procedural requirements for preparing an entity’s financial statements. It also sets out the framework for meeting the requirements for relevant accounting records.

These instructions should be tailored to meet each entity’s particular circumstances and needs.


[Entity’s name]
Instructions on the Preparation of the 200X–0X Financial Statements

PURPOSE

This document provides instructions and guidance to business areas and the finance team on preparing the 200X–0X financial statements. It also sets out the framework for meeting the requirements for relevant accounting records.

[I am /The Board is] committed to signing our financial statements on [signing date]. Your cooperation in ensuring that required actions are performed by due dates is critical to achieving this deadline.

High priority is to be given to preparing accurate and timely 200X–0X financial statements by [signing date]. Our goal is to achieve: (1) an unqualified audit opinion on the financial statements; (2) no material weaknesses in internal controls; and (3) no instances of non-compliance with applicable legislation.

These instructions that have been endorsed by the Audit Committee form part of the [Entity’s name]’s financial statement framework and support the Chief Executive’s Instructions [or equivalent].

SECTION 1: GENERAL INFORMATION

Legislative Framework

FMA Act agencies: Section 49 of the Financial Management and Accountability Act 1997 (the FMA Act) requires the Chief Executive to provide to the Auditor-General the annual financial statements in accordance with the Finance Minister’s Orders (FMOs). Schedule 1 to these Orders sets out the requirements for the preparation of the statements.

CAC Act entities: Section 9 of the CAC Act requires the Directors to prepare an annual report in accordance with Schedule 1 of the Act. The annual report must include a report of operations, financial statements and Auditor-General’s report on those financial statements.

The [Entity’s name]’s financial statements must comply with the Australian Accounting Standards and any other accounting interpretations issued by the Australian Accounting Standards Board (AASB) that apply to the reporting
period, and should have regard to Finance Briefs, Circulars and other Guidance issued by the Department of Finance and Deregulation (Finance).

The financial statements of the [Entity’s name] must give a true and fair view of the matters required by the FMOs. They must be materially correct, complete, and must embody the principles of accountability, relevance, compliance and comparability. They must also be prepared on the basis of properly maintained financial records.

The Auditor-General must examine the statements and report to the [Entity’s Minister] in accordance with [relevant sections of FMA/CAC Act]. The [Entity’s name]’s financial statements and a copy of the Auditor-General’s report are included in the [Entity’s name]’s annual report in accordance with subsection [relevant sections of FMA/CAC Act].

A copy of the annual report should be tabled in the Parliament by 31 October [relevant date for CAC Act entities].

Whole-of-Government Reporting

The [Entity’s name] is the Australian Government’s principal agency for [purpose]. The [Entity’s name]’s financial statements are material to the preparation of the Australian Government’s consolidated financial statements.

The Chief Executive/Board is required to provide audit-cleared financial information to Finance by [specify date], to be included in the Final Budget Outcome (FBO) and Consolidated Financial Statements (CFS). The FBO reports on the results of the General Government Sector whilst the CFS also includes the public non-financial corporations and public financial corporations.

The FBO is released and tabled by the Treasurer and the Minister for Finance and Deregulation no later than three months after the end of the financial year, as required under section 18 of the Charter of Budget Honesty Act 1998. The Finance Minister is required to prepare the CFS in accordance with section 55 of the FMA Act. While no date of release is specified in the legislation the CFS is usually issued after the FBO.

The instructions issued by the CFO annually will also set out the responsibilities and records that will be required to enable the [Entity’s name] to meet our whole-of-government reporting requirements.

The [Entity’s name] also provides monthly unaudited financial statements to Finance to enable the Finance Minister to publish monthly whole-of-government statements in accordance with section 54 of the FMA Act.

Preparing the financial statements

The preparation of the annual financial statements is an extension of the monthly reporting process (for which separate procedures have been issued). A smooth end-of-year process is dependent on rigorous monthly reporting processes throughout the year, and robust planning of the end-of-year statements.

The CFO and the Finance Team is responsible for coordinating and preparing the statements. The information to be included in the statements will be sourced primarily from:

- the financial management information system (FMIS)
- supplementary information as supplied by Business Areas using the information collection packs. Further details are at Section 5 of this document, and
- specific information provided by areas responsible for providing information, primarily information on administered items. Detailed instructions have been issued separately for these areas.

The process for preparing year-end financial statements encompasses:

- development of a detailed work plan and timetable in consultation with the Audit Committee, external audit and other parties that provide information for inclusion in the financial statements

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47 Applicable to General Government Sector only.
ITEM 5

Example Instructions on the Preparation of Financial Statements

» conduct of the end-of-year financial statement process in accordance with the work plan. The plan is reviewed on a regular basis (fortnightly up to the end of May) and thereafter on a weekly or daily basis

» in April external audit will present to management the findings and recommendations resulting from its interim visit. These findings are required to be addressed as a matter of priority, particularly those that may affect the end-of-year financial statements

» presentation of the financial statements by the CFO to the Chief Executive/Board and the Audit Committee, recommending that the financial statements be approved for signing by the Chief Executive/Board. Following endorsement by the Audit Committee, the Chief Executive/Board and CFO will sign the financial statements, and

» the audit report will then be issued by the external auditor.

Liaison with external audit

To facilitate the external audit, an Audit Assistance Package with a list of key contacts has been provided to the external auditors.

All adjustments and changes made to the draft financial statements are to be coordinated centrally by the Finance Team. Business Areas should not agree to any changes directly with external audit. All proposed journals and adjustments should be referred to the Finance Team who will decide what adjustments will be required, in consultation with external audit. Also refer to ‘Amendments and Corrections’ below.

Operational Risk Controls

A number of key controls underpin the annual financial statement process. These include prompt monthly reporting processes, sound planning and active oversight by the Audit Committee. The CFO is directly and on a day-to-day basis involved in this process.

Business Continuity

Under the Disaster Recovery Plan the FMIS will be restored within 24 hours in the event of a systems failure. Full replication of FMIS electronic records is maintained off-site.

SECTION 2: ROLES AND RESPONSIBILITIES

This section outlines at a high level the roles and responsibilities in relation to the preparation of [Entity’s name]’s financial statements.

Chief Executive/Board

The Chief Executive/Board has primary responsibility for ensuring that the [Entity’s name] fulfils its reporting requirements to the Minister.

Audit Committee

The [Entity’s name] Audit Committee, established under section 46 of the FMA Act (sections 32 or 44 of the CAC Act) provides independent advice to the Chief Executive/Board in the discharge of his or her responsibilities. The Audit Committee is responsible for:

» reviewing the financial statements and providing advice to the Chief Executive/Board (including whether appropriate action has been taken in response to audit recommendations and adjustments) and recommending their signing by the Chief Executive/Board
satisfying itself that the financial statements are supported by appropriate management sign-off on the statements and on the adequacy of the [Entity’s name] systems of internal control, and

- reviewing the processes in place to ensure that financial information included in the [Entity’s name]’s annual report is consistent with the signed financial statements.

**Business Managers**

Business managers are responsible for ensuring that their business area meets its responsibilities to enable the Chief Executive/Board to fully discharge the above responsibilities including:

- processing and entering transactions accurately and on a timely basis into the FMIS
- providing financial and non-financial information in the format and timeframes requested by the CFO
- maintaining complete documentation relevant to their areas of control to substantiate all financial amounts. Documentation should be available for review by management and audit, and
- implementing appropriate internal systems and controls to ensure that the information recorded in the financial systems or provided to the CFO is correct.

Responsibilities, including certification requirements, are set out in Section 5 of this document. Section 5 also provides specific details about information requirements, including the associated supporting documentation and deadlines for submission of information to the CFO.

Business managers should ensure that their staff have access to, and are aware of relevant procedures, guidance, training and directions to enable them to perform their functions and duties effectively.

**Chief Financial Officer**

The CFO is responsible for the preparation and coordination of the [Entity’s name]’s annual financial statements. The CFO co-signs the financial statements with the Chief Executive/Board and is responsible for the following:

- preparing the financial statements within required timeframes
- ensuring that amounts included in the financial statements agree with the [Entity’s name]’s accounts and records
- ensuring that the financial statements comply with FMO requirements
- ensuring all amounts in financial statements are capable of audit verification, and
- explaining material variances of reported amounts from budgeted and previous year actual amounts.

In respect of maintaining proper accounts and records to support the financial statements, the CFO’s responsibilities include:

- developing the [Entity’s name]’s accounting policies relating to both internal and external financial reporting
- maintaining the chart of accounts and financial systems, and
- implementing the annual financial management strategic plan and initiatives to maintain and improve internal controls over financial systems and records.

**All Staff**

Financial management is the responsibility of all staff. Individual [Entity’s name] staff bear responsibility for maintaining accurate accounts and records to support the financial statements and for complying with applicable legislation when they commit and expend resources.

Staff who become aware of either a deficiency in internal control procedures or any failures to adhere to internal controls, should refer their concerns to either their supervisor or manager, or the Senior Internal Auditor, for attention and correction.
SECTION 3: WORKPLAN

The work plan outlines the main actions and events to be undertaken and associated timelines. It was prepared in [month] after consultation with the external and internal audit and business areas. It will be updated on a monthly basis (up to the end of May) and thereafter on a weekly or daily basis. The latest version of the plan is at [intranet address].

The signing date for the financial statements is [date]. In order to achieve this deadline it is critical that tasks identified in the plan are completed by due dates.

Officers should develop their own detailed plans or task lists to assist them in completing the required tasks within the required timelines dates. The largely sequential nature of many of the tasks means that a missed deadline can significantly delay the entire close process and jeopardise the timeliness of the financial statements. Therefore if you have problems in meeting the due dates, you should contact [name and phone number and email address] immediately.

The work plan at Item 4 can be tailored and inserted here or included as an appendix.

SECTION 4: RECORD KEEPING AND DOCUMENTATION REQUIREMENTS

Documentation standard

Maintenance of high standard supporting documentation is the responsibility of staff who are involved with the preparation process. Good quality documentation is essential to establishing a management trail, as well as expediting the quality assurance review and audit processes.

Supporting documentation may include analyses, third party confirmations, management representation and sign-offs, checklists, technical advice, extracts of important documents, correspondence concerning significant matters and work schedules.

In assessing the documentation to be collated and prepared, staff should consider what would be necessary to explain the financial statements, and to provide sufficient information on the principal decisions taken.

At a minimum, documentation should have the following characteristics:

- a clear title that properly describes the working paper and contains the date of creation
- a brief statement of the purpose of the working paper
- clear links to the specific balances or notes to the financial statements
- alterations are clearly identified, dated and explained
- identification and dates of sign-offs of the preparer and reviewer, including the timing, and
- clear cross-reference to sources of information such as supporting documents, files, reports or ledger codes, with sufficient detail for the sources to be retrieved without minimal time and effort.

Each financial statement item should be supported by a lead schedule to provide easy reference for preparation and review. The checklist attached to the lead schedule proforma should be customised and used.

In cases where there is difficulty in obtaining fully reliable information, the working papers should reflect this through appropriate annotations to the working papers, explanatory material, etc.
Amendments and corrections

No adjustments will be made to the financial statements after [date]. All proposed adjustments after this date must be forwarded to [name and phone number and email address] who will maintain a schedule of unders/overs of errors to monitor accumulated errors and adjustments made.

Record keeping requirements

The framework of record keeping within the [Entity’s name] is outlined in the [relevant instructions e.g. Chief Executive’s Instruction or equivalent].

All relevant working papers should be filed in a Registered Official File and be made available for audit if required. Business Areas should retain all relevant working papers used in preparing the eleven returns in the Information Collection Pack, including a signed copy of each return.

Where information has been sourced from the FMIS the original data and spreadsheets should be kept for audit purposes, hard copies of the reports as at 30 June must be retained on the relevant file. Where this is impractical due to the size of the document, an electronic version of the report and subsequent working papers should be kept and made available upon request.

A list of documentation requirements at Item 10 can be tailored and inserted here or included as an appendix.

SECTION 5: INFORMATION COLLECTION PACK

The information collected in the Information Collection Pack will be used to prepare the [Entity’s name]’s financial statements as at 30 June 200X. The information will also be used to complete Finance’s information requirement pack which is used to prepare the Australian Government’s consolidated financial statements.

The pack has eleven returns which require specific information from each Business Area. The eleven returns are:

- D1 – Departmental Cash: Unbanked Cash and Cheques
- D2 – Prepayments
- D3 – Non-Current Asset Statement and Stocktake Report
- D4 – Intangibles
- D5 – Contingencies: Gains and Losses
- D6 – Commitments: Payables and Receivables
- D7 – Accrued Expenses
- D8 – Accrued Revenues
- D9 – Open Purchase Orders and the Goods Received Clearing Account
- D10 – Resources Received and Provided Free of Charge, and
- D11 – Feedback.

It is important that Business Areas complete the returns accurately, maintain and provide adequate working papers; and complete each task applicable to them in the returns provided. Business Areas should ensure that the information provided is:

- complete: there are no unrecorded transactions
- accurate: transactions are recognised, measured and disclosed in accordance with applicable accounting principles and policies, and
- valid: transactions are genuine.
The responsibility for completing and reviewing the returns rests with the Business Managers. It is the responsibility of the Business Managers to implement procedures to ensure that each return deadline is met and that the information from their Area is complete and accurate.

The returns should be completed by the due dates stated in the pack. Following completion of the returns, they must be signed off. The sign-off certifies that the necessary tasks have been completed and signifies that there are no exceptions to report to the CFO. A return must be submitted even if no information is provided, in these cases the Return must be marked as a ‘Nil Return’.

Any amendments forwarded after the relevant due dates will only be accepted if approved by the Business Managers in consultation with [name and phone number and email address].

Business Managers and their staff should adhere to the record keeping requirements as outlined above.

The responsibility for reviewing the returns to ensure their consistency with the financial statements as a whole rests with the CFO and the Finance Team.

**Part 3 Section 3.3** provides some strategies for collecting information from internal stakeholders. Examples of a management certification and a feedback form at **Items 8 and 9** respectively can be tailored and included as an appendix with the information collection pack.

**SECTION 6: MANAGEMENT SIGN-OFFS AND REPORTS**

An integral part of the preparation of financial statements is the requirement for the Head of each Business Area to provide a management sign-off. These sign-offs are designed to provide assurance to the Chief Executive/Board on the quality of the [Entity’s name]’s financial statements and on management’s compliance with a range of key aspects of the public sector’s financial management and reporting framework.

[For FMA Act agencies only] These sign-offs will also be used to support the Chief Executive’s Certificate of Compliance to be provided to the Minister and the Finance Minister.

The example management sign-off at **Item 14** can be tailored and inserted here or included as an appendix.

..........................................................
Chief Executive / Chief Financial Officer
Date..............
ITEM 6: EXAMPLE FINANCIAL STATEMENT REPORTING RISK ANALYSIS

Conducting a risk analysis for each financial statement item and its accompanying notes can assist management to prioritise the resources allocated to the preparation of the financial statements (including the extent of quality assurance required) and to determine whether there is scope to improve controls.

The degree of formality and rigour of the risk assessment will depend on a number of factors, including the overall complexity of the entity’s financial statements, the maturity of its financial statement process and the level of financial reporting risk the entity is prepared to accept.

Reference: Part 3, Section 2.2, Page 46.

Conduct of Risk Analysis

The following provides four practical steps in conducting a risk analysis:

Step 1: Conduct inherent risk assessment

(a) Assess the financial statement item against key inherent reporting risk factors.

Each entity should decide on the inherent risk factors most appropriate to its own operations and circumstances and the weightings to be applied to each factor. Examples of factors that can impact inherent risk are materiality, the level of judgement involved, disparity of data sources and results of previous internal and external audits.

(b) Based on the results of Step (a), determine an overall inherent risk of High, Medium or Low. An explanation of each risk level is set out below.

<table>
<thead>
<tr>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poses a significant financial reporting risk.</td>
<td>Poses a moderate financial reporting risk.</td>
<td>Poses a minimal financial reporting risk.</td>
</tr>
<tr>
<td>• likely to require ongoing and sustained resource commitment.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• likely to involve complex control and accounting issues.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• likely to require moderate level of resource commitment.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• likely to involve less complex control and accounting issues.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• likely to require low level of resource commitment.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• likely to involve routine control and accounting issues.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Step 2: Conduct residual risk assessment

The effectiveness of existing controls is then assessed and an overall residual reporting risk rating of High, Medium or Low is assigned for each financial statement item. The risk rating is the same as the ones used in Step 1.

A high risk rating would mean that there is a reasonable possibility of significant financial reporting misstatements. The item would therefore require ongoing and sustained resource commitment. Conversely, a low risk rating would mean that there is a minimal financial reporting risk which can be managed by routine control procedures and is unlikely to need the specific application of resources.

Step 3: Summarise all risk ratings

Collate all individual risk ratings for each financial statement item to give an overall picture of the reporting risk for all financial statement items.

Step 4: Determine actions required

The final step involves determining the action required for the entity taking into account the risk rating for each financial statement item.
Example Risk Analysis

An example risk analysis for the item Infrastructure, Plant and Equipment (IPE) is below. The example serves as an illustration only, and does not cover all financial statement items.

Step 1: Conduct inherent risk assessment

<table>
<thead>
<tr>
<th>Risk Factor (See Note 1)</th>
<th>Key Questions to Consider</th>
<th>Rating</th>
<th>Reason/Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materiality</td>
<td>How significant is the item as a percentage of total income, expenses, assets or liabilities?</td>
<td>H</td>
<td>The item represents 12 per cent of total assets.</td>
</tr>
<tr>
<td></td>
<td>How significant is the item to the key users of the financial statements?</td>
<td></td>
<td>The item is topical because of a recent Parliamentary interest.</td>
</tr>
<tr>
<td></td>
<td>How material are individual transactions?</td>
<td></td>
<td>About 40 per cent of transactions have high dollar values.</td>
</tr>
<tr>
<td>Reporting requirements</td>
<td>Are there any complex or new accounting requirements?</td>
<td>L</td>
<td>None identified.</td>
</tr>
<tr>
<td></td>
<td>Are there any significant compliance issues?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level of judgement</td>
<td>Does the item require considerable judgement to record the account balances and transactions correctly?</td>
<td>H</td>
<td>Judgement is required for capitalisation threshold and revaluations.</td>
</tr>
<tr>
<td></td>
<td>Does it require estimates, management judgement or specific knowledge and skills of the item and related accounting standards?</td>
<td></td>
<td>Judgement is required in determining whether the asset belongs to other related entities.</td>
</tr>
<tr>
<td>Extent of reliance</td>
<td>Is the accuracy of data dependent on areas, systems, experts or related entities outside the control of Finance team?</td>
<td>H</td>
<td>Significant reliance on business areas to provide information. Data provided in prior year had significant errors.</td>
</tr>
<tr>
<td></td>
<td>Does experience suggest that such data are provided in a timely and accurate manner?</td>
<td></td>
<td>Reliance on external experts with respect to valuation.</td>
</tr>
<tr>
<td></td>
<td>Is the level of manual intervention used to initiate, record, process or report transactions significant?</td>
<td>M</td>
<td>Reliance on related entities to manage and correctly record assets in regional offices.</td>
</tr>
<tr>
<td></td>
<td>Is manual intervention appropriate?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transaction numbers</td>
<td>Is there a significant number of transactions in the population?</td>
<td>M</td>
<td>A significant number of individual transactions are processed each year.</td>
</tr>
<tr>
<td>Level of manual intervention</td>
<td>Is the level of manual intervention used to initiate, record, process or report transactions significant?</td>
<td>M</td>
<td>Manual adjustments are generally required to reflect revaluations and impairments of IPE.</td>
</tr>
<tr>
<td></td>
<td>Is manual intervention appropriate?</td>
<td></td>
<td>The level of manual intervention is appropriate because judgement is required to initiate and record the adjustments.</td>
</tr>
<tr>
<td>Disparity of data sources</td>
<td>Can data be easily and reliably retrieved?</td>
<td>M</td>
<td>Three different registers are used to manage and control assets.</td>
</tr>
<tr>
<td>Audit issues identified</td>
<td>How significant are previous audit findings in respect of this item?</td>
<td>M</td>
<td>Previous internal and external audit findings remain outstanding. Corrective action is in progress.</td>
</tr>
<tr>
<td></td>
<td>Have these findings been adequately addressed?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Inherent Risk Summary

Based on the assessment above
- Have key inherent reporting risk been identified?
- What are the key contributing inherent risk factors for the item?
- What is the overall inherent risk rating?

Key contributing factors:
- Materiality of the balance.
- Level of judgement required in determining correct asset classification and valuation.
- High level of reliance on business areas to correctly identify assets for capitalisation.
- Reliance on other related entities to manage some key assets.

Note 1: Different weightings should be given to each risk factor. The materiality of the financial statement item would be expected to have the greatest weighting.
Step 2: Conduct residual risk assessment

### Analysis of Existing Key Controls

Existing key controls in place are:

- Monthly reconciliation of movement schedules showing opening balances, additions, disposals, transfers, depreciation, impairments and closing balances are performed to ensure completeness of all asset movements in the asset registers and FMIS.
- Year-end review is undertaken to ensure assets are categorised by class and appropriately disclosed in the financial statements, including movement tables.
- Asset stocktakes are conducted in accordance with the Policy on Assets and stocktake reports are reconciled to the asset registers and FMIS.
- Year-end reviews of valuation reports are conducted.
- Annual review for impairment in accordance with AASB 136 Impairment of Assets is carried out to ensure IPE value is not overstated.
- Service agreements with related entities are reviewed annually to ensure that their management controls are adequate to minimise material misstatements in recording and ownership.

### Residual Risk Summary

<table>
<thead>
<tr>
<th>Residual risk</th>
<th>Based on the analysis of existing controls above:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td> Have all existing key controls been identified?</td>
</tr>
<tr>
<td></td>
<td> What are the key contributing risks remaining</td>
</tr>
<tr>
<td></td>
<td>after existing controls have been exercised?</td>
</tr>
<tr>
<td></td>
<td> What is the overall residual risk rating?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rating</th>
<th>Key contributing factors:</th>
</tr>
</thead>
<tbody>
<tr>
<td>M</td>
<td> Controls in place are relatively mature and are subject to periodic review.</td>
</tr>
<tr>
<td></td>
<td> However the item is material and improvements are still required by business areas to provide more timely and accurate information.</td>
</tr>
</tbody>
</table>
Steps 3 and 4: Summarise risk ratings and determine actions required

<table>
<thead>
<tr>
<th>Note</th>
<th>Item</th>
<th>200X–0X (’000)</th>
<th>Inherent Risk Rating</th>
<th>Residual Risk Rating</th>
<th>Key Actions Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>3A</td>
<td>Revenues from Government</td>
<td>260,772</td>
<td>L</td>
<td>L</td>
<td>See Note 1</td>
</tr>
<tr>
<td>3B</td>
<td>Sale of goods and rendering of services</td>
<td>497,934</td>
<td>H</td>
<td>H</td>
<td>Additional resources will be committed to reconcile work in progress and revenue by 31 October. Information collection pack will be reviewed to ensure accurate revenue information is provided by business areas. Prior year audit findings are being followed up.</td>
</tr>
<tr>
<td>3C</td>
<td>Other revenue</td>
<td>1,274</td>
<td>L</td>
<td>L</td>
<td>See Note 1</td>
</tr>
<tr>
<td>3D</td>
<td>Sale of assets</td>
<td>13,658</td>
<td>M</td>
<td>L</td>
<td>See Note 1</td>
</tr>
<tr>
<td>3E</td>
<td>Other gains</td>
<td>77,217</td>
<td>H</td>
<td>M</td>
<td>Additional resources will be used to review ‘resources received free of charge’ and ‘write-down of inventories’ which have not been reviewed comprehensively for the past three years.</td>
</tr>
<tr>
<td>4A</td>
<td>Employee benefits</td>
<td>136,562</td>
<td>M</td>
<td>L</td>
<td>See Note 1</td>
</tr>
<tr>
<td>4B</td>
<td>Suppliers</td>
<td>130,267</td>
<td>M</td>
<td>L</td>
<td>See Note 1</td>
</tr>
<tr>
<td>4C</td>
<td>Depreciation and amortisation</td>
<td>18,821</td>
<td>M</td>
<td>L</td>
<td>See Note 1</td>
</tr>
<tr>
<td>4D</td>
<td>Finance costs</td>
<td>17,842</td>
<td>L</td>
<td>L</td>
<td>See Note 1</td>
</tr>
<tr>
<td>4E</td>
<td>Write-down and impairment of assets</td>
<td>5,161</td>
<td>M</td>
<td>L</td>
<td>See Note 1</td>
</tr>
<tr>
<td>4F</td>
<td>Other expenses</td>
<td>10,429</td>
<td>L</td>
<td>L</td>
<td>See Note 1</td>
</tr>
<tr>
<td>5A</td>
<td>Cash and cash equivalents</td>
<td>7,577</td>
<td>M</td>
<td>L</td>
<td>See Note 1</td>
</tr>
<tr>
<td>5B</td>
<td>Trade and other receivables</td>
<td>312,384</td>
<td>H</td>
<td>H</td>
<td>Additional resources will be used to reconcile accounts receivable with cash received. Review of impairment procedures will be carried out. An examination of control procedures in debt collection has been completed and recommended corrective actions are planned for completion by 31 January.</td>
</tr>
<tr>
<td>6A</td>
<td>Land and buildings</td>
<td>398,194</td>
<td>H</td>
<td>M</td>
<td>Documents on ownership of properties will be reviewed to ensure that they are signed by the correct delegates. A comprehensive review of amounts capitalised for leases will be undertaken.</td>
</tr>
<tr>
<td>6B</td>
<td>Infrastructure, plant and equipment</td>
<td>104,101</td>
<td>H</td>
<td>M</td>
<td>Information collection pack and stocktakes procedures for IPE are to be updated. Additional training will be provided to business areas to ensure that they provide more timely and accurate information.</td>
</tr>
<tr>
<td>6C</td>
<td>Intangibles</td>
<td>23,100</td>
<td>M</td>
<td>M</td>
<td>A comprehensive review of material invoices will be carried out to verify the capitalised amount.</td>
</tr>
<tr>
<td>6D</td>
<td>Other non-financial assets</td>
<td>2,154</td>
<td>L</td>
<td>L</td>
<td>See Note 1</td>
</tr>
<tr>
<td>7A</td>
<td>Suppliers</td>
<td>26,909</td>
<td>M</td>
<td>L</td>
<td>See Note 1</td>
</tr>
<tr>
<td>7B</td>
<td>Other payables</td>
<td>4,671</td>
<td>L</td>
<td>L</td>
<td>See Note 1</td>
</tr>
<tr>
<td>8A</td>
<td>Employee provisions</td>
<td>37,753</td>
<td>M</td>
<td>L</td>
<td>See Note 1</td>
</tr>
<tr>
<td>8B</td>
<td>Other provisions</td>
<td>3,157</td>
<td>L</td>
<td>L</td>
<td>See Note 1</td>
</tr>
</tbody>
</table>

Note 1: To be managed by existing control procedures. No additional resource commitment required.
ITEM 7: EXAMPLE AUDIT ASSISTANCE PACKAGE

An audit assistance package may be developed in conjunction with external audit (and Internal Audit, where applicable) so as to facilitate the audit process in an efficient and timely manner. In particular, the package outlines information required by the auditors for audit purposes and the relevant contacts and timelines for the information.

The Audit Assistance Package should be tailored to meet the entity’s particular circumstances. The example package does not necessarily cover all aspects required.

Reference: Part 3, Section 2.3, Page 53.

[Entity’s name]
Audit Assistance Package
Year ended 30 June [current financial year]

1. OBJECTIVES

The following audit assistance package is designed to improve audit efficiency by providing guidance on the specific needs of the auditors.

The attached list of information requirements (Section 4 of this document) has been agreed with external auditors and they have planned their final audit based on the delivery of schedules by the specified dates and on the basis that the information supplied is complete and accurate. The Chief Executive/Board is committed to sign the financial statements on [signing date], with the whole-of-government submission on the same day.

Our efforts are focussed on achieving both corporate and audit objectives within a minimal response time. Specifically, the package is designed to format existing accounting and management data in a way that will facilitate an efficient audit. Responsibility for data preparation will therefore be assigned to the people who are skilled in these functions and who know our organisation best. This will facilitate the external audit personnel undertaking their work of sampling, testing and analysis of the data.

In the course of preparing the required schedules, we anticipate that we will use the list of information requirements as a control mechanism to ensure that:

- all general ledger accounts have been analysed and adjusted as required
- reasons for variances from prior year and Budget are known and documented
- financial reporting deadlines are met, and
- audit services are cost-effective.

The list should be read in conjunction with the work plan.

2. FEEDBACK

In using this package, it is anticipated that you will have suggestions and comments regarding ways in which it may be improved. Please pass your suggestions and comments to the Audit Liaison Officer [name and contact number].
3. GENERAL INSTRUCTIONS ON COMPLETION OF THE PACKAGE

The schedules should be prepared and then reviewed by a person responsible for the accounts and given to the Finance Team who will collate the documentation and present it to the auditors.

The auditors’ objective is to form an opinion on the true and fair view of the financial statements, being the balance sheet, income statement, cash flow statement, statement of changes in equity and the notes to the financial statements.

Supporting schedules should show how the final figures have been derived from those which appear on the trial balance. Details of reconciling items and journal entries should be included to facilitate the review.

If there are any queries, please contact the Audit Liaison Officer [name and contact number].

4. LIST OF INFORMATION REQUIREMENTS

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Entity’s Contact</th>
<th>Pre year-end</th>
<th>Year end</th>
<th>External audit contact</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>RW / FB</td>
<td>Daily at 8.30am</td>
<td></td>
<td>RC</td>
<td></td>
</tr>
<tr>
<td>Conference call updates with external audit, RW, and FB</td>
<td>RW / JSS</td>
<td>31 Mar</td>
<td></td>
<td>PG</td>
<td></td>
</tr>
<tr>
<td>Agreement from external audit and the Audit Committee on shell financial</td>
<td>MSW</td>
<td>2 May</td>
<td>Updated Day 5</td>
<td>RC</td>
<td></td>
</tr>
<tr>
<td>statements and proposed accounting treatment of significant or contentious</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>transactions.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to Minutes of Audit Committee and Board meetings</td>
<td>JSS</td>
<td>Feb</td>
<td></td>
<td>GM</td>
<td></td>
</tr>
<tr>
<td>Computer systems:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Update understanding of IT processes, program changes and logical access</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>controls through discussion and conduct of walkthroughs / testing with IT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>management.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td>RW</td>
<td>23 May</td>
<td></td>
<td>PG</td>
<td></td>
</tr>
<tr>
<td>Submission of the financial statements for the period ended 30 April to</td>
<td>RW</td>
<td>Day 4</td>
<td></td>
<td>PG</td>
<td></td>
</tr>
<tr>
<td>external audit, incorporating comments from the Audit Committee.</td>
<td>RW / FB</td>
<td>Day 11</td>
<td></td>
<td>RC</td>
<td></td>
</tr>
<tr>
<td>First trial balance as at 30 June</td>
<td>RW / FB</td>
<td>Day 11</td>
<td></td>
<td>RC</td>
<td></td>
</tr>
<tr>
<td>Final trial balances as at 30 June</td>
<td>RW</td>
<td>Day 11</td>
<td></td>
<td>PG</td>
<td></td>
</tr>
<tr>
<td>Schedule of expenses and revenues for the period ended 30 April and</td>
<td>RW</td>
<td>Day 11</td>
<td></td>
<td>PG</td>
<td></td>
</tr>
<tr>
<td>compared with corresponding period in prior year. Provide explanation of</td>
<td>RW</td>
<td>Day 11</td>
<td></td>
<td>PG</td>
<td></td>
</tr>
<tr>
<td>any material fluctuations.</td>
<td>RW</td>
<td>Day 11</td>
<td></td>
<td>PG</td>
<td></td>
</tr>
<tr>
<td>Update schedule as at 30 June. Provide explanation for any material</td>
<td>RW</td>
<td>Day 11</td>
<td></td>
<td>PG</td>
<td></td>
</tr>
<tr>
<td>fluctuations between 1 May and 30 June.</td>
<td>RW</td>
<td>Day 11</td>
<td></td>
<td>PG</td>
<td></td>
</tr>
<tr>
<td>Balance sheet analysis as at 30 April and 30 June with explanations for</td>
<td>RW</td>
<td>Day 11</td>
<td></td>
<td>PG</td>
<td></td>
</tr>
<tr>
<td>material fluctuations.</td>
<td>RW</td>
<td>Day 11</td>
<td></td>
<td>PG</td>
<td></td>
</tr>
<tr>
<td>Worksheet for cash flow statement for the period ended 30 June, including</td>
<td>DM</td>
<td>Day 13</td>
<td></td>
<td>PG</td>
<td></td>
</tr>
<tr>
<td>supporting documentation.</td>
<td>RW</td>
<td>Day 13</td>
<td></td>
<td>RC</td>
<td></td>
</tr>
<tr>
<td>Submission of first draft of financial statements to external audit.</td>
<td>RW</td>
<td>Day 13</td>
<td></td>
<td>RC</td>
<td></td>
</tr>
</tbody>
</table>

Financial Statement Items

Item 10, Example Documentation Requirements should be tailored to meet external audit’s requirements for each financial statement item.
ITEM 8: EXAMPLE CERTIFICATION OF INFORMATION RETURNS

Certain information for preparing financial statements is usually held by areas outside of the Finance team. These include the personnel section (for payroll and leave information), business areas (for accrual information), and sometimes external entities (where, for example, parts of an entity's work is undertaken by another entity under a form of agreement). Most entities collect such information via a reporting package at year-end and require the person responsible for completing the package to provide certification.

The example certification of information returns is aimed at business areas. It does not cover all return types and should be tailored to meet the entity’s particular circumstances.


---

**Certification of ‘Departmental’ Information Returns**

For the Year Ended 30 June [current financial year]

<table>
<thead>
<tr>
<th>To: Chief Financial Officer</th>
</tr>
</thead>
<tbody>
<tr>
<td>From:</td>
</tr>
<tr>
<td>Business Area:</td>
</tr>
</tbody>
</table>

**Please tick the Returns prepared in your Business Area:**

- [ ] Return D1 – Departmental Cash: Unbanked Cash and Cheques
- [ ] Return D2 – Prepayments
- [ ] Return D3 – Non-Current Asset Statement and Stocktake Report
- [ ] Return D4 – Intangibles
- [ ] Return D5 – Contingencies: Gains and Losses
- [ ] Return D6 – Commitments: Payables and Receivables
- [ ] Return D7 – Accrued Expenses
- [ ] Return D8 – Accrued Revenues
- [ ] Return D9 – Open Purchase Orders and Goods Received Clearing Account
- [ ] Return D10 – Resources Received and Provided Free of Charge
- [ ] Return D11 – Feedback

In my opinion, the Returns which were prepared by my Business Area, and are detailed above, are materially complete, accurate and valid, and are based on proper accounts and records and prepared in accordance with CFO instructions. There are no exceptions to report to you. The Returns have been completed by staff familiar with the operations of the Business Area and related cost centres in the financial management information system. They have also been checked by me. Working papers and related documentation are available for audit by internal and external audit.

Signed by: __________________________________________________________

Name: ___________________________ Position: ___________________________

Date: __/__/____

Note: Retain a copy of Certification and associated Returns for your records.
ITEM 9: EXAMPLE FEEDBACK FORM

As part of continuous improvement, entities should seek feedback from stakeholders and other contributors to the financial statements. This template is designed to seek feedback from business areas completing the information returns (see Item 8).

The form should be tailored to meet the entity’s particular circumstances.


<table>
<thead>
<tr>
<th>[Entity’s Name] Financial Statements [year] Feedback Form (Return D11)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Area:</td>
</tr>
<tr>
<td>Contact name:</td>
</tr>
<tr>
<td>Contact phone:</td>
</tr>
<tr>
<td>Signed: ______________________________ Date: _______________</td>
</tr>
</tbody>
</table>

**Timing**

Were you able to meet the deadlines without difficulty? Yes / No
If No:
How much more time do you think was needed?
What were the factors that didn’t allow you to meet the deadline(s)?

**Content**

Is the level of detail provided in these instructions sufficient for the business area’s preparers of returns?

**General Comments**

Please provide any other comments that you may have.

**Specific Comments**

Please specify areas (individual returns) you had difficulties with and any possible solutions that you may think useful. If insufficient space, please attach additional pages.

Return D1 – Departmental Cash: Unbanked Cash and Cheques

Description of Difficulty:

Possible Solutions:
<table>
<thead>
<tr>
<th>Return D2 – Prepayments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description of Difficulty:</strong></td>
</tr>
<tr>
<td>Possible Solutions:</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Return D3 – Non-current Asset Statement and Stocktake Report</td>
</tr>
<tr>
<td><strong>Description of Difficulty:</strong></td>
</tr>
<tr>
<td>Possible Solutions:</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Return D4 – Intangibles</td>
</tr>
<tr>
<td><strong>Description of Difficulty:</strong></td>
</tr>
<tr>
<td>Possible Solutions:</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Return D5 – Contingencies: Gains and Losses</td>
</tr>
<tr>
<td><strong>Description of Difficulty:</strong></td>
</tr>
<tr>
<td>Possible Solutions:</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Return D6 – Commitments: Payables and Receivables</td>
</tr>
<tr>
<td><strong>Description of Difficulty:</strong></td>
</tr>
<tr>
<td>Possible Solutions:</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Return D7 – Accrued Expenses</td>
</tr>
<tr>
<td><strong>Description of Difficulty:</strong></td>
</tr>
<tr>
<td>Possible Solutions:</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Return D8 – Accrued Revenues</td>
</tr>
<tr>
<td><strong>Description of Difficulty:</strong></td>
</tr>
<tr>
<td>Possible Solutions:</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Return D9 – Open Purchase Orders and Goods Received Clearing Account</td>
</tr>
<tr>
<td><strong>Description of Difficulty:</strong></td>
</tr>
<tr>
<td>Possible Solutions:</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Return D10 – Resources Received and Provided Free of Charge</td>
</tr>
<tr>
<td><strong>Description of Difficulty:</strong></td>
</tr>
<tr>
<td>Possible Solutions:</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
ITEM 10: EXAMPLE DOCUMENTATION REQUIREMENTS

The financial statements are based on accounts and records. There should be a clear management trail of supporting evidence indicating how each item in the financial statements is derived and/or substantiated. The example ‘documentation requirements’ outlines the types of supporting evidence required for selected financial statement items.

The example should be tailored to meet the entity’s particular circumstances. It does not necessarily cover all possible items or supporting documents.

Reference: Part 3, Section 3.6, Page 63.

<table>
<thead>
<tr>
<th>Item</th>
<th>Supporting documentation</th>
<th>Responsibility</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at hand</td>
<td>Schedule of advances as at year-end.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Confirmation certificates from cash advance holder stating the amount held at year-end.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash at bank</td>
<td>Bank reconciliations at year-end with bank statements and supporting documentation for reconciling items.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>A schedule of all bank accounts including information on bank account numbers, branch and domicile. The schedule includes bank accounts as at year-end and accounts that were opened and/or closed during the year.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Confirmations from banks for all bank accounts, with explanations if there are differences between bank confirmations and the entity’s own records.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Schedule of foreign exchange rates at year-end where applicable.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>Schedules of receivables, classified into current and non-current, including comparisons of opening and closing balances.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ageing of receivables and provision for doubtful debts.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Schedule of debt written off and recovered during the year.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Policy on provision for bad and doubtful debts and write-offs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment of public funds and administered investments</td>
<td>Schedule of investments such as term deposits, shares in Commonwealth companies, etc. Reconciliations of investments from general ledger to investment register, including movement schedules. Examples of documentation are:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» investment ledger</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» policies on accounting for investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» approval documentation for initial investments, rollovers and redeemed investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» funds manager reports</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» documentation to prove ownership</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» sale documentation and approvals</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» independent confirmations from a third party, and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>» delegation instruments for investing public moneys.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>Analysis and supporting documentation showing basis of valuation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Documentation supporting stocktake, obsolescence of inventory and work-in-progress.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Item</td>
<td>Supporting documentation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Land and Buildings and Infrastructure, Plant and Equipment          | Movement schedule showing opening balances, additions, disposals, transfers, depreciation, write-offs and closing balances for all asset classes. Documentation to support material transactions.  
Final reconciliation of general ledger to assets register. A copy of the assets register by asset category.  
Copies of stocktake procedures and stocktake report. Reconciliation of stocktake report to asset register.  
List of write-offs including approvals.  
Policies and documentation supporting the asset recognition threshold and depreciation rates and methods.  
Basis for reassessment of useful lives.  
Most recent valuation reports, where applicable, including basis, date and name and qualifications of valuer. |
| Other Assets                                                        | Schedule of the different categories of Other Assets. For example, prepayments. Supporting details for significant account balances.                                                                                                                                                                                                                              |
| Intangibles                                                         | Movement schedule with supporting documentation showing opening balances, additions, deletions and closing balances.  
A schedule of all intangibles and accumulated amortisation.  
Policies and supporting rationale on capitalisation, carrying values, impairment and amortisation of intangibles.  
Net present value calculations for impairment testing of intangibles.                                                                                                                                                                                                                     |
| Leases                                                             | Leasing details, especially new leases and leases terminated. Details of payment schedule, lease incentives, make-good provisions, operating or finance lease.  
Copies of lease agreements.  
Information on finance lease commitments and maturity profile.  
Details of classification into current and non-current lease liabilities.                                                                                                                                                                                                                     |
| Payables                                                           | Reconciliation of supplier ledgers to trial balance and ageing schedule.  
Supporting documentation for significant account balances; for example, current suppliers, sundry suppliers, unearned revenue and clearing accounts.  
Policies and supporting rationale on the level of threshold and cut-off for accruing expenses.                                                                                                                                                                                                 |
| Provision for employee entitlements                                 | Reconciliations and supporting details for material items such as provisions for annual leave, long service leave, superannuation, performance pay, redundancy and accrued salary, wages and benefits.  
Policies including formula and factors used in the calculation of entitlements.  
Details of classification into current and non-current provisions.  
Actuarial assessment of provision for long service leave entitlements. Information on the use of shorthand method.  
Information on the long-term bond rate used for discounting the liabilities to present values & probability factors used in discounting long service leave. |
| Loans                                                              | Movement schedules showing opening balances, new debts, repayments and closing balances.  
Copies of contracts and financing arrangements, including updated maturity schedule.                                                                                                                                                                                                          |
<p>| Equity and Reserves                                                 | A Statement of Changes in Equity – supporting explanation for movements from prior year.                                                                                                                                                                                                                                                                   |</p>
<table>
<thead>
<tr>
<th>Item</th>
<th>Supporting documentation</th>
<th>Responsibility</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others</td>
<td>A schedule of resources provided free of charge, detailing their nature and amount or value. Where assets and liabilities from Agreements Equally Proportionally Unperformed (AEPU) have not been brought to account in the statement of financial position, a schedule should be provided showing the amounts payable or receivable. The schedule needs to be complemented by worksheets or source documents to support the balances. Consolidation worksheets for the Income Statement, Balance Sheet, the Statement of Cash Flows and the Statement of Changes in Equity.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minutes</td>
<td>Minutes of Executive Board and Audit Committee meetings held since last audit.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ITEM 11: PROFORMA WORKING PAPERS AND SUPPORTING LEAD SCHEDULE AND CHECKLIST

Reference: Part 3, Section 3.6, Page 65.

Well structured and complete working papers are essential to support and validate the financial statements. The following proformas can be used to assist in providing a reference to all relevant documents that support each financial statement item or note:

Each proforma should be tailored to meet the entity’s particular circumstances as they do not necessarily cover all matters that an entity may wish to include.

Proforma working papers cover sheet

A cover sheet outlines key working papers for each financial statement item and/or note to provide a structure for organising the working papers and to help the ready identification of significant matters.

Proforma completion checklist

A completion checklist is used as a verification control tool for the Finance Team when undertaking a review of the financial statements:

- during the planning phase
- prior to providing the working papers to external audit, and
- before finalising the statements prior to signing.

Proforma lead schedule

A lead schedule serves as a systematic means of providing assurance to management that all figures are complete, accurate, supported by evidence; the balances have been reviewed; variances from previous years and budgets are explained; and reviews and sign-offs have been completed.
### 11A Working Papers Cover Sheet

**WORKING PAPERS COVER SHEET**

[Entity’s name] Financial Statements [current financial year]

FINANCIAL STATEMENT ITEM/ NOTE NO: …………………….  
Account Codes: Refer to Lead Schedule at ……………………..

<table>
<thead>
<tr>
<th>Description</th>
<th>Workpaper Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Completion Checklist</td>
<td></td>
</tr>
<tr>
<td>2. Lead Schedule (inc. Sign-off)</td>
<td></td>
</tr>
<tr>
<td>3. Working Papers Supporting Lead Schedule</td>
<td></td>
</tr>
<tr>
<td>4. Financial Statements Note Disclosure</td>
<td></td>
</tr>
<tr>
<td>5. Audit Findings and Remedial Actions</td>
<td></td>
</tr>
<tr>
<td>6. Compliance and Legal Issues</td>
<td></td>
</tr>
<tr>
<td>7. Quality Control and Assurance</td>
<td></td>
</tr>
<tr>
<td>8. Other Work Performed</td>
<td></td>
</tr>
<tr>
<td>9. Matters for Next Financial Year</td>
<td></td>
</tr>
<tr>
<td>10. Additional Information</td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td></td>
</tr>
<tr>
<td>12.</td>
<td></td>
</tr>
<tr>
<td>Completion checklist</td>
<td>WP REF</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------</td>
</tr>
<tr>
<td><strong>Planning</strong></td>
<td></td>
</tr>
<tr>
<td>Risk management and planning decisions revised as necessary.</td>
<td></td>
</tr>
<tr>
<td>Ensure that any data requested from business areas has been:</td>
<td></td>
</tr>
<tr>
<td>▶ received by the due date. Follow up if not received, and</td>
<td></td>
</tr>
<tr>
<td>▶ checked by the Finance Team for reasonableness and consistency with other related items in the financial statements.</td>
<td></td>
</tr>
<tr>
<td>Ensure that issues raised by audit have been resolved or remedial actions in place.</td>
<td></td>
</tr>
<tr>
<td>Assess the impact of issues raised during the Certificate of Compliance process on the Item.</td>
<td></td>
</tr>
<tr>
<td>Ensure all required external confirmations and/or statements have been received and checked.</td>
<td></td>
</tr>
<tr>
<td>Review Finance requirements for Australian Government Consolidated Financial Statements and ensure that any additional information required is obtained for submission by due date.</td>
<td></td>
</tr>
<tr>
<td><strong>Preparation</strong></td>
<td></td>
</tr>
<tr>
<td>Agree Lead Schedule to financial statements.</td>
<td></td>
</tr>
<tr>
<td>Agree Lead Schedule to trial balance.</td>
<td></td>
</tr>
<tr>
<td>Ensure that the comparative amounts in the current financial statements match figures in last year’s Annual Report.</td>
<td></td>
</tr>
<tr>
<td>Complete relevant addition and validation checks. Complete cross referencing to supporting documents and schedules.</td>
<td></td>
</tr>
<tr>
<td>Complete analytical review</td>
<td></td>
</tr>
<tr>
<td>▶ (+/-5% to prior year)*</td>
<td></td>
</tr>
<tr>
<td>▶ (+/-2% to budget)*</td>
<td></td>
</tr>
<tr>
<td>Verify to supporting documentation (attached).</td>
<td></td>
</tr>
<tr>
<td>Ensure compliance with FMOs’ requirements.</td>
<td></td>
</tr>
<tr>
<td><strong>Review</strong></td>
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<tr>
<td>Ensure that all material matters have been adequately disclosed. Are the figures complete, accurate and valid?</td>
<td></td>
</tr>
<tr>
<td>Ensure that all adjustments have been resolved. Update the Accounting Adjustments Register, if applicable.</td>
<td></td>
</tr>
<tr>
<td>Consider whether the format is consistent with the FMO Annexure A and PRIMA Illustrative financial statements issued by Finance. Include narratives if applicable.</td>
<td></td>
</tr>
<tr>
<td>Ensure the lead schedule is signed off.</td>
<td></td>
</tr>
</tbody>
</table>

* These percentages will vary, depending on management’s assessment of risk and materiality.
# 11C Lead Schedule

## LEAD SCHEDULE

**[Entity’s name] Financial Statements [current financial year]**

FINANCIAL STATEMENT ITEM/NOTE NO: ..........................

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Name</th>
<th>Source</th>
<th>Actual Current Yr</th>
<th>Actual Last Yr</th>
<th>Variance from Last Yr</th>
<th>Budget Current Yr</th>
<th>Variance from Budget</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>

### Analytical review/Comments

### Sign-off

Completed checklist (attached)

Prepared by: ___________________________  Time and Date: ___________________________

Reviewed and Approved by: ___________________________  Time and Date: ___________________________

Management Sign-off: ___________________________  Time and Date: ___________________________
ITEM 12: PROFORMA ACCOUNTING ADJUSTMENTS REGISTER

Following the preparation of the draft financial statements, management and the external auditors may raise a number of issues requiring correction of the draft financial statements. Better practice entities record these adjustments in an Accounting Adjustments Register as a record of all adjustments proposed/made and to enable the changes to be considered and actioned as a whole to minimise the number of drafts of the financial statements prepared. Better practice entities will make corrections to the draft financial statements irrespective of their materiality. The proforma should be tailored to meet the entity’s particular circumstances. It should be supported by copies of journals to facilitate the final checking of adjustments, disclosures and authorisation.

Reference: Part 3, Section 3.6, Page 65.

[Entity’s name]

Accounting Adjustments Register

For the year ended [current financial year]

<table>
<thead>
<tr>
<th>No</th>
<th>Account code no</th>
<th>Account description</th>
<th>Debit $</th>
<th>Credit $</th>
<th>Explanation</th>
<th>Unadjusted*</th>
<th>Adjusted</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>

Total adjusted

Total unadjusted

* Details of all adjustments not corrected should be reported to the Audit Committee.
ITEM 13: PROFORMA MANAGEMENT REPRESENTATION LETTERS

Australian Auditing Standard ASA 580 “Management Representations” requires that the auditor shall obtain sufficient appropriate evidence that management acknowledges its responsibility for the fair presentation of the financial statements in accordance with an identified financial reporting framework, and has approved the financial statements. The auditor shall endeavor to obtain written representations from management on specific matters, material to the financial statements, when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

The following are proforma management representation letters for agencies and statutory authorities that detail the key matters on which entities are expected to provide representations to the ANAO. Each year the ANAO prepares a proforma management letter for both agencies and authorities that need to be tailored to meet the specific circumstances of each agency, both in terms of additional representations that might be sought and where exceptions to the representations arise.

Reference: Part 3, Section 4, Page 68.

A. Proforma Agency Management Representation Letter

Addressee ANAO Engagement Executive

REPRESENTATION LETTER

[financial year] FINANCIAL STATEMENTS

This representation letter is provided in connection with your audit of the financial statements of the (Name of Department/Agency) for the year ended [………..], for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Financial Management and Accountability Orders (Financial Statements for reporting periods ending on or after [………..]) made by the Finance Minister (FMOs) and Australian Accounting Standards (including the Australian Accounting Interpretations).

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements-Overall

1. We have fulfilled our responsibilities, for the preparation of the financial statements in accordance with the FMOs and Australian Accounting Standards; in particular the financial statements give a true and fair view in accordance therewith.
2. We have fulfilled our responsibilities for:
   a) the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from misstatement, whether due to fraud or error;
   b) selecting and applying appropriate accounting policies; and
   c) making accounting estimates that are reasonable in the circumstances.
3. All events subsequent to the date of the financial statements and for which Australian Accounting Standards require adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate to the financial statements as a whole. A summary of such items is attached. [1]
5. There have been no communications from regulatory authorities or the Department of Finance and Deregulation concerning non-compliance with, or deficiencies in, the financial reporting practices that could have a material effect upon the financial statements.

6. Significant assumptions are reasonable, including those used in making accounting estimates and they appropriately reflect management’s intent and ability to carry out specific courses of action where relevant to the fair value measurement or disclosures.

[Include here any written representations, on matters material to the financial statements, which the auditor considers necessary to support audit evidence relevant to the financial statements]

Information Provided

7. We have provided you with:
   - All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements;
   - Additional information that you have requested from us; and
   - Unrestricted access to those within the Department/Agency from whom you determined it necessary to obtain audit evidence.

8. All transactions have been recorded in the accounting records and are reflected in the financial statements.

9. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of that affects the entity and involves:
   - Management;
   - Employees who have significant roles in internal control; or
   - Others where the fraud could have a material effect on the financial statements.

10. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.

11. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Financial Statement Specific Matters

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, that:

12. The following matters have been recognized, measured, presented or disclosed in accordance with the FMOs and Australian Accounting Standards:
   a) material or contingent liabilities or assets including those arising under derivative financial instruments;
   b) disclosures required by Division 122 of the FMOs relating to Compensation and Debt Relief in Special Circumstances.

13. All revenues, expenses, assets and liabilities which are controlled by the Government and managed by the Department/Agency on behalf of the Government have been disclosed as administered items.

14. The Department/Agency has satisfactory title to, or control over, assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

15. The Department/Agency has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.
16. There were no material commitments for construction or acquisition of land, buildings, infrastructure, plant and equipment or to acquire other non-current assets, such as investments or intangibles, other than those disclosed in the financial statements.

17. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

18. We are satisfied that the remuneration of all Executives, including that of the Chief Executive, has been properly reported in Note X in accordance with the FMOs. The note includes all components of executive remuneration including wages and salaries, leave accruals, performance and other bonuses, accrued superannuation, motor vehicles, housing, and any other allowances and fringe benefits included within remuneration agreements.

19. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed and accounted for in accordance with the FMOs and Australian Accounting Standards.

20. We have considered the requirements of AASB 136 Impairment of Assets and the FMOs when assessing the carrying amounts of assets and in ensuring that no assets are stated in excess of their recoverable amounts.

21. Adequate provision has been made for adjustments and losses in collection of receivables.

Accounts and Records

We confirm, that, to the best of our knowledge and belief, having made such inquiries as We considered necessary for the purpose of appropriately informing ourselves, the following:

22. In accordance with section 48 of the Financial Management and Accountability Act 1997 (FMA Act) and Order 2.3 of the Financial Management and Accountability Orders 2005, we have ensured that the accounts and records of the Department/Agency properly record and explain the Department/Agency’s transactions and financial position and have been kept in such a way that:

a) the receipt and expenditure of public money is recorded on a daily basis;

b) enables information to be provided to the Finance Chief Executive when required by the Finance Chief Executive on Commonwealth financial affairs to be included in budget and related documentation and on the financial affairs of the Department/Agency for the preparation of aggregate reporting for the Commonwealth;

c) enables the preparation of financial statements in accordance with section 49 of the FMA Act;

d) allows the financial statements to be properly and conveniently audited in accordance with the FMA Act;

e) ensures that moneys are only expended for the purpose for which they are appropriated; and

f) ensures the limit on any appropriation is not exceeded.

23. Commonwealth moneys have only been expended for the purpose for which they were appropriated and appropriation limits were not exceeded. There have been no instances of actual or possible non-compliance with the legislative requirements in respect of:

a) special accounts (FMA Act sections 20 and 21, and other relevant legislation);

b) the investment of public moneys (FMA Act section 39 and other relevant legislation);

c) net appropriation agreements (FMA Act section 31 and relevant sections of the Annual Appropriation Acts); and

d) special appropriations.
Yours sincerely

............................................................

(Chief Executive Officer and Chief Financial Officer) [2]

................................................

(date) [3]

Notes

[1] Uncorrected misstatements should be attached to this Representation Letter

[2] The Representation Letter should be signed by representative(s) of management and/or those charged with governance who have appropriate responsibilities for the preparation and presentation of the financial statements. For an FMA Agency this will be the CEO and CFO

[3] Should be signed on the same date that the financial statements are signed.
B. Proforma Authority Management Representation Letter

Addressee ANAO Engagement Executive

REPRESENTATION LETTER

[financial year] FINANCIAL STATEMENTS

This representation letter is provided in connection with your audit of the financial statements of the (Name of Commonwealth Authority) for the year ended [……….], for the purpose of you expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after [………..]) made by the Finance Minister (FMOs) and Australian Accounting Standards (including the Australian Accounting Interpretations).

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements—Overall

1. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with the FMOs and Australian Accounting Standards; in particular the financial statements give a true and fair view in accordance therewith.

2. We have fulfilled our responsibilities for:
   a) the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from misstatement, whether due to fraud or error;
   b) selecting and applying appropriate accounting policies; and
   c) making accounting estimates that are reasonable in the circumstances.

3. All events subsequent to the date of the financial statements and for which Australian Accounting Standards require adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate to the financial statements as a whole. A summary of such items is attached. [1]

5. There have been no communications from regulatory authorities or the Department of Finance and Deregulation concerning non-compliance with, or deficiencies in, the financial reporting practices that could have a material effect upon the financial statements.

6. Significant assumptions are reasonable, including those used in making accounting estimates and they appropriately reflect management’s intent and ability to carry out specific courses of action where relevant to the fair value measurement or disclosures.

[Include above any written representations, on matters material to the financial statements, which the auditor considers necessary to support audit evidence relevant to the financial statements (extant ASA 580 para 9)]

Information Provided

7. We have provided you with:
   a) All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements;
   b) Additional information that you have requested from us; and
   c) Unrestricted access to those within the Authority from whom you determined it necessary to obtain audit evidence.
8. All transactions have been recorded in the accounting records and are reflected in the financial statements.

9. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of that affects the entity and involves:
   - Management;
   - Employees who have significant roles in internal control; or
   - Others where the fraud could have a material effect on the financial statements.

10. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.

11. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

**Financial Statement Specific Matters**

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, that:

12. The following matters have been recognized, measured, presented or disclosed in accordance with the FMOs and Australian Accounting Standards:
   a) material or contingent liabilities or assets including those arising under derivative financial instruments;
   b) disclosures required by Division 122 of the FMOs relating to *Compensation and Debt Relief in Special Circumstances*.

13. *All revenues, expenses, assets and liabilities which are controlled by the Government and managed by the Authority on behalf of the Government have been disclosed as administered items.* [2]

14. The *Authority* has satisfactory title to, or control over, assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

15. The *Authority* has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.

16. There were no material commitments for construction or acquisition of land, buildings, infrastructure, plant and equipment or to acquire other non-current assets, such as investments or intangibles, other than those disclosed in the financial statements.

17. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

18. We are satisfied that the remuneration of all Executives, including that of the Chief Executive, has been properly reported in Note X in accordance with the FMOs. The note includes all components of executive remuneration including wages and salaries, leave accruals, performance and other bonuses, accrued superannuation, motor vehicles, housing, and any other allowances and fringe benefits included within remuneration agreements.

19. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed and accounted for in accordance with the FMOs and Australian Accounting Standards.

20. We have considered the requirements of AASB 136 *Impairment of Assets* and the FMOs when assessing the carrying amounts of assets and in ensuring that no assets are stated in excess of their recoverable amounts.

21. Adequate provision has been made for adjustments and losses in collection of receivables.
Accounts and Records

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, that:

22. In accordance with section 20 of the Commonwealth Authorities and Companies Act 1997 (CAC Act), we have kept accounting records that properly record and explain the Authority’s transactions and financial position and in a way that enables the preparation of the financial statements required by this Act, and allows those financial statements to be conveniently and properly audited in accordance with the Act.

23. Authority moneys have only been expended for the purposes permitted by the Authority’s enabling legislation. Commonwealth moneys were only expended for the purpose for which they were appropriated and appropriation limits were not exceeded. [2]

Yours sincerely

.........................................................

(Chairman Board of Directors, Chief Executive Officer and Chief Financial Officer) [3]

..........................

(date) [4]

Notes

[1] Uncorrected misstatements should be attached to this Representation Letter.

[2] These sentences should be included if, and only if, the Authority manages, on behalf of the Government, revenues/expenses/assets/liabilities which are controlled by the Government.

[3] The Representation Letter should be signed by representative(s) of management and/or those charged with governance who have appropriate responsibilities for the preparation and presentation of the financial statements. For a Commonwealth Authority this will be the Chairman of the Board of Directors, Chief Executive Officer and the Chief Financial Officer.

[4] Should be signed on the same date that the financial statements are signed.
ITEM 14: EXAMPLE MANAGEMENT SIGN-OFF

Although there are no specific legal requirements for management to sign-off the financial statements, the following example represents better practice in ensuring that the roles and responsibilities of respective stakeholders are clearly defined and understood.

The example management sign-off should be tailored to meet the entity’s particular circumstances. Consultation with external audit would be useful prior to the finalisation of the management sign-off. The questions included in the sign-off are not intended to be definitive or exhaustive.

Reference: Part 3, Section 4, Page 69.

Financial Statements for the year ended 30 June [current financial year]  
Management Sign-off

To: Chief Executive/Board  
Cc: Chair, Audit Committee  
Chief Financial Officer  

I acknowledge my responsibility for ensuring that the financial statements, as they relate to [Business Area’s name] are drawn up to give a true and fair view, in accordance with the Finance Minister’s Orders, applicable Accounting Standards and other mandatory reporting requirements.

I acknowledge my responsibility for the implementation and operation of accounting and internal control systems that are designed to prevent and detect fraud and error, as they relate to [Business Area’s name].

I confirm that the financial statements, as they relate to [Business Area’s name] are free of material misstatements, including omissions.

I confirm that you have been advised of all known material risks that may affect the financial statements through the monthly financial certification process and reports to the Chief Executive/Board.

I have discussed the answers and information provided in relation to the questions below with my staff, and where considered necessary, have requested or undertaken other follow-up action, as appropriate, to satisfy myself that the answers and information provided represent a fair and reliable assessment for the purposes of preparing the [Entity’s name]’s annual financial statements.

Signed by: _______________________________

Position: ________________________________

Date: ________________________________
### Management sign-off

<table>
<thead>
<tr>
<th>Management control environment</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>Have all employees in your Business Area been informed of [Entity’s name]’s code of conduct?</td>
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<tr>
<td>Are financial responsibilities of staff in your Business Area clearly communicated to establish performance expectations, accountability and control?</td>
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<tr>
<td>Have managers and supervisors been informed of the Human Resource policies and practices on recruiting, retaining and developing competent people?</td>
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</table>

### Legislative compliance

<table>
<thead>
<tr>
<th>Are you aware of any breaches of legislation (particularly systematic breaches) incurred by your Business Area:</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
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</thead>
<tbody>
<tr>
<td>– Statute (for example, section 83 of the Constitution and section 57 of the Public Service Act)</td>
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<tr>
<td>– legally binding contracts with a third party, and</td>
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<tr>
<td>– other legally binding obligations,</td>
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<tr>
<td>in respect of financial transactions conducted in the period?</td>
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<tr>
<td>Have your accounts and records been kept in a way that ensures that moneys are only expended for the purpose for which they are appropriated; and the limit on any appropriation as it relates to your Business Area is not exceeded?</td>
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<tr>
<td>Have all aspects of the operations of the Business Area been undertaken in accordance with applicable legislation, policies, and instructions?</td>
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<td>Have you and your delegates exercised delegated powers appropriately between the start of the financial year and the date on which the Chief Executive/Board signs the financial statement certification (specify date)?</td>
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<tr>
<td>Are you aware of any communications from regulatory authorities concerning the entity’s legislative compliance regime that could have a material effect upon the financial statements?</td>
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</table>

### Audit

<table>
<thead>
<tr>
<th>Have all issues raised in internal and external audit reports been addressed by your Business Area? Has the appropriate follow up action been instigated and monitored? If not, do any of the outstanding recommendations affect the financial statements?</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
</tr>
</thead>
</table>

### Accounting records and controls

<table>
<thead>
<tr>
<th>Have all financial transactions of your Business Area been properly recorded in the accounting records and systems so as to not allow a material error to occur in the period?</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have you taken steps within your Business Area (including monitoring and reviewing for adequacy) to ensure the appropriateness of:</td>
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<td>– segregation of duties for the processing of financial information</td>
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<tr>
<td>– independent review of financial transactions and their recording in the financial systems</td>
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<tr>
<td>– reconciliations</td>
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<tr>
<td>– management trails sufficient to allow tracking of financial transactions to primary documents and vice versa, and</td>
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<tr>
<td>– policy directions in regard to conduct by staff responsible for financial transactions.</td>
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<tr>
<td>Are all financial records and related supporting documents available for management and audit review?</td>
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</table>

### Fraud

<table>
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<tr>
<th>Were all cases of irregularities, fraud or misappropriation known to you in regard to your Business Area properly dealt with and disclosed?</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>If no, please provide details. If appropriate, provide a separate document labelled as ‘confidential’ addressed directly to the CFO.</td>
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<tr>
<td>Have there been any known instances of payments being offered or made to individuals or organisations to secure or attempt to secure any benefits for your Business Area or any officer acting on behalf of your Area?</td>
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</tr>
<tr>
<td>Management sign-off</td>
<td>Yes</td>
<td>No</td>
<td>N/A</td>
<td>Explanation</td>
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</tr>
<tr>
<td>Irregularities arising from negligence or misconduct</td>
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<tr>
<td>Are you aware of any misconduct involving employees which could have a material impact on the accuracy of financial data or be a significant embarrassment to the [Entity’s name]? If appropriate, provide a separate document labelled as ‘confidential’ addressed directly to the CFO.</td>
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<tr>
<td>Assets</td>
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<tr>
<td>Are you aware of any plans or intentions in relation to your Business Area that have not been brought to the attention of the CFO for consideration, and that may materially affect the carrying value or classification of any assets?</td>
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<td>Are you satisfied that items of equipment and portable/attractive items under the control of your Business Area have been accounted for and are in reasonable condition?</td>
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<tr>
<td>Liabilities</td>
<td></td>
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<tr>
<td>Have all material liabilities relating to your Business Area’s activities as at 30 June been referred to the CFO for inclusion in the financial statements?</td>
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<tr>
<td>Are you aware of any plans or intentions in relation to your Business Area that may materially alter the value or classification of liabilities relating to your Area?</td>
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<tr>
<td>Have these plans and intentions been referred to the CFO for consideration in arriving at the value of liabilities in the financial statements?</td>
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<tr>
<td>Write-offs, waivers and relief</td>
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<tr>
<td>Have write-offs, waivers and relief relating to your Business Area’s activities been formally advised to the CFO for inclusion in the financial statements?</td>
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<tr>
<td>Commitments</td>
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<tr>
<td>Have material commitments relating to your Business Area been formally advised to the CFO for inclusion in the financial statements?</td>
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<tr>
<td>These should include, but not be restricted to:</td>
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<tr>
<td>– purchase orders for equipment where they are part of a major acquisition</td>
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<td>– service contracts</td>
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<tr>
<td>– non-cancellable operating leases, and</td>
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<tr>
<td>– agreements equally proportionately unperformed.</td>
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<tr>
<td>Contingencies</td>
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</tr>
<tr>
<td>Have material Contingent Liabilities, Contingent Gains/Losses and Contingent Assets relating to your Business Area been formally advised to the CFO for inclusion in the financial statements?</td>
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<tr>
<td>These should include, but not be restricted to:</td>
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<tr>
<td>– indemnities</td>
<td></td>
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<tr>
<td>– damages which may be awarded in court cases against the [Entity’s name]; that is, where a summons has been issued</td>
<td></td>
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<tr>
<td>– estimated legal expenses; that is, in a current court case</td>
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<tr>
<td>– large unresolved compensation for administrative cases</td>
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<tr>
<td>– claims by staff, current and former</td>
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<tr>
<td>– damages which may be awarded to the [Entity’s name], and</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>– section 31 Relevant Agency Receipts where there is no present entitlement to receive them.</td>
<td></td>
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<tr>
<td>Subsequent events</td>
<td></td>
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</tr>
<tr>
<td>Have any significant events occurred or are likely to occur between the end of the financial year and the date on which the Chief Executive/Board signs the financial statement certification [signing date] which are of such importance to your Business Area that they need to be formally advised to the Chief Executive/Board or the CFO? Examples include significant transactions, fraud, irregularity, staff issues, ethical shortcomings, conflict of interest, and status of redundancy processes.</td>
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<tr>
<td>Annual report</td>
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<tr>
<td>Please confirm that you have read your Business Area’s written submission to the annual report and are satisfied that the contents are fair and not inconsistent with the financial results and related data.</td>
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</tbody>
</table>
ITEM 15: PROFORMA CFO SIGN-OFF

The purpose of a CFO sign-off is to provide the Chief Executive/Board (through the Audit Committee) in the first instance with assurance about key aspects of an entity’s financial statements that generally fall within the CFO’s responsibility. Although there are no specific legal requirements for CFO to sign off the financial statements, the following example represents better practice in ensuring that the roles and responsibilities of respective stakeholders are clearly defined and understood.

The questions included in the sign-off should focus on key issues that are likely to be important to the Audit Committee and the Chief Executive/Board prior to certification of the financial statements. Where applicable, balances/disclosures in the sign-off should include details of revenues, expenses, assets and liabilities collected/accrued/held by another entity on behalf of the entity. Consultation with external audit should take place prior to the finalisation of the CFO sign-off.

The checklist does not necessarily cover all possible questions and should be tailored to reflect an entity’s particular circumstances and to meet the needs of the Audit Committee and the Chief Executive/Board.

Reference: Part 3, Section 4, Page 69.

<table>
<thead>
<tr>
<th>Financial Statements for the year ended 30 June [current financial year]</th>
<th>CFO Sign-off</th>
</tr>
</thead>
<tbody>
<tr>
<td>To:</td>
<td>Chief Executive/Board</td>
</tr>
<tr>
<td>Through:</td>
<td>Chair, Audit Committee</td>
</tr>
<tr>
<td>I acknowledge my responsibility for ensuring that the financial statements have been drawn up to give a true and fair view, in accordance with the Finance Minister’s Orders, applicable Accounting Standards and other mandatory reporting requirements.</td>
<td></td>
</tr>
<tr>
<td>I acknowledge my responsibility for the implementation and operations of accounting and internal control systems that are designed to prevent and detect fraud and error.</td>
<td></td>
</tr>
<tr>
<td>I confirm that the financial statements are free of material misstatements, including omissions and that they have been prepared based on properly maintained financial records.</td>
<td></td>
</tr>
<tr>
<td>I confirm that the Committee has been advised of all known material risks that may affect the financial statements through the monthly financial reporting process or separately.</td>
<td></td>
</tr>
<tr>
<td>I have undertaken file reviews, staff discussions and other actions [including obtaining sign-offs from business managers and stakeholders], as appropriate, to satisfy myself that the answers and information provided in relation to the questions attached at Attachment A represent a fair and reliable assessment for the purposes of preparing the [Entity’s name]’s annual financial statements.</td>
<td></td>
</tr>
<tr>
<td>Summary of financial performance</td>
<td></td>
</tr>
<tr>
<td>The financial statements disclose a surplus/deficit of $x. This is in line with [materially at variance with] the budgeted surplus/deficit*. An explanation of material variations between this year’s amounts and the prior year and material variations from budget are set out at Attachment B.</td>
<td></td>
</tr>
</tbody>
</table>

* In these circumstances the main reasons for the variance should be fully explained.
Summary of unadjusted errors and misstatements

At Attachment C is a listing of errors and misstatements that have been identified by management or external audit. Individually and collectively these items do not impact on the material fairness of the financial statements and have not been corrected because it is not considered cost-effective to do so.

Signed by: _______________________________

Position: _________________________________

Date: ____________________________________

Attachment A

<table>
<thead>
<tr>
<th>CFO sign-off</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Legislative compliance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▶ Have any breaches of legislation (including relevant taxation requirements) in respect of financial transactions been addressed appropriately?</td>
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<tr>
<td>▶ Have moneys been expended for the purpose for which they were appropriated and the limit on any appropriation not been exceeded?</td>
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</tr>
<tr>
<td>▶ Have all financial aspects of the operations been undertaken in accordance with applicable legislation, policies, and instructions?</td>
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</tr>
<tr>
<td>▶ Has the financial impact of any outstanding legal or contractual matters been identified and reflected in the financial statements, where appropriate?</td>
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</tr>
<tr>
<td>▶ Have delegated powers been appropriately exercised between the beginning of the financial year under audit and the date on which the Chief Executive/Board certifies the financial statements (specify date)?</td>
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<tr>
<td>▶ Have appropriate actions been made regarding communications from regulatory authorities concerning non-compliance with, or deficiencies in, the financial reporting practices that could have a material effect upon the financial statements?</td>
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<tr>
<td><strong>Annual appropriations</strong></td>
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<tr>
<td>▶ Are the transactions and balances as reported in the financial statements in accordance with the purpose described in the annual appropriation line item?</td>
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<tr>
<td>▶ Have section 8 determinations been correctly accounted for and disclosed in the financial statements?</td>
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<tr>
<td>▶ Are amounts reported against the GST annotated appropriations supported by valid tax invoices?</td>
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</tr>
<tr>
<td><strong>Section 31 Relevant Agency Receipts</strong></td>
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<tr>
<td>▶ Are all section 31 Relevant Agency receipts reported in the financial statements eligible for retention in accordance with regulations 15 and 16 of FMA Regulations?</td>
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<tr>
<td><strong>Special appropriations</strong></td>
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<tr>
<td>▶ Have all special appropriations administered by the entity been reported in the financial statements in accordance with FMOs?</td>
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<tr>
<td>▶ Have all conditions or limitations described in the legislation enabling the special appropriation been complied with (for example, limited by amount and/or date, eligibility criteria, guidelines on applying funds or making grants or provisions for handling surplus funds)?</td>
<td></td>
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<tr>
<td>CFO sign-off</td>
<td>Yes</td>
<td>No</td>
<td>N/A</td>
<td>Explanation</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
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<tr>
<td><strong>Special accounts under the FMA Act</strong></td>
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<tr>
<td>▶ Are special accounts reported in the financial statements supported by a valid determination from the Minister for Finance (section 20 accounts) or legislation (section 21 accounts) covering the full financial year?</td>
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<tr>
<td>▶ Have all special accounts, including ‘Nil’ balances been included in the financial statements in accordance with FMOs?</td>
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<tr>
<td>▶ Are all receipts and expenses to and from each special account for the purpose specified in the relevant determination or Act?</td>
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<tr>
<td><strong>Drawing rights under the FMA Act</strong></td>
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<tr>
<td>▶ Does the entity hold drawing rights for each appropriation and special account?</td>
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<tr>
<td><strong>Section 32 of the FMA Act transfers</strong></td>
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<tr>
<td>▶ Have section 32 transfers been properly accounted for and reported in the financial statements?</td>
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<tr>
<td><strong>Investments (section 39 of the FMA Act and sections 18 and 19 of the CAC Act)</strong></td>
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<tr>
<td>▶ Have all investments during the financial year been made in compliance with the relevant legislative provisions (for example, approved forms of investment)?</td>
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<tr>
<td><strong>Revenue (administered and enabling legislation)</strong></td>
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<tr>
<td>▶ Has revenue payable under legislation been brought to account in accordance with relevant legislative provisions?</td>
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<tr>
<td><strong>2. Administrative Arrangements Order (AAO)</strong></td>
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<tr>
<td>▶ Have all assets and liabilities been properly transferred in accordance with FMO and AAO requirements?</td>
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<tr>
<td><strong>3. Audit</strong></td>
<td></td>
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<tr>
<td>▶ Have all issues raised in internal and external audit reports been addressed? Has appropriate follow up action been taken and monitored? If not, do any of the outstanding recommendations affect the financial statements?</td>
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<tr>
<td>▶ Have all issues arising from the Audit Committee’s review of the draft financial statements been satisfactorily resolved?</td>
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<tr>
<td><strong>4. Income statement</strong></td>
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<tr>
<td>▶ Are the figures reported in the income statement consistent with expectations?</td>
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<tr>
<td>▶ Have all significant variations from budget and previous year been identified and explained?</td>
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<tr>
<td><strong>5. Appropriations</strong></td>
<td></td>
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<tr>
<td>▶ Has an appropriation note been completed for all relevant appropriations as required by the FMOs?</td>
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<tr>
<td>▶ Have you ensured that:</td>
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<tr>
<td>– appropriation balances carried forward agree with the financial statements from the previous year</td>
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<tr>
<td>– section 31 Relevant Agency receipts are reconciled to the financial management information system, and</td>
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<tr>
<td>– payments from appropriations are reported, including goods and services tax and reconciled to the financial management information system and Finance’s appropriation system?</td>
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<tr>
<td><strong>6. Administered items</strong></td>
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<tr>
<td>▶ Have the Schedule of Administered Items and related notes been prepared in accordance with the FMOs?</td>
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<tr>
<td>▶ Have all significant variations with budget in administered revenues and expenses been explained satisfactorily?</td>
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<tr>
<td>▶ Are relevant documentation and financial records available to fully support any adjustments to appropriations?</td>
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</table>
### 7. Assets
- Is the value of assets recorded in the financial statements as at year-end materially accurate using categories set out in the Finance Minister’s Orders?
- Where assets have been revalued in accordance with the accounting standards and the Finance Minister’s Orders, have full details of the current valuation basis used been included in the notes?
- Has an annual review of depreciation rates and methods and the expected useful life of assets been undertaken and appropriate adjustments made to financial statement disclosures?
- Have the carrying values of assets been reviewed to ensure that they do not exceed their recoverable amounts?
- Do all assets have satisfactory title? Are there any aliens or encumbrances on assets or any assets that have been pledged as collateral and have they been appropriately disclosed in the financial statements?

### 8. Receivables
- Have receivables been disclosed on a basis consistent with [Entity’s name]’s accounting policy and the Finance Minister’s Orders?
- Have procedures for determining the provision for doubtful debts and debt write-offs been carried out?
- Are the provision for doubtful debts and any amounts written off adequate to provide for reduction on realisation of receivables?

### 9. Creditors
- Have all creditors and payables been disclosed in the financial statements on a basis consistent with relevant [Entity’s name] accounting policy and the Finance Minister’s Orders?

- Are the provisions for employee entitlements considered to be materially correct?

### 11. Commitments
- Has the aggregate of all material commitments been included in the notes?

### 12. Contingencies
- Have all material Contingent Liabilities, Contingent Gains/Losses and Contingent Assets been disclosed?

### 13. Remuneration of executives
- Have all amounts of remuneration received or due and receivable by executives, been included in the notes to the financial statements in accordance with the Finance Minister’s Orders?

### 14. Subsequent events
- Have any events occurred between the end of the financial year and the date on which the Chief Executive/Board certifies the financial statements, that are of such significance that they need to be formally advised to the Chief Executive/Board? Have these events been taken into account in the preparation of the financial statements? Examples include significant transactions, restructures, fraud, irregularity, staff issues, ethical shortcomings, conflict of interest, and status of redundancy processes.
- Have any significant events occurred between the date of certification of the financial statements and the date the statements are authorised for issue that require amendment or disclosure in the statements?

<table>
<thead>
<tr>
<th>CFO sign-off</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Assets</td>
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<tr>
<td>8. Receivables</td>
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<tr>
<td>9. Creditors</td>
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<tr>
<td>11. Commitments</td>
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<tr>
<td>12. Contingencies</td>
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<tr>
<td>13. Remuneration of executives</td>
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<tr>
<td>14. Subsequent events</td>
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ITEM 16: MANAGEMENT CHECKLIST FOR THE AUDIT COMMITTEE

This checklist is an example of one approach the Audit Committee may wish to take in meeting its financial statement responsibilities. It involves a series of questions that management is required to answer and submit to the Audit Committee to provide assurance on the robustness of the entity’s financial statement arrangements and processes. The checklist would normally be applied on an annual basis to align with the timing of the financial statements and annual report of the entity. There may, however, be elements which the Audit Committee wishes to consider or apply during the financial year.

The checklist should be tailored to meet the entity’s particular circumstances.

A ‘no’ answer does not necessarily indicate a failure or breakdown in the entity’s financial statement processes but may indicate where more detailed discussion or consideration by the Audit Committee is warranted.

Reference: Part 3, Section 4, Page 69.

<table>
<thead>
<tr>
<th>Timing</th>
<th>Yes</th>
<th>No</th>
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<tbody>
<tr>
<td>• Was the Audit Committee advised in a timely manner of all significant issues that could have impacted the financial statements?</td>
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<tr>
<td>• Was a timetable established for the preparation of the financial statements and does it comply with applicable reporting deadlines?</td>
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<tr>
<td>• Was the timetable agreed with external audit and other relevant stakeholders?</td>
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<tr>
<td>• Do you expect the timetable to be met?</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Presentation and disclosure</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Do the financial statements comply with the Finance Minister’s Orders, including applicable international accounting standards?</td>
<td></td>
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<tr>
<td>• Have the financial statements been reviewed against the appropriate PRIMA financial statements and other guidance material?</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Accounting policies</th>
<th>Yes</th>
<th>No</th>
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</thead>
<tbody>
<tr>
<td>• Have any changes in the entity’s accounting policies been reflected and disclosed in the financial statements where appropriate?</td>
<td></td>
<td></td>
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<tr>
<td>• Was external audit consulted in this process?</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Content of the financial statements</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Have any deficiencies or breakdowns in the control environment had a material impact on the financial statements?</td>
<td></td>
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<tr>
<td>• Have there been any communications from regulatory authorities concerning non-compliance with legislation and associated regulations and orders which could impact on the financial statements?</td>
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<tr>
<td>• Have there been any frauds or other irregularities during the year which could impact on the financial statements?</td>
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<tr>
<td>• Has the financial impact of any legal matters been appropriately reflected in the financial statements?</td>
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<tr>
<td>• Has the financial impact of cross-agency governance arrangements and any contractual matters been appropriately reflected in the financial statements?</td>
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</tr>
<tr>
<td>• Has the financial impact of any significant or non-recurring transactions, events or adjustments been reflected in the financial statements?</td>
<td></td>
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<tr>
<td>• Are any significant valuations, estimates or judgements made in the preparation of the financial statements soundly based and signed off by management?</td>
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</tr>
<tr>
<td>• Are you aware of any factors that may materially affect the carrying value or classification of assets and liabilities?</td>
<td></td>
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<tr>
<td>• Are the effects of the goods and services tax appropriately reflected in the carrying value of assets and liabilities at balance date?</td>
<td></td>
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</tr>
</tbody>
</table>
» Is the valuation basis adopted for buildings, infrastructure, plant and equipment appropriate?
» Is the carrying value of assets supported by independent valuations where appropriate?
» Does satisfactory title to all assets exist and are there no liens or encumbrances on such assets?
» Have allowances for depreciation been adjusted for all important items, such as buildings, other infrastructure, plant and equipment that have been abandoned or deemed unusable?
» Has the remuneration of all executives been properly reported in the financial statements and does it include all required components of remuneration including:
  – wages and salaries
  – leave accruals
  – performance and other bonuses
  – superannuation
  – motor vehicles
  – fringe benefits tax, and
  – all other allowances?
» Have the following been properly recorded and disclosed in the financial statements (where relevant):
  – related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees?
  – applicable arrangements involving restrictions on cash balances, compensating balances and line-of-credit or similar arrangements?
  – arrangements to repurchase assets previously sold?
  – material liabilities or contingent liabilities or assets including those arising under derivative instruments?
  – losses arising from the fulfilment of, or an inability to fulfil, any sale commitments or as a result of the purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of prevailing market prices?
» Have all material commitments for the construction or acquisition of assets been disclosed in the financial statements?
» Have all events that occurred subsequent to balance date that require disclosure been included in the financial statements?
» Will the entity be able to pay its debts as and when they fall due?

### Audit of the financial statements
» Were the draft financial statements made available for audit in accordance with the agreed timetable?
» Were all accounting and other records and information made available to external audit?
» Were there any significant adjustments to the financial statements as a result of the external audit?
» Have all disagreements with external audit concerning the financial statements been resolved?
» Has the management representation letter been completed and provided to external audit?
» Is an unqualified audit opinion expected on the entity’s financial statements?
» If the audit opinion is expected to refer to any matters, do the financial statements also include reference to these matters?

### Annual report
» Are the financial statements contained in the annual report the signed audited statements?
» Is the other financial information contained in the annual report consistent with the financial statements?

Name: ......................................................................................................
Position: ...................................................................................................
(to be completed by the most senior executive(s) responsible for the entity’s financial statements within the entity)
Signed: .......................................................... Date: ………/………/………. 
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