

Western Australian Auditor General's Report



Western Australian Public Sector Financial Statements – Better Practice Guide



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Office of the Auditor General
Western Australia

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The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.

**Western Australian Public Sector Financial
Statements – Better Practice Guide**



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

**WESTERN AUSTRALIAN PUBLIC SECTOR FINANCIAL STATEMENTS – BETTER
PRACTICE GUIDE**

This report has been prepared for submission to Parliament under sections 23(2) and 24(1) of the *Auditor General Act 2006*.

Better practice checklists regularly feature in my Office's performance audit reports as a means of providing guidance to help the Western Australian public sector perform efficiently and effectively. This is the second comprehensive stand-alone better practice guide we have produced.

A handwritten signature in black ink, appearing to read 'C Spencer'.

CAROLINE SPENCER
AUDITOR GENERAL
14 June 2021

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Auditor General's overview

I am pleased to present this Better Practice Guide – Public Sector Financial Statements. It is relevant for the Western Australian State and local government sectors. I am confident it will be a useful reference tool for WA public sector officers preparing and overseeing financial statements.



Financial reporting and auditing are substantial elements of external accountability, but they are not ends in themselves. They inform decision-making, provide confidence to stakeholders and enable comparisons over time with similar entities and other jurisdictions. High quality financial statements are an indicator of good governance, supporting the 3 pillars of integrity, accountability and transparency. This guide supports entities in a practical sense to implement sound financial reporting arrangements to fulfill statutory obligations. It will also help make the annual audit process as smooth and cost-effective as possible.

I recognise the challenge that exists in public sector financial reporting to balance the need for useful and reliable financial information in an increasingly complex sector with pressure to reduce costs and unnecessary compliance burden. Consequently, it has become critical that there is value in financial statements to stakeholders relative to costs of preparation without compromising on accuracy, reliability and meaningful disclosure. This practical guide and toolkit sets out better practice principles which, when applied, support a strong governance framework and an efficient and effective financial statement preparation process.

The guide is not exhaustive and has no legislative or policy status. It is not intended to be prescriptive or obligatory. I acknowledge that entities differ in nature and size and their financial statement preparation processes involve different layers of complexity and risk. As such, entities should interpret and tailor the material in the guide to their own circumstances.

Each year we assess and test State government entities against 7 best practice criteria (including timeliness of preparation and provision of information; quality of financial statements, key performance indicators and working papers; key staff availability and cooperation; and a low number of audit issues identified) and will implement this for local government entities as an incentive and recognition for those entities that strive to achieve excellence in their financial reporting arrangements.

This is the second stand-alone better practice guide produced by my Office, the first being better practice for public sector audit committees. Checklists also feature in relevant performance audit reports and are available on the OAG website under Reports and publications. I thank the organisations and many reviewers who provided permission and invaluable feedback in the preparation of this guide.

Part 1: Introduction

All Western Australian (WA) State and local government entities are required to prepare annual reports including financial statements. Financial statements are the primary mechanism by which entities discharge accountability for their financial management responsibilities.

Timely finalisation of the financial statements with an unqualified auditor's report is an important indicator of an entity's sound financial management performance. Sound financial management fosters confidence in the entity on the part of ministers, Parliament, councillors¹, the community and other stakeholders.

1.1 About this guide

This guide has been developed by the Office of the Auditor General (OAG) to promote better practice principles for financial statement preparation for the WA public sector.

The guide consists of 5 parts:

Part 1: Introduction outlines the purpose of the guide, who should use it and how to use it.

Part 2: Western Australian public sector financial reporting framework sets out key legislative, policy and other requirements that govern the preparation of financial statements.

Part 3: Principles for better practice financial statement preparation outlines core better practice principles for financial statement preparation. These principles are as follows:

Principles	
1	Ownership and commitment: The accountable authority, chief financial officer and senior management demonstrate their ownership and commitment to, and actively promote, financial management policies, principles and practices.
2	Sound financial governance: Robust risk management practices and internal controls are in place across the entity.
3	Anticipating and responding to change: Significant changes to the entity, the reporting framework or the entity's environment that impact on the financial statements are identified, communicated and addressed in a timely manner.
4	Skilled and knowledgeable finance team: The financial reporting team collectively has the appropriate skills and knowledge to deliver its role and responsibilities, with opportunities for continuous learning and/or professional development.
5	Applying materiality: Sound professional judgement is exercised in the preparation of financial statements, such as in the application of materiality.
6	Good project management, skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.
7	Adopting good financial practices: Adopting good financial practices throughout the year and at year-end.

Source: OAG

Table 1: Better practice principles for financial statement preparation

¹ In this guide the term councillors includes local government mayors and presidents.

Part 4: Key challenges for smaller entities provides practical considerations for smaller entities with limited resources and different levels of complexity and risk.

Part 5: Toolkit includes a comprehensive compilation of templates and checklists to assist in the financial statement preparation process.

Throughout the guide, we have used the term accountable authority to collectively represent:

- for State government entities (State entities) – the director general, commissioner, board, or other person or body responsible for the direction and control of the entity as defined in the *Financial Management Act 2006* or other relevant legislation
- for local government entities (LG entities) – councils and the chief executive officer (CEO). Roles and responsibilities of council, councillors and the CEO's functions are prescribed by the *Local Government Act 1995*. Financial management responsibilities of the CEO are established under Regulation 5 of the Local Government (Financial Management) Regulations 1996. Both councillors and the CEO have responsibilities for financial reporting. Council's role centres on broader governance and oversight of financial responsibilities and reporting processes. The CEO has substantial operational responsibility to ensure financial management matters are handled effectively and efficiently, including systems of internal control and procedures.

In this guide, the terms:

- internal control encapsulates internal controls over financial reporting
- financial statement preparation also means financial reporting.

1.2 Who should use this guide

The primary audience of the guide is chief financial officers (CFOs), finance managers and financial reporting staff. However, some information is likely to be of interest to accountable authorities and/or audit committees.

The preparation of financial statements can be a complex annual project that requires a significant investment of time and resources.

This guide aims to support entities to efficiently prepare high quality financial statements and to continuously improve their financial statement practices and processes.

1.3 Using this guide

The better practice principles in this guide and the accompanying resources are guidance materials, not mandatory requirements. When preparing financial statements, entities may elect to use the guide by:

- adopting the better practice principles
- using all or some of the practical resources identified in the toolkit section of the guide.

However, the extent to which different entities refer to the guide can vary depending on factors such as the size and complexity of the entity, the experience and expertise of their finance team, and the maturity of their financial statement preparation processes and their audit committee. As these processes involve different levels of complexity and risk, material in the guide should be interpreted, customised and used in the context of each entity's own circumstances. Entities also need to be alert to ongoing legislative, policy and other reporting requirement changes.

It is important to note that while the guide is primarily focussed on year-end financial statement preparation as distinct from month-end financial reporting, better practice is to view financial reporting as a continuous process. Aligning internal month-end financial reporting with external year-end financial reporting is considered best practice. Further commentary is provided in *Part 3: Principles for better practice financial statement preparation*.

This guide comprehensively sets out better practice and extensive toolkits. While not exhaustive, we have tried to include detail that would be useful for finance practitioners. We acknowledge that much of the toolkit is better suited to larger entities and small entities may need to be selective in their application.

1.4 Limitations

The purpose of this guide is to synthesise and promote better practices for preparation and presentation of financial statements. Entities are encouraged to consider this guide in the context of other guidance material that may be produced by the Department of Treasury (Treasury), Public Sector Commission and the Department of Local Government, Sport and Cultural Industries (DLGSC). An organisational culture of excellence and accountability, and teams with strong professional skills and capability are critically important success factors for financial reporting and other controls.

The guide is not intended to be mandatory or prescriptive and the OAG will not monitor entities' compliance with it. Further, it is not intended to be a definitive point of reference for the legislative and policy requirements pertaining to entities. Each entity should ensure its own familiarity with the relevant requirements of applicable financial reporting frameworks including legislation, policy requirements and related guidance that may affect its financial management and reporting responsibilities.

We recommend that entities exercise their own skill and care with respect to their use of this guide and carefully evaluate the accuracy, currency, completeness and relevance of the material for their purposes.

1.5 Acknowledgements

We would like to express our appreciation to our contracted professional firms, the member bodies, public sector entities and their staff who provided feedback and comment on the draft guide. The feedback and comments received were valuable and insightful. In particular, a number of stakeholders experienced in financial reporting, such as the Treasury CFO Reform Steering Group and Local Government Finance Professionals Network, willingly shared their views and suggestions for this guide. We highly valued and appreciated their input, guidance, advice and time.

In addition, we would like to thank the Commonwealth Department of Finance who allowed us to use their resources to inform our guide.

Part 2: Western Australian public sector financial reporting framework

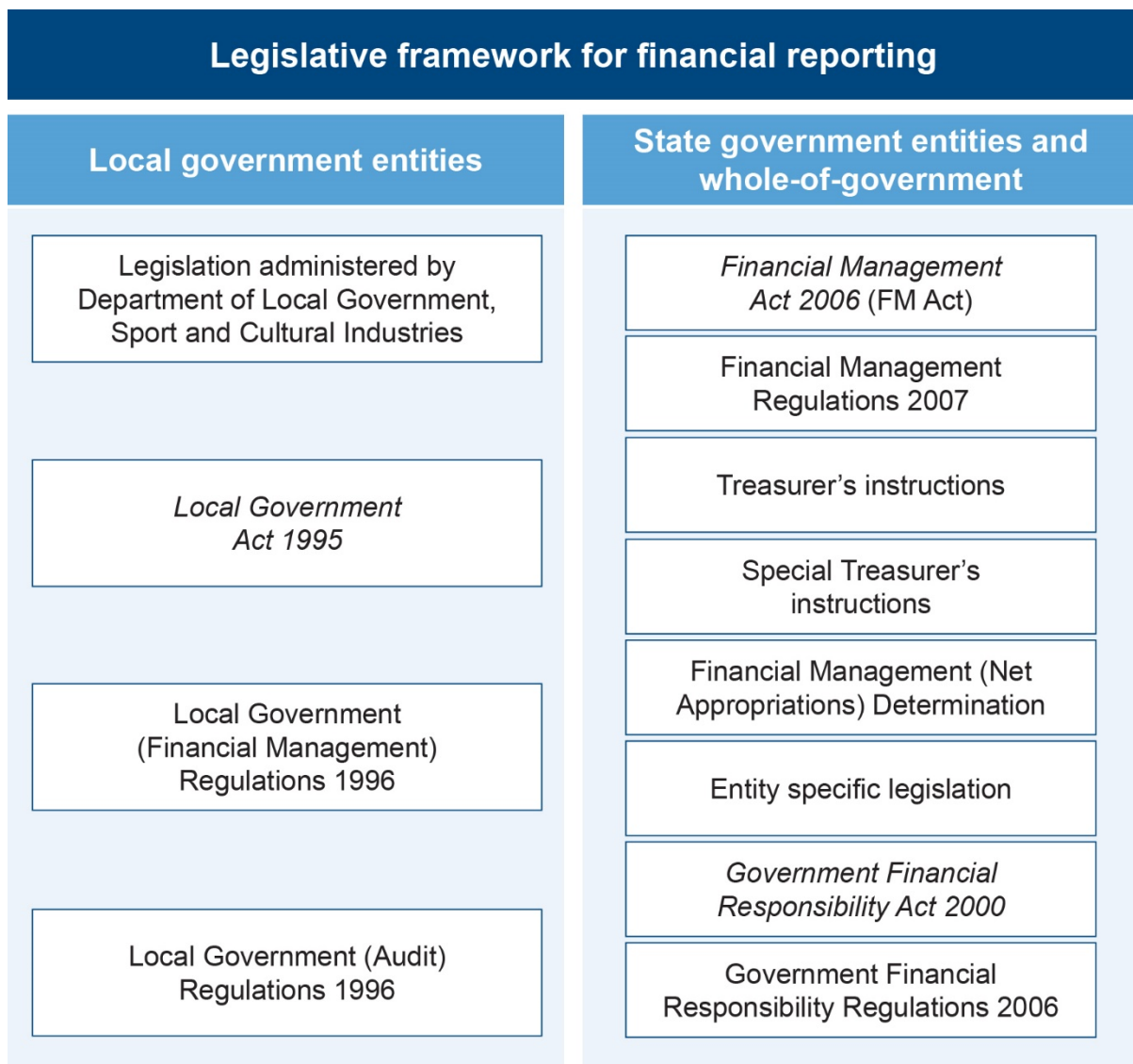
The Australian Accounting Standards Board's (AASB) *Framework for the Preparation and Presentation of Financial Statements* refers to the objective of financial reporting as providing financial information about the reporting entity that is useful for users in making decisions about providing resources to the entity.

There are many users of public sector financial statements. The users of State entity and whole-of-government² financial statements include ministers, Parliament (committees and individual parliamentarians), taxpayers, lenders to government (including buyers of Treasury notes), suppliers and recipients of goods and services provided to and by government, industry and community groups, and the media. Similarly, users of LG entity financial statements also include councillors, ratepayers, community groups, lenders and developers. This wide and diverse range of users underlines the importance of public sector entities meeting their responsibilities for financial accountability in an efficient and effective manner.

In WA, there are different financial reporting frameworks for State and LG entities. Figure 1 provides details of the main legislation, policies and guidelines relevant to the preparation of financial statements under these 2 financial reporting frameworks.

Each public sector entity needs to be familiar with relevant requirements of the applicable financial reporting framework. This includes legislation, policy requirements and related guidance that may affect its financial management and reporting responsibilities.

² Whole-of-government refers to the Annual Report on State Finances prepared by Department of Treasury (WA).



Source: OAG

Figure 1: Legislative framework for financial reporting

2.1 State entity and whole-of-government reporting requirements

Applicable standards and reporting requirements

The AASB sets the financial reporting standards for all reporting entities in Australia. All State entities are required to prepare annual financial statements under the *Financial Management Act 2006* (FM Act) and/or enabling legislation which includes the requirement to comply with Australian Accounting Standards (AAS), as issued by the AASB. The Treasurer's instructions (TIs) provide that if a requirement of the AAS is inconsistent with a provision of the FM Act, Financial Management Regulations 2007 and TIs, the legislative provisions shall prevail to the extent of the inconsistency.

Whole-of-government financial statements are also required to comply with AAS, the Government Finance Statistics standards and the Uniform Presentation Framework.

The AAS are set by the AASB, based on the standards set by the International Accounting Standards Board. The AAS include amendments that reflect Australian requirements,

including Australian legislation, not-for-profit accounting issues and reduced disclosure requirements.

The Government Finance Statistics standards are set by the Australian Bureau of Statistics, based on the international system set by the International Monetary Fund.

The Uniform Presentation Framework (UPF) was agreed to by Commonwealth, state and territory governments at the May 1991 Premiers' Conference. The UPF ensures consistent minimum levels of details in whole-of-government disclosures.

The 2 sets of relevant external reporting standards prescribed in legislation and set independently of the government are:

- AAS – apply to financial statements prepared under the FM Act; enabling legislation of non-FM Act entities that are classified as public financial and non-financial corporations; *Government Financial Responsibility Act 2000* (GFR Act).
- Government Finance Statistics standards – apply to the whole-of-government financial statements under the *Government Financial Responsibility Act 2000*, applicable AAS and Interpretations, in particular AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, and the requirements of the UPF.

Requirement to prepare annual financial report

Section 61 of the FM Act requires the accountable authority of a State entity to prepare an annual report at the end of each financial year.

Section 78 of the FM Act provides that the Treasurer may issue instructions with respect to matters of financial administration. The TIs have the force of law and therefore must be observed by all entities to which they apply. TIs predominantly relate to the financial management framework of the State public sector. They contain provisions that support transactions of the State entities, in relation to accountability and control mechanisms.

TIs require State entities to prepare financial statements at either Tier 1 (full disclosure) or Tier 2 (simplified disclosure). TI 1107 *Application of Tiered Reporting – Reduced Disclosure Requirements* introduces 2 tiers of reporting requirements for preparing general purpose financial statements, as prescribed by AASB 1053 *Application of Tiers of Australian Accounting Standards*. Tier 1 comprises the full range of recognition, measurement and disclosure requirements of all AAS and Interpretations. Tier 2 includes the same recognition and measurement requirements as Tier 1, but with less disclosure.³

Non-FM Act entities are required to prepare their annual financial reports in accordance with their enabling legislation.

Section 14A of the GFR Act requires the Treasurer to release an Annual Report on State Finances for each budget year, which include general purpose financial statements.

Certification requirements for financial report

Financial statement certification

Section 62 of the FM Act requires the financial statements of State entities subject to the Act to be certified by the accountable authority in the manner prescribed by the TIs (TI 947 *Certification of Financial Statements*), stating that the financial statements are in compliance

³ Note - applicable Tier 2 disclosures are set out in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* and apply to annual reporting periods beginning on or after 1 July 2021.

with the provisions of the FM Act, based on proper accounts and records, and present fairly the financial transactions and the financial position for the reporting period.

For some public financial corporations and public non-financial corporations that are not subject to the FM Act (non-FM Act entities) there are similar requirements. Declarations by directors that the financial statements are to give a true and fair view and to comply with AAS are outlined in the respective entity's enabling legislation which largely mirrors the requirements of the *Corporations Act 2001* (Cth).

For the Annual Report on State Finances, the Under Treasurer is required to certify and sign a statement of responsibility under the GFR Act.

Internal control certification

While there is no legislative requirement for State entities to attest to an adequate internal financial control environment, robust internal control systems and practices detect, prevent and mitigate the risk of misstatement of an entity's financial statements. An effective risk management and internal control regime is critical to the production of good quality financial information that is free of material misstatements due to fraud or error.

For FM Act entities, the Auditor General is required to provide an opinion on the design and implementation of controls in relation to whether the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities have been done in accordance with legislative provisions.

Requirement to publish financial statements in annual reports

Section 64 of the FM Act requires responsible ministers to table the entity's annual report, including the financial statements and the audit opinion on the financial statements and key performance indicators, in Parliament within 90 days of the financial year end.

Non-FM Act entities are required to give the responsible minister a copy of their financial report, directors' report and auditor's report (collectively, the 'annual report') for tabling in Parliament as required under their respective enabling legislation.

Section 14A of the GFR Act requires the Treasurer to table in Parliament the Annual Report on State Finances no later than 90 days after the end of the financial year.

Other references

There are a number of policy guidelines, frameworks and circulars that support and complement the legislative framework for financial reporting. They include Treasury's Accounting Policy Guidelines, Treasury Circulars, Premier's Circulars, Public Sector Commissioner's Annual Report Guidelines and Strengthening Integrity in Financial Management Framework.

2.2 Local government entity reporting requirements

Applicable standards and reporting requirements

The AASB sets the financial reporting standards for all reporting entities in Australia. LG entities are required to prepare annual financial statements under the *Local Government Act 1995* (LG Act) and Local Government (Financial Management) Regulations 1996 (LG Regs), which includes the requirement to comply with AAS, as issued by the AASB.

The AAS are set by the AASB, based on the standards set by the International Accounting Standards Board. The AAS include amendments that reflect Australian requirements, including Australian legislation and not-for-profit accounting issues. AAS are mandated by the LG Regs. If a provision of the AAS is inconsistent with a provision of the LG Regs, the provision of these regulations prevails to the extent of the inconsistency. The OAG is supportive of tiered financial reporting for the LG sector, so that different sized entities prepare financial statements that are fit for purpose.

Requirement to prepare annual financial report

Section 6.4 of the LG Act requires LG entities to prepare an annual financial report. LG entities are required to prepare general purpose financial reports in compliance with AAS under the LG Regs.

Certification requirements for financial report

Financial statement certification

LG Regs Schedule 2 requires a statement by the CEO to be signed that the financial statements are based on proper accounts and records, present fairly the financial position and the results of the operations for the financial year, and comply with the LG Act and, to the extent they are not inconsistent with the Act, the AAS.

Internal control certification

While, the LG Act and associated regulations require LG entities to undertake a number of prescribed reviews, such as finance system reviews, risk management reviews and self-assessment compliance audit returns, an external auditor sign-off on these reviews and internal controls is not required. However, the Auditor General is required to report under regulation 10(3)(b) of the Local Government (Audit) Regulations 1996, any matters indicating non-compliance with Part 6 of the LG Act, the LG Regs or applicable financial controls in any other written law. These matters may relate to the financial report or to other financial management matters.

We consider regulation 5 of the LG Regs 'CEO's duties as to financial management' particularly important. Failure to effectively apply these requirements can result in significant financial loss, inefficiency, financial misreporting or fraud.

Requirement to publish financial statements in annual reports

Section 5.53(1) of the LG Act requires LG entities to prepare an annual report for each financial year. Section 5.53(2)(f) requires that the annual report contain the financial report.

Sections 5.55 and 5.55A of the LG Act require the CEO to give local public notice of the availability of the annual report and to publish the annual report on the entity's official website within 14 days of acceptance by the council.

Part 3: Principles for better practice financial statement preparation

The following section outlines better practice principles for public sector entities undertaking financial statement preparation. The better practice principles in this guide are based on the Commonwealth Department of Finance's *Financial Statements Better Practice Guide* (updated 2020), a jurisdiction where financial statement preparation is generally considered to be mature.⁴

There are a number of commonly used sources of guidance on the elements of an effective risk management and internal control framework. These are globally recognised frameworks, such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO), that facilitate the development of an appropriate control environment, risk assessment, control activities, information and communication and monitoring activities.

We have applied the COSO – *Internal Control – Integrated Framework*, in particular the publication *Internal Control over External Financial Reporting: A Compendium of Approaches and Examples* (May 2013)⁵, in determining better practice in designing, implementing and conducting a system of internal control over external financial reporting that supports the preparation of financial statements. It is equally applicable to other types of external financial reporting, such as key performance indicators (reported by State entities) to the extent they are derived from an entity's financial and accounting books and records.

We have applied the Commonwealth Department of Finance's better practice definition in this guide, modified slightly as follows:

Better practice refers to the structured and repeatable practices and processes that entities have applied to produce clear, succinct, accurate and timely financial statements that comply with requirements and meet the needs of users.⁶

Principle 1: Ownership and commitment

Staff at all levels are more likely to be committed to the timely and accurate preparation of financial statements, when the right environment is established.⁷ The right environment is one where the accountable authority and senior management recognise that the preparation of annual financial statements is an important responsibility. They can establish this environment by providing the necessary leadership, implementing the required strategies and structures, and committing the necessary resources to financial management, including the preparation of timely financial statements during the year and at year-end.

⁴ As observed by the Australian National Audit Office (ANAO), the large majority of Commonwealth entities' financial statement preparation processes can be expected to be mature or better practice. ANAO, *Public Sector Financial Statements – Better Practice Guide March 2015*, p.14 (withdrawn on 29 June 2018 and replaced by the Commonwealth Department of Finance *Financial Statements Better Practice Guide*).

⁵ Internal Control - Integrated Framework: Internal Control Over External Financial Reporting: A Compendium of Approaches and Examples, © [2013] Committee of Sponsoring Organizations of the Treadway Commission (COSO). All rights reserved. Used with permission.

⁶ Commonwealth Department of Finance, [Financial Statements Better Practice Guide](#), Section 1.1.2 Better practice indicators.

⁷ ANAO, *Public Sector Financial Statements - Better Practice Guide*, p. 15.

1. Ownership and commitment: The accountable authority, CFO and senior management demonstrate their ownership and commitment to, and actively promote, financial management policies, principles and practices.

1.1 Demonstrate commitment to integrity and ethical values

- Establish, communicate and regularly update the code of conduct. For example, provide staff periodic training sessions on various aspects of the code of conduct. Another example is providing the code of conduct as part of service level agreements with service providers, which serves as a basis for service delivery evaluation.
- The culture of the entity and management should promote ethical behaviour with a strong emphasis on zero-tolerance for anything other than ethical behaviour. For example, take action when such deviations occur to stated policy. Conduct ethics audits to determine if the approved standard of conduct has been received, understood and applied by staff. Culture can also be assessed for example via internal audit.⁸
- Implement whistleblowing mechanisms for staff to report potential fraud and ethical concerns.

1.2 Ensure that accountable authority exercises oversight responsibility

- Clearly define roles, responsibilities and delegation of authority for internal controls over financial reporting. For example, have an effective audit committee that oversees financial reporting⁹, establish an audit committee charter and audit committee meeting schedule.
- Implement rigorous assurance processes, particularly for reviewing information from an expert or third party and management's assertions and judgements. For example, the audit committee meets regularly with management to review the reasonableness of management's assumptions and judgements used to develop significant estimates.
- Review sufficiency of the accountable authority's oversight of the system of internal control over financial reporting. Consider how the entity's control environment policies and procedures support the development and performance of internal controls over financial reporting. For example, a policy that requires an evaluation of the effectiveness of the audit committee.¹⁰
- Investigate and report whistleblower information about financial statement errors and irregularities.
- Include the preparation of the entity's financial statements on the agenda of executive and senior management meetings and staff forums.

1.3 Establish structures, reporting lines, authorities and responsibilities

- Define the role of internal audit in the preparation of the financial statements. For example, the audit committee should review the scope and coverage of internal controls over financial reporting in internal audit plans.
- Consider internal controls at service providers that might impact financial reporting. For example, the service level agreements should clearly specify the expectations around internal controls over outsourced activities.

1.4 Demonstrate commitment to a competent workforce

- Select and train staff and provide a clear understanding of their roles and responsibilities. Develop their understanding of financial reporting and accountability requirements to prevent non-compliance with legislation and ensure sound financial management and

⁸ Western Australian Auditor General's Report, [Western Australian Public Sector Audit Committees – Better Practice Guide Report 26: 2019-20](#), Part 2.5 for further guidance on how internal audit assurance on culture can be obtained.

⁹ Ibid., for guidance on characteristics of an effective audit committee.

¹⁰ Ibid., for guidance on performance and accountability of an audit committee.

reporting. For example, define performance expectations of key financial reporting staff, such as attendance at financial reporting workshops.

- Regularly review policies, job descriptions, workload and performance assessments to ensure alignment of competencies with key financial reporting positions.
- Assess the adequacy of staffing levels for financial reporting and develop contingency plans. For example, management undertakes an annual assessment which is overseen by the audit committee.

1.5 Hold individuals accountable

- Cascade responsibilities throughout the entity and certify results. For example, the CFO obtains certifications from line managers on internal controls over financial reporting.
- Link performance and recognition with intended influence. For example, provide recognition to staff who identify improvements to internal controls.

Principle 2: Sound financial governance

The timely and comprehensive identification and assessment of risks, both financial and operational, that may give rise to misstatements is critical to the production of good quality financial information. Internal financial controls should be fit for purpose and relied upon to produce fairly presented financial statements. Internal controls should be relevant and appropriately designed and executed to prevent or detect material misstatements of financial information and disclosures. Better practice entities have robust internal control systems and practices in place to detect, prevent and mitigate the risk of misstatement of an entity's financial statements.

2. Sound financial governance: Robust risk management practices and internal controls are in place across the entity.

Risk assessment

2.1 Specify appropriate objectives

- Set suitable financial reporting objectives. For example, the objective of financial reporting is to prepare reliable financial statements, which involves attaining reasonable assurance that the financial statements are free from material misstatements.
- Specify sub-objectives, such as accounting policies and financial statement assertions relating to the preparation of financial statements by linking accounts, financial statement assertions and risks. For example, expenditure account completeness and accuracy of financial statement assertions for all purchasing transactions recorded during the period.
- Regularly review and assess specific objectives, such as accounting policies, to ensure they are still suitable and appropriate. For example, the finance manager should review accounting policies to ensure they are compliant with accounting standards and applicable legislative frameworks. The results of the review should be discussed with the audit committee.
- Consider materiality assessment in setting appropriate objectives. For example, if a new expenditure account is material to the overall financial statement presentation, consider if the account requires unique objectives or whether it can be included in the overall expenditure objectives.

2.2 Identify and analyse risks

- Undertake a risk identification process that identifies risks of material misstatement and the likelihood of occurrence of the risks to relevant financial statement assertions for each significant account and disclosure. In preparing this analysis, management considers the

See Tool 1 example: Risk analysis for financial statements

2. Sound financial governance: Robust risk management practices and internal controls are in place across the entity.

business processes and business units supporting financial statement account balances and disclosures.

- For each financial statement account balance and associated assertions consider risk factors including both qualitative and quantitative factors. Examples of factors that can impact financial reporting risk include materiality, volume of transactions, operating environment, the level of judgement involved, reliance on third party data, manual intervention, disparity of data sources, evidence of fraud, system changes and results of previous audits by internal audit and the OAG.
- Summarise risk ratings and actions taken/required using for example, a risk and control matrix which allows entities to identify opportunities for improvement and make recommendations that can be used as a benchmark to develop or strengthen internal control systems and the reliability of financial statements.
- Linked to risk management, setting appropriate materiality thresholds enables entities to undertake risk assessments and establish risk treatments.

2.3 Evaluate fraud risks

- Management should conduct an annual fraud risk assessment and submit the results to the audit committee for consideration. Factors that should be taken into consideration include historical fraud activities, whistleblower reports and the number of manual entries versus automated entries.
- The audit committee should consider the management override of controls very seriously. The audit committee should:
 - maintain an appropriate level of scepticism
 - discuss management's assessment of fraud risks
 - use the code of conduct to assess financial reporting culture
 - ensure the entity has a robust whistleblower program
 - develop a broad information and feedback network.
- Consider fraud risk in the internal audit plan. The internal audit plan should address the relevant risks identified in any fraud risk assessment conducted.
- Risk analysis of financial statements should include consideration of fraud risk factors.

2.4 Identify and analyse changes that could significantly affect internal controls

- Internal control should be monitored and attested to periodically in response to changes in circumstance and risk assessments (such as changes in accounting standards or legislative rules adopted by the entity) and should form part of the focus by management.

Control activities

2.5 Select and develop control activities that mitigate risks

- Once risks have been identified and linked to relevant financial statements assertions, identify relevant business processes and select and develop control activities to address each risk. For example, a business process such as accounts payable can be further classified as sub-process - payment of supplier invoice. Link the payable balance to these processes. From a financial reporting perspective, perform a risk assessment on these processes and rank these risks according to likelihood and impact. Select and develop control activity to address the risk for example authorisation of supplier invoice payments.
- Control activities can be preventative or detective and include activities such as delegations, authorisations, reconciliations, segregation of duties, physical security of assets, systems access and security. These are important controls that individually or in combination with

2. Sound financial governance: Robust risk management practices and internal controls are in place across the entity.

others, can help prevent, detect, and correct misstatements in classes of transactions, account balances or note disclosures.

- Design and implement key controls¹¹ to address financial reporting risks adequately. Key controls must be designed and implemented to prevent or detect potential material misstatements related to the identified financial statement assertions in a timely manner.¹²
- A system of sound internal controls is not limited to just a financial system but one that integrates IT, human resource management and operational effectiveness. For example, ethical behaviour and decision making by management and staff and an effective internal control environment are interdependent.¹³
- Develop for example a risk and control matrix that maps the identified risks to control activities. The risk and control matrix must focus on internal controls over financial reporting, as well as from an operational or compliance perspective.¹⁴ For example, non-compliance with specific TI or LG Regs requirements could lead to a misstated amount in the financial statements.
- When designing controls take consideration of the inherent limitations, such as segregation of duties within a control environment as discussed in Part 4. Limitations within key controls can be addressed by designing and implementing compensating controls.
- For all controls, establish a standard of what initiators and reviewers must do and how to evidence that they have performed the control or review (for example sign-offs, reconciliations and ensuring documentation is properly retained). This requires staff training and supervision.

2.6 Select and develop technology controls

- Better practice entities have financial management information systems capable of producing complete, accurate and reliable information. It is also important that system functionality supports processing and information requirements for the financial statements. For example, configure the IT infrastructure to support restricted access and segregation of duties.
- Risk and control matrix should be used to document IT dependencies that provide the linkage between control activities and technology. Management can use the matrix to determine what financially significant IT processes are covered, whether appropriate controls are in place and what controls are required to mitigate risks to financial reporting to an acceptable level.

2.7 Deploy control activities through policies and procedures

- Well defined policies should be developed to provide clear directions on how an entity approaches and discharges its external accountability responsibilities. Provide a link between the financial statements process and other business processes such as budgeting and business operations, and clearly define roles and responsibilities, structures, plans, performance and management oversight arrangements. For example, establish responsibilities for reviewing financial statements and document these in the policies and procedures relating to financial statement preparation.
- Clearly documented procedures provide guidance for all those who have financial management responsibilities. In this context, procedures approved by the accountable authority or their delegate, financial and administrative procedures, financial management

¹¹ 'A key control is usually the only control that covers a risk of material misstatement and is indispensable to cover its control objective' - SAICA, *Guidance on the CFO/FD Sign-Off on Internal Financial Control*, August 2020, p.11.

¹² Ibid., p.10.

¹³ Ibid., p.9.

¹⁴ Ibid., p 11.

2. Sound financial governance: Robust risk management practices and internal controls are in place across the entity.

manuals, checklists and templates. To be effective, these must be kept up-to-date and readily accessible to staff.

Information and communication:

2.8 Use relevant, quality information to support the internal control function

- Maintain data flow diagrams, flowcharts, descriptions and procedure manuals that support internal control and financial reporting. These documents are produced so that information about these processes can be easily understood by users throughout the entity, including the IT team, finance and accounting specialists, system developers, support staff and auditors. This documentation allows these staff and other users to identify the source of data, responsible staff, storage locations, source documents, relevant transformation processes, quality checks, and the primary users.
- Maintain detailed records of any identified fraud or intentional errors and ensure it is included in the minutes of meetings with the audit committee and internal and external audit.¹⁵

2.9 Communicate internal control information internally and externally

- Document internal control responsibilities which should include who is assigned to perform, review and assess individual internal controls. This documentation should be accessible to management and staff responsible for external financial reporting.
- Review external audit findings, such as OAG management letters, and identify any internal control issues or recommendations. Assign an appropriate staff member to formally respond to these matters and communicate to senior management and audit committee the proposed resolution.

Monitoring activities

2.10 Perform ongoing or periodic evaluations of internal controls (or combination of the 2)

- Better practice entities perform a comprehensive gap analysis over the adequacy of internal controls on a regular basis with a view to continuous monitoring and improvement over time.¹⁶
- Develop a combined assurance program to evaluate the design and effectiveness of internal controls based on risk assessments with sufficient regularity and communicate deficiencies and corrective action required.¹⁷

2.11 Evaluate and communicate internal control deficiencies

- Develop guidelines for assessing, reporting, monitoring and communication of any deficiencies regularly to appropriate levels of management, the audit committee and the OAG.
- Establish a monitoring process to review status of deficiencies and corrective action taken. Better practice is to confirm and report that control evaluation procedures have been completed along with a mechanism to identify and report deficiencies and remedial actions.¹⁸
- Better practice is for any control remediation plan to have that the control failure will not occur again as the ideal outcome.¹⁹

¹⁵ SAICA, *Guidance on the CFO/FD Sign-Off on Internal Financial Control*, August 2020, p.7.

¹⁶ Ibid., p.12.

¹⁷ Ibid., p.11.

¹⁸ Ibid., p.11.

¹⁹ Ibid., p.7.

Principle 3: Anticipating and responding to change

The CFO/finance manager and other key 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 finance team identifies new or varied requirements arising from changes in legislation and accounting standards and assesses the impact on the entity's financial statements.

3. Anticipating and responding to change: Significant changes to the entity, the reporting framework or the entity's environment that impact on the financial statements are identified, communicated and addressed in a timely manner.

3.1 An event or change to the operating environment, government policy, legislation, business development

- Entities should be alert to any event or change which would impact their financial statements on an ongoing basis, not just at the time the financial statements are being prepared.
- Once a change has been identified as having an impact on the financial statements, an assessment should be undertaken to determine if it is material to the financial statements.
- Position papers and potential adjustments should be prepared. The audit committee and accountable authority should be briefed and approval obtained. The OAG should be consulted early and advised of any material adjustments.

3.2 Change to accounting requirements

- Assign specific responsibility for monitoring, identifying and assessing new and revised requirements. Attendance at CFO forums, member body conferences, professional firm updates and OAG entrance and exit meetings provides an avenue to keep up-to-date with accounting developments relevant to 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 the changes will be implemented. Entities should seek independent accounting advice where appropriate. The OAG should be consulted promptly to obtain early agreement.
- Review the statements at least annually and assess whether the most appropriate accounting policies have been selected and whether presentation can be improved. Accounting policies should only be changed when required by an AAS, or when the changes would result in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.
- Prepare draft pro-forma statements including accounting policy notes for review and agreement by the OAG well in advance of year-end.
- Brief the accountable authority and audit committee, as required, on any changes that are likely to have significant implications on the financial statements, how these affect the financial performance and position of the entity, and obtain approval of proposed changes, where appropriate.

Principle 4: Skilled and knowledgeable finance team

The preparation of accurate and timely financial statements requires capable and motivated staff. As such, the effective management of staff, skills and expertise is a critical component for development of the financial statements. It is important that the finance team collectively possesses the appropriate skills and knowledge required to prepare the financial statements. This will largely be achieved through sound workforce planning and recruitment, clear

understanding of roles and responsibilities, on-going training and keeping abreast of accounting developments.

4. Skilled and knowledgeable finance team: The financial reporting team collectively has the appropriate skills and knowledge to deliver its role and responsibilities, with opportunities for continuous learning and/or professional development.

4.1 Selecting and training staff

- 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.
- It is important that entities manage their financial skills base by maintaining an appropriate resource mix using contractors and consultants if necessary, recognising the importance of preserving corporate knowledge.
- Better practice organisations look for opportunities to place finance staff in business areas that have a significant input into the entity's financial statements for a period of time, and place staff from other business areas with appropriate skills in the finance area.

4.2 Roles and responsibilities

- Early assignment and clarification of key project roles is important, including:
 - project manager – responsible for planning, monitoring and implementing the project
 - audit liaison officer – a central point of contact for all internal audit, OAG matters and responsible for analysing the impact of audit findings and recommendations on the entity's financial statements
 - business area relationship manager/s – responsible for managing relationships with business managers and their staff
 - technical specialists – responsible for particular technical or specialist aspects
 - quality assurance reviewer/s – responsible for assuring the quality of the financial statements working papers, and the financial statements as a whole.
- Team members may have more than 1 role, and roles can be filled by more than 1 team member, depending on the size and complexity of the entity. Allocation of responsibilities should be flexible enough to enable team members to assist in other roles where required.
- Business managers and their staff also play an important role. They typically manage day-to-day accounting activities and most of an entity's assets and liabilities. Their primary responsibility is ensuring that reported information is accurate and timely, and internal controls are effectively applied. Other responsibilities can include:
 - processing transactions in financial management information systems
 - providing financial and non-financial information in the format and by the timeframes requested by the CFO
 - maintaining complete and accurate documentation to substantiate all transactions for their areas of responsibility for review, if required, by entity management and audit.
- CFO responsibilities in relation to financial statements include advising the audit committee, in a timely manner, of:
 - significant accounting and financial reporting issues that may affect the financial statements
 - the underlying systems of internal control
 - actions taken to address issues.

See Tool 12 checklist:
CFO assurance

4. Skilled and knowledgeable finance team: The financial reporting team collectively has the appropriate skills and knowledge to deliver its role and responsibilities, with opportunities for continuous learning and/or professional development.

- Audit committee role and responsibilities is expected to include actively reviewing the entity's processes and systems for financial reporting.²⁰ As part of this active process, the entity has to stay informed of changed requirements in relation to financial reporting throughout the year.
 - in reviewing the entity's year-end financial statements, the audit committee may provide written advice to the accountable authority on the outcome of its review
 - to support the audit committee in performing this function effectively, it is important that the committee is kept informed throughout the year (not just at year-end), of all significant issues that may directly or indirectly affect the entity's resource management and financial reporting arrangements.

4.3 Right skills and knowledge

- The finance team's ability to prepare high quality financial statements, on time, is enhanced if they possess both financial acumen and a sound knowledge of accounting standards, legislative requirements, the entity, its operations and business environment.

4.4 Internal audit support

- Areas where internal audit can support the preparation of the financial statements include:
 - reviewing current and new systems during the implementation stage to help ensure that adequate control mechanisms and governance arrangements are in place
 - providing objective assistance in developing financial management systems to ensure compliance with accounting requirements and the provision of timely and reliable information for financial reporting purposes
 - following up remedial actions by management to assess whether they have been implemented in a timely manner.

Principle 5: Applying materiality

The AASB's *Framework for the Preparation and Presentation of Financial Statements* describes an amount as being material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports. In terms of the AASB Practice Statement 2 *Making Materiality Judgements*, materiality is specific to the reporting entity, i.e. 2 similar size entities that are dissimilar in nature could potentially conclude on 2 very different materiality levels. The term material should be considered not only in the context of financial reporting but also, financial and business risks to the extent that they could affect financial reporting. Therefore, materiality is a pervasive concept and requires judgement.

The materiality concept recognises that the reporting of excessive information may be counterproductive to making and evaluating decisions concerning the allocation of resources, and recognises that achieving greater accuracy or greater precision in financial statements will generally demand greater use of resources, higher costs and take more time to prepare.

The OAG's approach is not to disclose audit materiality. This is an optional requirement under the auditing standards. However, this should not prevent entities from applying the

²⁰ Refer to [Western Australian Public Sector Audit Committees – Better Practice Guide Report 26: 2019-20](#) for further guidance on audit committee's roles and responsibilities.

concept of materiality. It is important to note that while the concept of materiality and its application results in efficiencies described above, better practice entities will promote an environment in which the correction of errors, misstatements and addressing internal control deficiencies is seen as the appropriate course of action, regardless of whether or not they are considered to be material by value or nature.

5. Applying materiality: Sound professional judgement is exercised in the preparation of financial statements, such as in the application of materiality.

5.1 Planning for materiality

- The project manager, CFO and finance team should plan for the application of materiality in the preparation of the financial statements, with a view to improving the effectiveness of financial reporting, particularly the overall relevance and readability of the financial statements. The following are practical steps to consider:
 - in consultation with the CFO, consider the previous year's approach to materiality and any issues that may have been encountered and develop a proposed approach for the current year
 - obtain audit committee endorsement to the proposed approach
 - advise the accountable authority of the proposed approach
 - well in advance of year-end, develop guidance material on the application of materiality, the relevance and readability of the financial statements, and adjustment of errors and misstatements that take account of qualitative and quantitative factors
 - periodically review the materiality approach and supporting guidance, and monitor its application
 - encourage feedback from the finance team and business areas on its application.

5.2 Materiality thresholds for errors or misstatements and disclosures

- Setting appropriate materiality thresholds for the adjustments of errors or misstatements for year-end processing will minimise the likelihood that the finance team will spend disproportionate resources on matters that are clearly trivial while posting adjustments and corrections.
- Financial statement note disclosures is another area where the concept of materiality can usefully be applied. The overall readability and usefulness of financial statements can be adversely affected by excessive length and the complexity of particular disclosures, or by excessive brevity.

5.3 Materiality for internal controls

- Materiality should be considered not only in the context of financial statements but also financial and business risks and related internal controls to the extent they could affect financial reporting.

5.4 Setting a materiality threshold

- The responsibility rests with both those charged with governance of the entity and its management for determining:
 - the overall approach to applying the concept of materiality
 - the application of materiality to particular transactions and other events.
- The entity and the OAG both have a responsibility to consider and apply materiality in the context of the accounting and auditing standards respectively. It is therefore important that an entity's approach to materiality takes into account the OAG's approach with the aim of ensuring as far as possible, that both approaches are compatible. It is also important to note

See Tool 7 example:
Materiality assessment
paper

5. Applying materiality: Sound professional judgement is exercised in the preparation of financial statements, such as in the application of materiality.

that entity's management cannot set or influence materiality for the financial statements audit.

- In making assessments on recognition, measurement, classification and disclosures in the financial statements, the responsibility of preparers is to include all information users require to understand the entity's financial performance and position during the reporting period. In a public sector context, these assessments must include any additional information required by the relevant minister and take into account significant matters of interest to the Parliament.
- The application of materiality in the context of preparing the financial statements should not, however, detract from the responsibilities of entities to maintain proper accounts and records, and for those accounts and records, including relevant systems, to accurately record the entity's financial transactions and other events.

Principle 6: Good project management skills, processes and practices

Effective project management underpins the success of financial statement preparation processes. The primary aim is to achieve a quality work outcome within given timeframes and resource limits. It encompasses planning, control, monitoring and coordination.²¹

There are many approaches and methodologies that provide effective project management. The table below outlines commonly accepted principles of better practice drawn from the latest literature, and government and non-government frameworks. We have applied these principles in determining better practice attributes in the preparation of financial statements.

Principles	Our expectations
Business objective and scope	There should be clear and documented definitions of: <ul style="list-style-type: none"> • what business need the project is designed to meet • what business problem the project will resolve • project risks and how project success will be measured • any scope limitations of the project (to limit project creep).
Accountability and responsibility	Accountability and governance arrangements should be clear from the beginning: <ul style="list-style-type: none"> • there should be a single project owner/sponsor • project governance structure must be clearly defined, including boards and committees and their make-up, and proportionate to risks • responsibilities and powers of the project team and management must be clearly defined • project managers need authority to control the project • sponsor and delivery team are responsible for obtaining project funding.
Planning	Projects should be properly planned before work begins: <ul style="list-style-type: none"> • initial estimates should be converted into detailed delivery plans • plans should be revised periodically

²¹ Commonwealth Department of Finance, [Financial Statements Better Practice Guide](#), Section 4 Planning for year-end financial statements.

Principles	Our expectations
	<ul style="list-style-type: none"> project risks should be identified and managed procurement must be planned and carried out in line with any entity rules current project cost must be known at all times project should adopt an accepted methodology throughout.
Resourcing	<p>Projects need appropriate funding and staffing:</p> <ul style="list-style-type: none"> project should be adequately funded project manager and team should be adequately qualified project team should have appropriate skills project manager should manage team and stakeholder relationships well.
Monitoring and reporting	<p>Managers should track delivery status and report effectively to oversight bodies:</p> <ul style="list-style-type: none"> project costs and progress should be tracked cost and progress should be reported routinely to oversight bodies project delays or issues should be reported as they arise changes to the project scope should be managed and controlled action should be taken if the project deviates from plan oversight bodies should seek assurance on project status, based on risk, cost, complexity and business impact.
Learning	<p>Organisations should review project management and delivery to improve processes and frameworks.</p>

Source: OAG²²

Table 2: Better practice principles for financial project management

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.	
Business objective and scope	
6.1 Key project documents	<ul style="list-style-type: none"> Should be developed or rolled over and refreshed from prior year, such as project plan, project schedule, project risk register and the register of lessons learned.
6.2 Key project documents should be regularly reviewed and refreshed to reflect significant events that may affect the plan, such as the receipt of:	<ul style="list-style-type: none"> updated Financial Administration Bookcase released by Treasury or any relevant guidance from DLGSC updated LG entity rules and guidance the receipt of the OAG's planning summary for the entity entity changes to the planning approach for the project.

²² Western Australian Auditor General's Report, [PathWest Laboratory Information System Replacement Project Report 25: June 2019](#), Appendix 2

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.

Accountability and responsibility

6.3 Appoint project manager and team for the preparation of the financial statements. Defining and assigning key project roles:

- **project manager** – responsible for planning, monitoring and implementing the project
- **audit liaison officer** – a central point of contact for all internal audit and OAG matters, and responsible for analysing the impact of audit findings and recommendations on the entity's financial statements
- **business area relationship manager/s** – responsible for managing relationships with business managers and their staff
- **technical specialists** – responsible for particular technical or specialist aspects
- **quality assurance reviewer/s** – responsible for assuring the quality of the financial statements working papers and the financial statements as a whole.

6.4 Pre-planning

- Plan should reflect the scope of work, governance arrangements, timeframes, risks and staff, key timelines and individual responsibilities for the current year. This enables project plans to continuously build from the experience of prior years, taking account of processes that worked well in the past and those that can be improved.
- Confirm governance structures that may be planned to oversee, guide or influence the project. For example, the audit committee provides the oversight, and if a financial statement sub-committee, steering committee and/or a stakeholder working group is needed.

Planning

6.5 Determine scope of work and develop a project plan that incorporate all aspects of financial reporting for both internal and external purposes. The project plan should outline, as a minimum, these factors that can affect the preparation process:

See Tool 6 example:
Financial statements
project plan

- 6.5.1 The activities that contribute to the production of financial statements should be clearly stated in the scope of works.
- 6.5.2 The financial reporting requirements that apply to the entity at the beginning of the project. However, the project manager must also remain alert to changes that may arise and adjust the scope of work accordingly, to ensure the financial statements meet the reporting requirements that apply at year-end.
- 6.5.3 Prior year learnings. Consider questions such as:
 - What practices and processes worked well and can these be replicated?
 - What processes took longer than originally expected?
 - What did the auditors focus on (both internal and external)?
 - Were there any audit findings, qualifications, recommendations or repeat issues and what is their status?
- 6.5.4 Activities required for setting and applying materiality. The project manager, CFO and finance team should also plan for the application of materiality in the preparation of the financial statements, with a view to improving the effectiveness of financial reporting, particularly the overall relevance and readability of the financial statements. See Part 3, Principle 5 for further discussion on materiality.

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.

6.5.5 Review year-end processes and identify tasks that can be completed prior to year-end. Activities required before year-end may include:

- deciding on the need for actuarial and other valuations and completing as many of those valuations as possible prior to year-end:
 - valuations of property, plant and equipment (PPE) and intangible assets, and impairment allowances
 - actuarial assessments of superannuation and long service leave liabilities
 - measurement of work completed or work in progress on long-term revenue contracts
 - advice on the treatment of specialised accounting matters
 - legal opinions on legislation, legislative instruments or agreements
- obtaining early management approval for key accounting policies
- calculating balances where it is expected that there will be no major changes between the date of calculation and year-end e.g. depreciation, valuations, commitments, lease liabilities and loans
- determining the accounting implications of any organisational changes prior to their implementation.

6.5.6 Team resourcing, recruitment and any procurement requirements. Resourcing is discussed further at Part 3, Principle 4.

6.5.7 For project risks and dependencies:

- Identify data sources and the tasks and timing required for each financial statement item and the accompanying note and allocate resources to the items of highest risk.
- Use the risk and control matrix to allocate resources to the items of highest risk and identify the timing required.
- Example of risks that may affect the preparation of financial statements include:
 - insufficient appropriately skilled resources – a lack of appropriately trained staff will hinder an entity's ability to properly perform its financial management and reporting responsibilities
 - incorrect recording and non-recording of transactions – errors in recordkeeping are likely to result in misclassification of financial statements items and posting of amounts to incorrect reporting periods. This could be caused by an unsuitable financial management information system (FMIS)
 - restructures – restructures resulting from internal or external events may be accompanied by staff changes or other changes that affect an entity's risks or internal controls. The transfer of assets and liabilities may also result from a machinery of government change or other government decision. These changes may significantly impact on an entity's financial statement preparation process
 - fraudulent activity – the availability and extensive use of information and communication technologies has resulted in increased opportunities for fraud, including intentional misstatements, such as omissions of amounts or disclosures, intended to deceive or mislead users of the financial statements. This could be caused by an unsuitable FMIS
 - lack of timely reporting of information – delays in financial reporting may mean that reported information is out-of-date and of little value to users.

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.

- 6.5.8 Stakeholders and communication/reporting arrangements. Better practice entities organise and structure their year-end activities in a way that encourages ongoing engagement, communication and sharing of accountability between the business areas and the finance team. Consider the following:
- stakeholders should be clearly defined and identified and should include service providers
 - 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 information packs
 - policies and procedures being 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
 - rotating staff members between the finance team and the business areas
 - seek suggestions for continuous improvement from business areas.
- 6.5.9 There should be on-going dialogue with Treasury/DLGSC and the OAG on new or revised reporting requirements and opportunities to improve the effectiveness of financial reporting. Matters relating to the implementation of any audit recommendations should be discussed with the audit committee and the OAG.
- 6.5.10 Planning for the presentation of financial statements:
- Consider the entity's model and what this means for project activities. More advanced models allow a trial balance to be imported from the FMIS and automatically populated with different notes before summarising them in the face statements to ensure consistency.
 - Consider developing a pro-forma and obtaining early feedback from the audit committee and the OAG.
 - A well-designed financial statement model will have inbuilt consistency checks that allows easy confirmation that all the notes and face statements are consistent across the document. Aim for automated consistency and validation checks. If the model does not have the ability to track changes, better practice is to use a log as a record of changes to the documents.
 - Ensuring appropriate security requirements are in place and setting up the file structure for the project, should be assigned to an appropriate finance team member in the early stages of the project.
- 6.5.11 Planning for the use of information systems should include:
- understanding of the FMIS and any other systems and their capabilities to make the financial statements planning process more effective
 - obtaining assurance that the FMIS is reliable and technical support is available.
- 6.5.12 Planning for quality assurance (QA) processes should consider:
- Degree of focus on the assurance process should be proportionate to the risk of error or misstatement.

See Tool 5 example: Internal consistency checks

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.

- QA officers should be clearly assigned. They should be objective and independent. They should be aware of the possibility of misstatement due to unintentional or deliberate errors or fraud.
- Content and form of management sign-offs should be agreed as part of the planning process and be communicated at an early stage.
- Develop performance indicators and/or other mechanisms to measure assurance arrangements for key elements of the financial statement development process.

6.6 Prepare a project schedule and tasks for preparing financial statements

See Tool 3 template: Project schedule

- Identify milestones and critical events then build a list of activities, tasks, responsibilities and timeframes around these events.
- Work backwards from the most critical milestone date, which is generally the signing of the financial statements, to determine realistic timeframes.
- Consider contingency plans for dealing with unplanned tasks or delays. Management should commit sufficient resources to mitigate any risks associated with meeting the deadlines.
- Engage stakeholders such as shared service providers in preparing the schedule. Responsibilities of all these entities should be included in the project schedule and required timeframes should be communicated and agreed to.
- Distribute the draft schedule for comment and get audit committee agreement and CFO approval. The final schedule should be circulated to all stakeholders along with detailed instructions and/or briefings arrangements to ensure stakeholders understand and can meet key deliverables.

Resourcing

6.7 Insufficient appropriate skilled resources. Addressing resource shortfalls may include:

- recruiting or contracting staff with the skills, experience or expertise needed
- arranging additional training for staff (including for use of the FMIS)
- eliminating or modifying roles or tasks by reprioritisation or re-engineering of processes
- as staff engagement and on-boarding processes can take some time, it is wise to plan for succession arrangements in the event of the loss of key project staff.

6.8 Identify activities where expertise may be required

- A common feature of financial statements preparation is the need to obtain specialist expertise and knowledge to provide reports, advice or opinions, valuations or statements to assist entities in determining certain financial statements items at year-end.

6.9 Consider the need to engage

- When determining the need to engage an expert, management would generally consider:
 - whether the knowledge and expertise is available in-house
 - 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

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.

- timing of the expert reports should be adequately planned so that it is finalised prior to the end of the financial year
- availability of accurate and reliable data and information.

Monitoring and reporting

6.10 Monitoring progress

- The project manager should actively monitor progress against the plan and schedule. Where practical, contingency plans should be in place for staff departures, unforeseen leave, system failures, non-delivery of information from external stakeholders and the like.
- The tracking of external audit requests through a register allows monitoring on how the external audit is progressing and what items are currently outstanding. Better practice entities ensure the register is updated on a regular basis and shared with the OAG before any meetings regarding the progress of the audit.
See Tool 15 template: Register of audit requests
- Better practice entities should implement some or all of the following:
 - the project plan should be monitored closely on an ongoing basis
 - track the progress of activities against the schedule, for example check if planned activities, meetings and critical milestones are occurring on time
 - as the schedule changes, provide the updated schedule to relevant stakeholders
 - provide timely advice and guidance to the finance team and business areas
 - build in quality checks, such as reviews of supporting documentation and working papers at critical milestones
 - maintain contingency plans such as using back-up and/or temporary staff, or reaching prior agreement with staff to work overtime
 - address significant issues promptly, consider their impact and implement corrective action
 - periodically brief senior management and the audit committee regarding progress against the agreed timetable.
See Tool 4 example: Financial statements reporting timetable

6.11 Reviewing project risks and treatments

- Risks change over time and hence risk management will be most effective where it is dynamic and evolving. Monitoring and review is integral to successful risk management and entities may wish to consider articulating who is responsible for conducting monitoring and review activities. Key objectives of risk monitoring and review include:
 - detecting changes in the internal and external environment, including evolving entity objectives and strategies
 - identifying new or emerging risks
 - ensuring the continued effectiveness and relevance of controls and the implementation of treatment programs
 - obtaining further information to improve the understanding and management of already identified risks
 - analysing and learning lessons from events, including near-misses, successes and failures.

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.

Learning

6.12 Reviewing the closing process involves examining current processes and documenting responsibilities and related timeframes 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 in individual processes can also help to ensure that the closing process remains efficient.

6.13 Annual process review by the CFO

- Such a review is very important to the planning process, as it provides the opportunity to make improvements in the future, where necessary. Aspects that could be considered in the review include:
 - the involvement of senior management
 - the leadership and expertise within the finance team
 - the appropriateness of information systems and other records
 - the extent and reliability of internal controls
 - the completeness and accuracy of the draft financial statements
 - the availability and knowledge of accounting staff resources
 - understanding and cooperation of business area management
 - the cost effectiveness of the contribution made by external specialists
 - the extent and timing of any work undertaken by internal audit
 - arrangements with the OAG for conducting its work
 - the involvement of the audit committee in reviewing the financial statements
 - any issues raised by the CFO and accountable authority affecting the financial statements
 - meeting of timelines for completing individual tasks
 - the effectiveness and efficiency of assurance arrangements
 - the adequacy of contingency plans.

6.14 Consultation and distribution for review

- An assessment should involve key members of the finance team as well as representatives of other contributors to the financial statements, such as business areas, the accountable authority, the audit committee, internal audit and the OAG.
- It should also involve any new members of the team so they can appreciate the strengths and weaknesses of the previous year's process.
- Larger entities with many contributors may find it useful to supplement discussions with a survey of business areas and other stakeholders.

6.15 Review of the financial statements format

- Once the entity has developed a format for the financial statements, there should be a review process in each subsequent year to assess whether adjustments are required (or are recommended for future years) due to:
 - changes in accounting standards

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.

- Treasury and LG Act and regulation requirements
- the nature of the entity's operations.
- This process should be integrated with the entity's normal process for considering the effect of such changes and should feed into planning for the following year's financial statements.

Principle 7: Adopting good financial practices

Maintaining good financial reporting practices throughout the year enables entities to be responsive to change, and significantly enhances the quality of financial statements. Better practice entities view financial management and reporting as a continuous process. They align their within-year financial reporting processes with year-end financial preparation processes, including the production of monthly accrual primary financial statements, and to the extent key reconciliations are performed they investigate and rectify any anomalies.²³

7. Adopting good financial practices: Adopting good financial reporting practices throughout the year and at year-end.

7.1 Month-end processing

- Comprehensive policies and procedures for month-end accruals, close out and reporting are well understood by staff and updated for new or changed processes.
- Automated reconciliations are performed for all accounts. Management have established monitoring systems and processes over automated reconciliations.
- Streamline and simplify routine end-of month processes, such as calculating and estimating (where appropriate) accruals, performing reconciliations, processing journal entries and clearing suspense accounts.
- Aligning monthly and year-end reporting process, including production of monthly financial statements that include accruals and estimates.
- Monthly reports should meet the needs of users and be timely and accurate.
- Monthly reporting includes variance analysis which incorporates root cause and sensitivity analysis. It should also include any prospective matters that might arise in the future.

7.2 Give due consideration to accounting estimates

- Accounting estimates require exercise of judgement based on pre-determined assumptions. These estimates typically cover fair value measurements of property, plant and equipment; impairment; useful lives and residual values; employee entitlements and costs arising from litigation settlements and judgements. Better practice development of 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 and documenting 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

²³ Commonwealth Department of Finance, [Financial Statements Better Practice Guide](#), Section 7 Development processes and procedures

7. Adopting good financial practices: Adopting good financial reporting practices throughout the year and at year-end.

- periodically reviewing the circumstances that give rise to the estimates and adjusting the estimates if necessary
- obtaining audit committee endorsement prior to year-end.

7.3 Using 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. Procedures can range from simple comparisons, to trend and ratio analysis, to complex analytical models of relationships.
- Key considerations on how to implement analytical procedures:
 - 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 issues at year-end.
 - Apply analytical procedures to each line item of the financial statements – during the preparation process to help provide additional assurance, conduct comparisons of current figures against the budget and past periods, and 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 1 area 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:
 - investigate promptly any unusual relationships and items in the statements – consider the possibility of systematic breakdowns in internal controls and whether there might be similar errors in other accounts or items
 - 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.

7.4 Using technology

- Automation of financial statement processes helps to:
 - eliminate the risk of keying and transposition errors
 - enable multiple draft statements to be produced with minimal effort
 - align various reporting requirements with financial statements processes
 - manage versions and updates
 - reduce the number of reconciliations that are required.
- In addition to a centralised FMIS, better practice entities require data entry at source, preferably online and in real time. Entities also foster a culture of getting it right the first time, with errors returned to the originator of the data for correction.
- Conduct regular reviews of arrangements with staff with system access.

7. Adopting good financial practices: Adopting good financial reporting practices throughout the year and at year-end.

- Work collaboratively with the IT team to establish processes and timeframes for discussing any system upgrades, breakdowns or other risks that may affect the integrity or timeliness of financial information.

7.5 Preparing accounting position papers

See Tool 8 template: Position paper

- Accounting position papers are an important tool that entities use to document key decisions and to keep stakeholders apprised of updates to accounting policies and processes, and how they will affect the financial statements. Accounting position papers should document all the matters considered when making the decision, and would normally include the following information:
 - the scope of the paper and any assumptions made
 - the related legislation and guidance, and how it has changed
 - a risk analysis of the change in policies or process
 - the proposed treatment (preferably with an example when possible)
 - the impact to the financial statements (e.g. which notes and disclosures will be affected and by estimated quantum)
 - implementation plan (timing and resources required)
 - a clear list of the interdependencies of the notes and disclosures affected
 - stakeholders affected by the change
 - a copy of any external advice that has been received.

7.6 Managing shared services arrangements

- Formalise expectations – put a contract or formal agreement, such as a service level agreement, in place with relevant parties that includes:
 - clearly defined roles and responsibilities and related timeframes in relation to information that affects the reporting entity's financial statements
 - the nature and timing of information required, together with certification and assurance requirements of the reporting entity and the provisions that allow the reporting entity access to relevant accounting records of shared service providers
 - service standards and performance measures to assess the performance of shared service providers
 - provisions that facilitate the audit by the OAG of shared service providers.
- Risk identification and assessment – identify and assess the risks of material misstatement, fraud and non-compliance with financial reporting requirements specific to shared services. This process should inform the internal controls and assurance provision needed to mitigate risks.
- Internal controls – implement control activities to assist in verifying the completeness and reliability of financial information supplied by shared service providers. Such procedures could include the physical inspection of records and the interrogation of electronic records of shared service providers considering authorisation, recognition and allocation of financial transactions or balances.
- Assurance from shared service providers – formal assurance statements should be sought at least annually from shared service providers on the operation of their control framework, along with the timely reporting of any material breakdowns in shared service provider internal control frameworks that could affect the reporting entity.

7. Adopting good financial practices: Adopting good financial reporting practices throughout the year and at year-end.

- Assurance requirements should be included in a formal agreement with shared service providers. Entities may find it useful to invite representatives from shared service providers to attend governance meetings (such as meetings of the audit committee, or executive board depending on the structure and risk profile of the entity) to discuss the assurance framework and walk through assurance items.
- Issue management – establish an escalation matrix with shared service providers to promote effective problem resolution. Formalised service standards and performance measures, along with close engagement commencing in the planning stages of the financial statement preparation, can support the identification and resolution of any difficulties that arise in a timely manner.

7.7 Use of an expert

- Management should assess the professional competence and objectivity of the person or firm they propose to engage. Factors to consider include:
 - experience
 - professional reputation
 - possible conflicts of interest
 - accreditation or membership of an appropriate professional body.
- Evaluate the work of the expert:
 - Establish whether the source data used is accurate and appropriate in the circumstances. A question that could be asked is:
 - Is the source data used by the actuary in the valuation of accrued long service leave liabilities consistent with the information from the entity's human resource system?
 - Obtain an understanding of the assumptions and methodology used. Assess 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?

7.8 Structuring financial statements

- The process of decluttering and streamlining is a way to simplify the financial statements and still remain compliant. This involves:
 - considering the needs of users
 - using plain English and unambiguous language
 - using pro-forma financial statements to identify opportunities early
 - removing non-material and irrelevant information
 - grouping or moving relevant notes together
 - creative use of graphs and tables
 - eliminating duplicate disclosures and information.

7.9 Quality assurance and certifications

7. Adopting good financial practices: Adopting good financial reporting practices throughout the year and at year-end.

- Implement a quality control and assurance regime to provide assurance about the accuracy and completeness of the statements and that they comply with all relevant legislative and policy requirements.
- Finance team quality control and assurance processes. Put in place review arrangements at key points during the preparation process.
- Analyse and adjust errors or misstatements including:
 - analyse the misstatements to consider their implications for the financial statements
 - assess the risk of other similar audit misstatements or omissions occurring
 - assess, in consultation with the OAG, if there is a need to investigate and quantify possible errors in a particular financial statement line item
 - correct all errors or misstatements, unless they are trivial
 - maintain a listing of any uncorrected misstatements, including those that arose in earlier periods and are of continued applicability in the current period, and assess their effect on the financial statements
 - advise appropriate levels of management, the audit committee and the OAG of all unadjusted errors or misstatements.
- Document issues and decisions in working papers. Benefits include:
 - aiding certification by the accountable authority in the 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
 - responding to questions from stakeholders, including parliamentary committees
 - having a record of information for the next set of financial statements, including identification of significant matters and comparisons in planning future work.
- Structure the content of working papers. At a minimum, working papers should include:
 - 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-off of the preparer and reviewer
 - 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.
- Prepare lead schedules for assurance processes.
 - A lead schedule is a summary schedule that serves as a systematic means of providing assurance to management that:
 - all figures are complete, accurate and supported by evidence
 - the balances have been reviewed
 - variances from previous years and budgets are explained

See Tool 9 template:
Adjustments schedule

See Tool 10 template:
Working papers cover sheet

See Tool 11 example:
Requirements for supporting
documentation

7. Adopting good financial practices: Adopting good financial reporting practices throughout the year and at year-end.

- checking or sign-off has occurred.
- Lead schedules should only record the final, verified balances that agree with the final financial statements.
- 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, creating a comparative set of figures that are useful for analytical and review work:
 - sometimes 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 year-end, to ensure that correct figures are used
 - uploading the current year-end balances in the FMIS – to lead schedules in a specified, pre-determined manner
 - 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.

7.10 Audit committee financial reporting assurance reviews

See Tool 13 checklist: CFO and finance team assurance processes for audit committee

- The review of an entity's financial statements is an important aspect of an audit committee's responsibilities under their financial reporting review function. Some audit committees may prefer to schedule a separate meeting to consider the draft financial statements. It may assist the finance team, in planning their work, to consider when and how the audit committee intends to review the draft financial statements.
- The audit committee's review of the appropriateness of the accountable authority's financial reporting for the entity could entail a review of risks, internal controls and processes for preparing financial statements. This would include review of compliance with the mandatory requirements of applicable legislation, policy requirements and accounting standards. The audit committee may also consider guidance supporting the mandatory requirements.
- Audit committee reviews may also include whether:
 - any audit findings and management actions have been addressed in a timely manner
 - any estimates and judgements made by management are appropriate
 - any errors or adjustments identified during the audit process have been actioned or been informed of reasons for not actioning these
 - financial statements have been prepared in an efficient and effective manner, including having effective sign-off and quality assurance processes in place.
- To be able to perform this function effectively, it is necessary for the audit committee to be continually kept abreast of all significant issues that may affect the financial statements (not just at year-end) including significant changes in accounting policies and errors or misstatements identified during the year.

7.11 Chief financial officer's report to the audit committee

See Tool 14 template: Chief financial officer's report

- The CFO's report is 1 of the key sources of information and advice that the committee considers in advising on the appropriateness of the entity's financial reporting.
- The content of the CFO's report to the audit committee will typically be determined by a number of factors including:

7. Adopting good financial practices: Adopting good financial reporting practices throughout the year and at year-end.

- the complexity of the entity and the financial statements themselves
- the extent of estimates and judgements involved in preparing the financial statements
- the level of risk that the financial statements may contain errors or misstatements
- the extent and nature of changes to the financial statements compared with prior years.

7.12 Continuously improving assurance processes

- 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 lessons learned review of their assurance performance. This may involve the establishment of appropriate performance measures.
- Set performance indicators for assurance processes.
- Entities should consider the benefits of developing performance measures for key elements of the financial statements development process and reporting on actual performance once the statements have been finalised and the annual report tabled. 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
 - the 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 significance of adjustments made to the financial statements as a result of internal reviews and OAG audits
 - number of versions prepared in drafting the financial statements
 - number of issues of non-compliance with legislation and accounting standards
 - number and significance of issues raised by audit (internal and external)
 - percentage of activities completed on schedule (for example, reconciliations)
 - number of days late where a reporting timeline is not met.
- By reporting performance information of this type, entities can identify opportunities for improving existing processes and procedures. Any unsatisfactory results should be investigated to ascertain the reasons why, and to implement remedial action, if appropriate.

See Tool 2 template:
Lessons learned tracking
sheet

Part 4: Key challenges for smaller entities

We recognise that it is difficult for smaller entities, including those located in regional or remote locations, to meet all of the better practice principles outlined in this guide. However, the risks of non-compliance and misstatement due to fraud or error is equally applicable to these entities. This section outlines some of the key challenges smaller entities face in the preparation of financial statements and strategies to help them improve the effectiveness of their preparation processes.

4.1 Limited resources

Having the people with the right skills, knowledge and experience in financial reporting and accounting standards is essential for better practice financial statements. Smaller entities may find it challenging to secure such resources at the right time. Possible solutions include resource sharing arrangements with other similar entities or engaging capable external consultants. When relying on external consultants, the principles noted in Part 3, Principle 7.6, under managing shared services arrangements should be adhered to.

4.2 Limited segregation of duties

In very small entities, where resources are limited and full segregation of duties is more difficult to achieve, there might be increased involvement of other senior staff in filling gaps. Management should consider alternative control activities such as timely periodic management reviews of reports that are prepared in sufficient detail for misstatements to be identified. Whilst this may address the gap from a governance perspective, moving from an oversight role to an operational role has its downsides such as override of established control procedures. But this can be addressed with specific protocols such as clear definitions and boundaries, so that the role definition is always clear. For example, management should acknowledge that they are in an operational role while performing these tasks.²⁴ Similarly in smaller entities, more frequent communication may be required with management, enabling greater reliance on accountable authority and audit committee oversight for achieving effective internal control.²⁵

Stronger controls would also include, where possible, the implementation of automated systems that require segregation across the different functions. Management can identify gaps in functions that should be appropriately segregated by using automated tools, organisation charts, process flowcharts or documented policies. Any incompatible functions are considered when developing or revising the policies for granting access to assets and systems. The policies should be regularly updated to reflect changing responsibilities and activities. For example, management should create a matrix of incompatible functions across the financial reporting processes and assess any business justification for the incompatibility. If the business justification is deemed valid by management, the entity evaluates the sufficiency of compensating controls selected, developed and deployed. If the justification is found not to be valid or non-existent, the entity develops a recommendation to implement a policy for segregating the functions.²⁶

²⁴ CPA Australia, [Internal controls for not-for-profit organisations](#), 2011, p 15.

²⁵ Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control - Integrated Framework: Internal Control Over External Financial Reporting: A Compendium of Approaches and Examples*, May 2013, p 11.

²⁶ Ibid., p 92.

4.3 Strategies for risk management and internal controls

Attaining a cost-effective internal control environment can be challenging for smaller entities. There are numerous benefits to having an effective internal control environment however this should be balanced with the associated costs. A key question for management is how much the entity is prepared and/or able to invest in its internal financial control environment and what its tolerable risk/certainty appetite is. While costs can be proportionally higher for smaller entities, an effective internal control environment is achievable with the right strategies in place. The following strategies should be considered with cost-effectiveness in mind. Of course, fostering an organisational culture that seeks to build capability and openly address problems, risks and inefficiencies will support continuous improvement in organisations of all sizes and operating contexts.

Risk based approach

Evidence shows that efficiencies can be gained by firstly setting financial reporting objectives and secondly, identifying supporting objectives for those business activities, processes and events that can materially affect the financial statements.²⁷ Once this is in place, management should identify and assess risks to those objectives and determine which risks would result in material misstatement in financial reporting and how these risks can be managed by internal control activities. Significant efficiencies can be gained, by focusing on the risks to reliable financial reporting linked to key objectives.

When assessing the risk of misstatement, internal controls should be viewed in totality. In a smaller entity, weak controls in some areas might be mitigated by strong controls in other areas and therefore in totality the controls are sufficient to reduce the risk of misstatement to an acceptable level. For example, where it is not practical for ordering and receipting functions to be segregated, other mitigating controls such as regular stocktakes and reviews of expenditure exist to reduce the risks to an acceptable level.

Effective documentation

The extent of documentation to support design and operating effectiveness of internal controls over financial reporting is a matter of judgement. Management should ensure sufficient information is available that the accounting systems and related procedures, including actions taken in connection with preparation of reliable financial statements, are well designed, well understood, and carried out properly. Management should also consider how it will assert to external parties such as regulators and auditors that internal controls are designed and operating effectively over financial reporting.

The OAG generally requires some level of evidence to support effectiveness of internal control and therefore where practical, the creation and retention of evidence should be embedded with the various financial reporting processes. Some practical measures to mitigate the risks associated with limited segregation of duties include documenting key processes and key decisions, and justifying the use of exemptions. In smaller entities, for practical reasons, intended control reliance may not be achievable but such reasons and appropriate mitigating strategies should be documented. For example, if sufficient quotes cannot be obtained for purchases below the tender threshold, reasons for not obtaining quotes should be documented.

²⁷ Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control - Integrated Framework: Internal Control Over External Financial Reporting: A Compendium of Approaches and Examples*, May 2013, p. 53-54.

Part 5: Toolkit

This toolkit contains templates that public sector entities may find useful in their financial statement preparation process. The templates help to promote the better practice principles included in the guide and are designed to be easily tailored to meet the entity's specific circumstances.

Entities should take care to modify the tools to reflect their legal or regulatory requirements. For example, State and LG entities will need to adapt these templates to address the specific requirements of the FM Act, LG Act and relevant regulations.

In representing that the financial statements have been prepared in accordance with the applicable financial reporting framework, the accountable authority implicitly or explicitly makes the assertions regarding the recognition, measurement, presentation and disclosure of the various elements of the financial statements.

The accountable authority relies on the entity's internal controls and advice from the CFO and other senior managers on the integrity of entity processes to be satisfied that these assertions are valid in the preparation of the entity's financial statements. These assertions are set out below.

5.1 Financial statement assertions

Assertions in relation to classes of transactions and events for the period under audit

Assertion	Description
Occurrence	Transactions and events that have been recorded have occurred and pertain to the entity.
Completeness	All transactions and events that should have been recorded have been recorded.
Accuracy	Amounts and other data relating to recorded transactions and events have been recorded appropriately.
Cut-off	Transactions and events have been recorded in the correct accounting period.
Classification	Transactions and events have been recorded in the proper accounts.
Compliance	Transactions and events have been carried out in accordance with applicable laws, regulations or other authority.

Assertions in relation to account balances at period end

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

Assertions in relation to presentation and disclosure

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

Source: Commonwealth Department of Finance

These tools may be updated from time to time. Please check our website for the latest version.

5.2 List of tools

Toolkit 1 | Knowing your entity's risks and assurance processes

Tool name	Tool description
Example: Risk analysis for financial statements Tool 1	This risk analysis process for financial statements can assist management to prioritise the resources allocated to the preparation of the financial statements. High risk rating will be applied to balances that are subject to judgement. Actions required to include presentation of key assumptions and judgements underlying accounting estimates in the financial statements for audit committee consideration and accountable authority approval and sign-off.

Toolkit 2 | Planning for year-end financial statements

Tool name	Tool description
Template: Lessons learned tracking sheet Tool 2	This template assists in the tracking of lessons learned from previous years and implementing related proposed solutions.
Template: Project schedule Tool 3	Project schedule outlines the activities to be completed in the preparation process. Management to prioritise the resources allocated to the preparation of the financial statements.
Example: Financial statements reporting timetable Tool 4	A summary timetable to set out key financial reporting dates in a form that are easily consumable by key stakeholders.
Example: Internal consistency checks Tool 5	This spreadsheet provides examples of the consistency checks that entities should consider implementing.
Example: Financial statements project plan Tool 6	A detailed project plan outlines the activities to be completed in the preparation process, including the timeline and responsibility for the completion of each activity and its status.

Toolkit 3 | Development of financial statements

Tool name	Tool description
Example: Materiality assessment paper Tool 7	This paper is useful for documenting your entity's decisions in regard to materiality. The paper to emphasise the point about discussing materiality with the auditors to ensure an appropriate threshold is set for correction of errors.
Template: Position paper Tool 8	This template provides a useful structure/guidance to assist in the development of an accounting position paper.

Toolkit 4 | Quality assurance and certifications

Tool name	Tool description
Template: Adjustments schedule Tool 9	This schedule allows an entity to keep a record of all adjustments proposed/ made and to enable the changes to be considered and actioned as a whole.
Template: Working papers cover sheet Tool 10	This template can be used to assist in providing a reference to all relevant documents that support each financial statement item or note.
Example: Requirements for supporting documentation Tool 11	The example requirements documentation outlines the types of supporting evidence required for selected financial statements items.
Checklist: CFO assurance Tool 12	A checklist 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.
Checklist: CFO and finance team assurance processes for audit committee Tool 13	This checklist is an example of what a finance area/CFO might provide to the audit committee to provide assurance in regard to the financial statements process.
Template: Chief financial officer's report Tool 14	Template for the CFO's report to the audit committee and accountable authority to provide assurance.

Toolkit 5 | External audit process

Template: Register of audit requests Tool 15	Provides an example template for tracking audit requests.
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Tool 1 example: Risk analysis for financial statements

Introduction

Each entity has its own framework for risk management. Entities should implement a targeted risk management approach for financial statement development and assurance activities, to support the validity, accuracy and completeness of the accounts and balances. The framework adopted should align with the entity's risk management policy, risk appetite and approach to managing risk.

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.

Source: OAG using information from the Commonwealth Department of Finance

Purpose

A risk analysis framework establishes the analysis required for each financial statement line item and accompanying notes to:

- assist in the prioritisation of resources
- to determine if sufficient controls are in place to mitigate the risk of material misstatement to an acceptable level, to achieve necessary outcomes.

For example, a high-level financial reporting risk, will require ongoing and sustained resource requirement and likely to involve complex internal control, higher level of documentation and disclosure, and accounting issues or balances that require estimation or judgement. A low level of financial reporting risk will require minimal resource commitment and likely to involve routine control and accounting issues.

Risk management practices and processes

The entity should adopt best practices that formalise a policy for the risk assessment, based on a number of factors, including the complexity of the statements and the maturity of the process. The process should include:

- a regular cycle for reviewing financial statement line item risks
- reporting to governance committees
- a standard format, detailed analysis and information against each account.

Risk assessment steps

Step 1: Specifying objectives

A pre-condition to the conduct of risk assessment is establishing objectives. Entity management should specify high-level objectives and sub-objectives relating to the preparation of financial statements.

An example of a high-level objective is for the entity to prepare reliable financial statements that are in accordance with AAS and TIs/LG Regs.

Sub-objectives relate to account and business processes and activities and include accounting policies, financial statement assertions and qualitative characteristics.

Examples of sub-objectives include:

Property, plant and equipment held and recorded as of year-end meet the classification and valuation financial statement assertions.

Step 2: Conduct financial reporting risk assessment

In identifying risks to the achievement of financial reporting objectives noted in Step 1, management should consider the financial reporting risk factors related to each financial statement account and the associated financial statement assertions. Each entity should decide on the financial reporting risk factors most appropriate to its own operations and circumstances and the weightings to be applied to each factor.

The process of identifying and analysing risk factors includes both quantitative and qualitative factors. Examples of factors that can impact financial reporting risk include materiality, volume of transactions, operating environment, the level of judgement involved, reliance on third party data, manual intervention, disparity of data sources, evidence of fraud, system changes and results of previous audits by internal audit and the OAG.

Apply risk ratings to determine overall financial reporting risk assessment based on entity's risk management framework.

An example risk analysis for the item property, plant and equipment is below. The example serves as an illustration only and does not cover all financial statements items.

Risk factor (See Note 1)	Key questions to consider	Rating (See Note 1)	Reason/analysis
Materiality	How significant is the item as a percentage of total income, expenses, assets or liabilities?	H	The item represents 12% of total assets.
	How significant is the item to the key users of the financial statements?		The item is topical because of recent parliamentary interest.
	How material are individual transactions?		About 40% of transactions have high dollar values.
Volume of transactions	Is there a significant number of transactions in the population?	M	A significant number of individual transactions are processed each year.
Operating environment	Are there any legislative or regulatory changes?	N/A	This factor is not applicable.
	Are there significant budget constraints or other financial pressures?		
	Are there any changes in the key cost/revenue drivers?		
	Are there plans to outsource services or move to a shared service arrangement?		
	Is there likely to be any new significant contracts /arrangements entered into during the financial year?		

Risk factor (See Note 1)	Key questions to consider	Rating (See Note 1)	Reason/analysis
	Are there any changes to accounting processes?		
Reporting requirements	Are there any complex or new accounting requirements?	L	None identified.
	Are there any significant compliance issues?		None identified.
Level of judgement	Does the item require considerable judgement to record the account balances and transactions correctly?	H	Judgement is required for capitalisation threshold, useful lives and revaluations.
	Does it require estimates, management judgement or specific knowledge and skills of the item and related accounting standards?		Judgement is required in determining whether the asset belongs to other related entities.
Extent of reliance on third parties	Is the accuracy of data dependent on areas, systems, experts or related entities outside the control of the finance team?	H	Significant reliance on business areas to provide information.
	Does experience suggest that such data is provided in a timely and accurate manner?		Data provided in prior year had significant errors.
			Reliance on external experts with respect to valuation.
			Reliance on related entities to manage and correctly record assets in regional offices.
Level of manual intervention	Is the level of manual intervention used to initiate, record, process or report transactions significant?	M	Manual adjustments are generally required to reflect revaluations and impairments of property, plant and equipment.
	Is manual intervention appropriate?		The level of manual intervention is appropriate because judgement is required to initiate and record the adjustments.
Disparity of data sources	Can data be easily and reliably retrieved?	M	Three different registers are used to manage and control assets.
System changes	Are there new/significant changes to systems or feeder systems?	N/A	This factor is not applicable
Evidence of fraud	Is there any evidence of significant internal or external fraud?	L	None identified.
Audit issues identified	How significant are previous audit findings in respect of this item?	M	Previous internal audit and OAG audit findings remain outstanding. Corrective action is in progress.

Risk factor (See Note 1)	Key questions to consider	Rating (See Note 1)	Reason/analysis
	Have these findings been adequately addressed?		
Financial reporting risk summary			
Financial reporting risk	Based on the assessment above:	H	Key contributing factors: Materiality of the balance.
	<ul style="list-style-type: none"> Have key financial reporting risk been identified? 		Level of judgement required in determining correct asset classification and valuation.
	<ul style="list-style-type: none"> What are the key contributing inherent risk factors for the item? 		High level of reliance on business areas to correctly identify assets for capitalisation.
	<ul style="list-style-type: none"> What is the overall financial reporting risk rating? 		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 3: Conduct a residual risk assessment

An effective system of internal control helps prevent material misstatements, errors and fraud. Key controls²⁸ must be designed and implemented in such a way that they will prevent or detect on a timely basis, potential material misstatements related to the identified financial statement assertions.

A residual risk assessment for each financial statement assertion should take into account the preventative and detective control framework and identification of other existing mitigating controls.

(i) Preventative controls: Pre month-end assurance framework

The entity should adopt best practices that control system access, security, procurement, payment of invoices, receipting and segregation of duties. In addition, the entity should adopt a risk-based control framework to prevent material errors going undetected and incorrect financial information being reported. This includes:

- journals being prepared and reviewed by 2 separate officers prior to posting
- processing the reversal of all accrual journals at the beginning of each month and re-accrual, as appropriate
- establishing a hierarchy of journal endorsement, such as:
 - executive endorsement for journals larger than an appropriate specified amount
 - CFO endorsement for:
 - journals directly affecting equity

²⁸ 'A key control is usually the only control that covers a risk of material misstatement and is indispensable to cover its control objective' – SAICA, *Guidance on the CFO/FD Sign-Off on Internal Financial Control*, August 2020, p.11.

- journals larger than an appropriate specified amount.

These controls combined with other pre month-end assurance processes are essential for preventing, identifying and correcting errors before the general ledger closing. To improve the accuracy, veracity and usefulness of the monthly management reports and reduce the need for post-close adjustments, the entity should adopt a pre month-end assurance process that includes finance team officers undertaking:

- a review of the reasonableness of the entity's financial statements (revenue, expense, assets, liabilities and equity) prior to the general ledger closing
- substantive testing (if large, unusual, complex or non-recurring items were identified to have material impact on period-end closing balances)
- investigation and further analysis where the movement is not considered reasonable when comparing:
 - actuals to budget (greater than X% or \$X million variance to revised budgets)
 - monthly movement (greater than X% or \$X million variance to expectations)
 - negative accounts
 - relationship to other items and external information
- correction of all identified material errors prior to the general ledger closing.

(ii) Detective controls: Post month-end assurance framework

Account reconciliations and analytics are the primary tools for detecting misstatements and internal control issues.

To complete the account reconciliations within the required timeframes, with the requisite levels of quality and analysis, the entity should adopt best practices that formalise a policy for appropriate staff in the finance team to reconcile and review all accounts, including:

- Undertaking a risk assessment of all accounts to determine a risk rating. Accounts that have a higher financial reporting risk of material misstatement should then be subject to more frequent reconciliations, analytical procedures, substantive testing and peer review to reduce risks to an acceptable level.
- Completing assessments to identify opportunities to redesign, reduce or remove compliance activities without significantly impacting on the outcomes.
- Adopting a cycle for reconciling, analysing and testing accounts based on the risk. For example, higher risk may require monthly reconciliations.
- Requiring reconciliations to be prioritised, based on risk and variance thresholds, with all reconciliations due for completion by the 10th working day of the subsequent month.
- Using a standard format and analysis for information against each account.
- Assigning 1 preparer and 1 reviewer to each account with each person understanding the: business activities; key drivers; purpose; source of documentation; and analysis to obtain a reasonable level of assurance over the account balance and reduce the risk of misstatement to an acceptable level.
- A review of the inherent risk assessment and mitigating controls where there are indications that the nature, materiality or risk profile of the account may have changed.

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. An example residual risk assessment for the property, plant and equipment example is provided below.

Analysis of existing key controls			
Existing key controls in place are:			
<ul style="list-style-type: none"> Monthly reconciliation of property, plant and equipment movement schedules showing opening balances, additions, disposals, transfers, depreciation, impairments and closing balances is 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. Stocktake reports are endorsed by management. Year-end reviews of valuation reports are conducted. Annual review for impairment in accordance with Accounting Standard AASB 136 <i>Impairment of Assets</i> is carried out to ensure property, plant and equipment 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:			
Risk factor	Key questions to consider	Rating	Reason/analysis
Residual risk	Based on the analysis of existing controls above: <ul style="list-style-type: none"> Have all existing key controls been identified? What are the key contributing risks remaining after existing controls have been exercised? What is the overall residual risk rating? 	M	Key contributing factors: Controls in place are relatively mature and are subject to periodic review.
			However, the item is material and improvements are still required by business areas to provide more timely and accurate information.

Step 4: Summarise risk ratings and key actions taken or required

It is recommended that entities summarise their risk ratings in a format such as a risk and control matrix which identifies and classifies each of the risks within the internal financial reporting control environment that supports the transactions. Collate all individual risk ratings for each financial statement assertion to give an overall picture of the reporting risk for all financial statement items.

Determine required treatments, having regard to the entity's risk appetite. It is essential to identify those risk activities that require additional actions taken or required to reduce the risk to an acceptable level.

Entities may find it useful to present the summary table below to the audit committee for review of progress.

A risk and control matrix should be regularly reviewed and updated as the business, operations, technologies and processes change and evolve.

Financial reporting risk	Financial statement assertion	Effect of the financial reporting risk	Risk rating	Mitigating control for financial reporting risk	Residual risk rating	Date control tested	Findings	Key actions taken or required	Sign-off
AASB 116 revaluation adjustment is incorrect	Valuation of property, plant and equipment	Property, plant and equipment may be misstated and fair values are incorrect	High	Year-end reviews of valuation reports are conducted	Moderate	June 202x	Control functioning as documented	Valuation estimate and assumptions will be reviewed and approved by accountable authority and audit committee	Fixed asset officer

Tool 2 template: Lessons learned tracking sheet

Introduction

Developing a better practice financial statements process is an iterative process. It is important to take time at the end of each cycle to consider what went well and what could be improved.

This tracking sheet helps finance teams to communicate the issues and challenges from the previous financial statement process and document the proposed solutions for implementation.

Lessons learned in progress

A tracking sheet, such as this one, allows the team to record what didn't go to plan and track the progress of improvements.

Completed lessons learned

This register is for keeping track of completed items from previous year's lessons. It is important to keep a record of past items as a reference as this assists in the preparation of position papers and supporting information for future decisions.

Positive lessons

It is helpful to keep track of the positive lessons in addition to negative lessons.

Source: OAG using information from the Commonwealth Department of Finance

An excel version of this document is available on our website

Lessons learned in progress										
Financial statements Lessons learned in progress tracking sheet										
Ref	Key topic	Identified issue	Proposed resolution	Action assigned to	Progress to audit commit	Internal only	Status	Planned completion	Actual completion	Feedback/comments
<i>Lessons learned identified in 2021 - 2022 financial year</i>										
1	Financial statements model	The Model didn't detect several internal consistency errors that the auditors picked up.	Review internal consistency functionality and ensure it is working	Financial statements	No	Yes	In progress	30-Jun		
2	Valuation of Land and Buildings	Valuation report wasn't available until just before sign-off which resulted in a late lodgement of financial statements	Review planning for next reporting cycle and ensure valuation reports are obtained in a timely manner	Financial statements	Yes	No	Not started	30-Jun		
3										
4										
5										
6										
<i>Lessons learned identified in 2014 - 2015 Financial Year</i>										
1										
2										
3										

Completed lessons learned

Financial statements Completed lessons learned tracking sheet										
Ref	Key topic	Identified issue	Proposed resolution	Action assigned to	Progress to audit committee	Internal only	Status	Planned completion	Actual completion	Feedback/comments
Lessons learned identified in 202x - 202x financial year - COMPLETED										
1	Use of external consultants for corporate services and financial statements preparation. SPM's reporting.	The external consultant timetable for financial statements preparation did not align with internal audit expectations and timetable which resulted in delays in completing the audit and signing off the financial statements.	Ensure the external consultant attends external audit meetings such as pre-planning and audit entrance meetings to ensure concurrence of financial statement preparation timetable.	Financial statements	Yes	No	Completed	20/10/2021	01/10/2021	CFO with the external consultant to discuss timing issue and agree efforts to attend key meetings with external auditors to discuss and agree the timetable for financial statement preparation.
2	SPM's reporting.	SPM's was not updated for late adjustments to the financial statements.	Finance manager regularly advises the responsible officer of changes and adjustments to financial statements, to facilitate the timely update of SPM's.	Financial statements	No	Yes	Completed	20/10/2021	10/10/2021	Finance manager met with responsible officer to discuss timely updates to SPM's and organise for weekly meetings to advise of changes and adjustments to financial statements.
3										
4										
5										
6										

Positive lessons

202x-2x Financial statements

Positive lessons

Ref	Key topic	Identified issue
1	Project plan	Project Plan allowed easy tracking for management on the progress of the financial statements and allowed them to reallocated resources where pressures were building.
2	Adoption of new accounting standards	Preparation of accounting position papers that clearly outlined the new requirements, our assessment and impact assisted greatly in providing the necessary assurance to the audit committee and obtaining their approval.
3		
4		
5		
6		

Tool 3 template: Project schedule

Introduction

Project schedule outlines the tasks 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 assumes 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 project schedule should be tailored to meet the entity's particular circumstances and needs. The schedule does not necessarily cover all possible events and actions. Some smaller entities could have a shorter elapsed time if their tasks are less complex.

Source: OAG using information from the Commonwealth Department of Finance

An excel version of this document is available on our website

Project schedule				
Project schedule				
Ref	Action required	Due date	Responsibility	Comment
Pre year-end				
1	Commence financial statements planning	dd/mm/yyyy	FT	
2	Review of accounting policies for the year	dd/mm/yyyy	FT	
3	CFO and the OAG present their audit planning summary including schedule of activities and timetable to the audit committee for discussion. CFO presents financial statements risk analysis and acceptable materiality levels for discussion.	dd/mm/yyyy	FT/OAG	
4	The OAG commences the interim audit phase.	dd/mm/yyyy	OAG	
5	Valuation instructions and timetable to be finalised with valuers and actuaries (for example, valuations for non-current assets and estimates of employee entitlements).	dd/mm/yyyy	BA/FT	
6	Prepare position papers on proposed accounting treatments of significant or contentious transactions.	dd/mm/yyyy	FT	
7	Agreement with the audit committee and the OAG on pro-forma financial statements and proposed accounting treatment of significant or contentious transactions. This action would include identifying opportunities to improve financial statements disclosures.	dd/mm/yyyy	FT/OAG	
KEY	Description			
AA	Accountable authority			
AC	Audit committee			
OAG	Office of the Auditor General			
BA	Business areas			
CFO	Chief financial officer			
FMIS	Financial management information system			
FT	Finance team or members of the finance team			
HR	Human resource branch			

Tool 4 example: Financial statements reporting timetable

Introduction

This example provides a summary timetable of key financial reporting dates, in a form that is convenient for key stakeholders such as an audit committee or the OAG.

The appropriate level of detail is likely to differ between entities, depending on stakeholders' requirements – some stakeholders may require more or less detail than included in this example.

The timetable includes a number of acronyms and abbreviations for convenience and the effective use of available space. A list of acronyms and abbreviations is included at the end of the table.

This checklist is to assist in the planning of audit committee meetings. It is important to plan the date for each activity, working backwards from the meeting date, to ensure timely distribution of meeting papers to members and attendees.

Source: OAG using information from the Commonwealth Department of Finance

Financial reporting timetable for the year ended 30 June 202x

Timeframe	Task	Responsibility	Status
August/ September	Lessons learnt from previous year's financial statements/audit process Organise a lessons learnt session to determine areas which require improvement, implement efficiencies and better practice methods.	Financial reporting team	Complete
November	Implement OAG audit recommendations: Implement any audit recommendations from final management letter/exit brief.	Financial reporting team, divisions, management	In progress
November / December	OAG conduct audit planning.	OAG	To be actioned
February	Stocktake Undertake the annual fixed asset and portable and attractive stocktake and valuation work.	Financial reporting team and finance officers	To be actioned
February	Audit committee First meeting for the year to agree on the financial statement timetable and key issues and risks.	CFO, director financial reporting, audit committee	To be actioned
March to June	OAG conduct interim audit work.	OAG	To be actioned
March	Accounting standards and legislative rule changes Review changes to AAS to assess the impacts on the financial statements for the coming years.	Financial reporting team	To be actioned

Timeframe	Task	Responsibility	Status
	Review changes to the FM Act, TIs/ LG Act and LG Regs to assess the impacts on the entity's financial statements for the coming years.		
March	Position/issues papers Prepare position/issues papers for consultation and agreement with the OAG covering any issues arising from the interim.	Financial reporting team, management	To be actioned
March	Pro-forma financial statement draft Review changes to Treasury's Financial Administration Bookcase/LG Regs to assess the impacts on the entity's financial statements for the coming years.	Financial reporting team	To be actioned
March/April	Asset valuation Finalise the stocktake and update asset register for results and revaluation.	Financial reporting team and valuation expert	To be actioned
April	Update the accounting policy manual Incorporate the changes to the AAS and legislative rules into the accounting policy manual.	Financial reporting team	To be actioned
June	Audit committee Discuss the results of interim audit, agree appropriate treatment of any accounting issues that have been identified.	CFO, director financial reporting, audit committee	To be actioned
June	Develop a timetable for year-end close based on CFO time requirements.	Financial reporting team	To be actioned
June	Prepare for end of year Organise reports, contracts etc. which will be incorporated into or used in the preparation of the year-end financial statements.	Financial reporting team, human resources team, divisions, legal team	To be actioned
July	Prepare outstanding position papers Prepare position/issues papers for consultation and agreement with the OAG covering any issues arising since the interim.	Financial reporting team	To be actioned
July/August	Conduct financial statements process Prepare financial statements and notes in accordance with timetable.	Financial reporting team	To be actioned
July to December	OAG final audit OAG to conduct final audit fieldwork.	OAG	To be actioned
August to December	OAG material clearance OAG to finalise audit and provide material clearance.	OAG	To be actioned
August	Audit committee	CFO, director financial	To be actioned

Timeframe	Task	Responsibility	Status
	Conduct detailed review of the annual financial statements.	reporting, audit committee	
August	Submit annual actuals to Department of Treasury (SIMS reporting) Submit materially cleared financial statements to the Department of Treasury.	Financial reporting team, management	To be actioned
August to December	Audit report OAG to finalise audit and provide the audit report. Other receivables from the OAG include: <ul style="list-style-type: none"> • final management letter to the accountable authority • exit brief on results of financial statements audit. 	OAG	To be actioned
September to December	Audit committee Audit committee to recommend that the 202x-2x financial statements be signed by the accountable authority.	CFO, director financial reporting, audit committee	To be actioned
September to December	Accountable authority to sign 202x-2x financial statements.	CFO, accountable authority	To be actioned

Acronyms and abbreviations

Acronym/abbreviation	Title in full
AAS	Australian Accounting Standards as issued by the AASB
AASB	Australian Accounting Standards Board
OAG	Office of the Auditor General
CFO	Chief financial officer
FM Act	<i>Financial Management Act 2006</i>
TI	Treasurer's instructions
LG Act	<i>Local Government Act 1995</i>
LG Regs	Local Government (Financial Management) Regulations 1996
SIMS	Strategic information management system

Tool 5 example: Internal consistency checks

Introduction

A well-designed financial statements model will have inbuilt internal consistency checks. Internal consistency checks allow easy confirmation that all the notes and face statements are consistent across the document. This spreadsheet provides examples of the consistency checks that entities may consider including.

Source: OAG using information from the Commonwealth Department of Finance

An excel version of this document is available on our website

Validations			
Validations			
No	Validation Name	Column1	State government entity/Local government entity
1	Net Assets = Total Equity		PASS
	Net Assets (Statement of Financial Position)		
	Total Equity (Statement of Financial Position)		
2	Total Equity		PASS
	Total Equity (Statement of Financial Position)		
	Total Equity (Statement of Changes in Equity)		
3	Cash at the end of the reporting period		PASS
	Statement of Financial Position		
	Cash Flow Statement		
4	Surplus/(Deficit) for the period		PASS
	Statement of Comprehensive Income		
	Statement of Changes in Equity		
5	Surplus/(Deficit) for the period - Comparative year		PASS
	Statement of Comprehensive Income		
	Statement of Changes in Equity		
6	Asset Class = Asset Reconciliation C/B		
6.1	Land		PASS
	Balance Sheet		
	Asset Rec		
6.2	Buildings		PASS
	Balance Sheet		
	Asset Rec		
6.3	Infrastructure		PASS
	Balance Sheet		
	Asset Rec		
6.4	Plant and equipment		PASS
	Balance Sheet		
	Asset Rec		
6.5	Furniture and equipment		PASS
	Balance Sheet		
	Asset Rec		
6.6	Works of art		PASS
	Balance Sheet		
	Asset Rec		
7	Depreciation (Expense) = Total Depreciation (Asset Reconciliation)		PASS
	Statement of Comprehensive Income		
	Asset Rec		
8	Cash at Bank Balance Sheet = Cash at Bank Cash Flow Statement		PASS
	Statement of Comprehensive Income		
	Cashflow Statement		
9	Appropriation Note Movements = Cash Flow Statement Appropriation Movements		PASS
	Appropriation Note		
	Cashflow Statement		

Tool 7 example: Materiality assessment paper

Introduction

The following example of a materiality paper sets out the materiality thresholds for an entity. The entity and the OAG both have a responsibility to consider and apply materiality in the context of the accounting and auditing standards respectively. It is therefore important that an entity's approach to materiality takes into account the OAG's approach with the aim of ensuring as far as possible, that both approaches are compatible. It is also important to note that entity's management cannot set or influence materiality for the financial statements audit.

An overall materiality threshold may be a useful reference point to guide decisions about the application of materiality to particular items or groupings of items, and in determining the approach to be followed in respect to the correction of errors and misstatements.

In determining an overall materiality threshold, potential methods include a percentage of income; percentage of expenditure; percentage of gross profit; percentage of total assets; percentage of total revenue to equity; a mixture of the aforementioned methods or a scaled method that takes into account the size of the entity.

Common materiality guidelines include:

1. 5.0% of income (using a 3-year average)
2. 0.5% to 2.0% of revenue/expenses for non-profit organisations
3. 0.5% to 1.0% of net assets.

Reporting entities need to consider the materiality of variances. Accounting standards require judgement to be applied when deciding on an appropriate variance threshold. As a general guide, a variance may be considered material or major if it is in line with the above guidelines.

Source: OAG using information from the Commonwealth Department of Finance

Materiality assessment for [Entity name] 202X-2X financial statements disclosures

Purpose

The purpose of this position paper is to document the materiality policy and thresholds to be used in the preparation of the [Entity name] 202X-2X annual financial statements. The materiality thresholds will be used to support management decisions in relation to information disclosure in the 202X-2X financial statements and identification of major variances for further investigation. Any audit differences will continue to be worked through with the OAG on a case-by-case basis.

This document should be reviewed annually and updated where necessary to account for any changes in funding, thresholds, legislation and guiding rules for the entity's assessment of materiality in its financial statements.

[Entity's name] position

[Entity's name] considers the appropriate materiality threshold for the 202X-2X financial statements information disclosure to be X% of total expenses. This results in a materiality threshold of \$X million. Refer to Attachment A for 202X-2X materiality assessment.

In addition to applying materiality thresholds, [entity's name] will also apply professional judgement and consider relevance for users of its financial statements when assessing items for disclosure. This may result in information disclosed that may not be numerically material but by nature may assist users to understand the underlying business transactions. Application of professional judgement may result in disclosures for material items not being equal in terms of size and detail.

This materiality assessment applies to the 202X-2X financial statements. [Entity's Name] will undertake an annual review of materiality and adjust where necessary.

[Entity's Name] will not apply materiality assessment against disclosures which are material by nature such as appropriations and special purpose accounts, and mandatory requirements under the Australian Accounting Standards (AAS), the *Financial Management Act 2006* (FM Act), Treasurer's instructions, *Local Government Act 1995* (LG Act) and Local Government Regulations (LG Regs) and other authoritative requirements.

Background

Sections 61 and 62 of the FM Act requires State entities to prepare financial statements in accordance with AAS and TIs. AAS and TIs require that entities' financial statements are based on proper accounts and records to present fairly the financial transactions for the reporting period. Similarly, section 6.4 of LG Act require the financial statements to be based on proper accounts and records to present fairly the financial position and the results of operations for the reporting period and compliance with the LG Act to the extent they are not inconsistent with AAS. Furthermore, the AAS require that materiality must be assessed by entities in determining disclosure requirements noting that the TIs require the application of materiality.

For 202X-2X financial statements, [entity's name] is aiming to improve the usefulness and readability to users by simplifying disclosures and reducing unnecessary clutter. In revising the disclosures, the entity has also considered the materiality of information in addition to compliance with AAS and the TIs.

Defining materiality

Materiality can be difficult to define as it is based on both quantitative and qualitative factors, with the latter requiring more judgement. Some useful guidance is contained in AASB 101 *Presentation of Financial Statements* and in AASB Practice Statement 2 *Making Materiality Judgements*.

As per AASB 101.7, materiality is defined as: *'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'*.

The entity needs to assess how users of financial statements (with a reasonable knowledge of business and economic activities) could reasonably be expected to be influenced in making economic decisions (AASB 101.7).

Finally, AASB 108.8 highlights the need to balance AAS requirements with materiality assessments. Whilst it is appropriate to not apply some accounting policies where the effect is immaterial, *'it is inappropriate to make, or leave uncorrected, immaterial departures from the AAS to achieve a particular presentation of an entity's financial position, financial performance or cash flows'*.

Setting the materiality threshold for 202X-2X

The OAG sets an audit materiality threshold for each entity in accordance with the auditing standards made by the Australian Auditing and Assurance Board. These materiality levels are expected to be conservative and are not generally shared with audit clients. Whilst [entity's name] does not have access to the OAG adopted materiality threshold, it is prudent to define materiality in [entity's name] financial statements.

The entity-defined materiality threshold for information disclosure which is calculated as X% of 202X-2X total expenditure is consistent with the AAS (refer Attachment A). This judgement is guided by consideration of the impact the omission, misstatement or non-disclosure has individually or collectively on the discharge of accountability by the accountable authority and discussion with the auditors and the audit committee.

Specific line item considerations

In applying the above levels, [entity's name] will remain mindful of any qualitative factors impacting on its materiality assessment - in particular whether the nature of the particular item causes it to be material even though it would be judged immaterial on the basis of the amount involved.

For other required disclosures, tolerance levels for misstatements at an individual line item needs to be assessed by [entity's name] on a case-by-case basis with regard to the inherent risk, effectiveness of internal controls, volume and quantum of errors expected and degree of subjectivity underpinning the measurement of the account balance.

While the materiality threshold is set at X% due to the impracticality in setting a single materiality level for individual line items, individual line items may also be considered in the context of other appropriate measurement bases. An appropriate measurement base could be all items in the financial statements, relative items, or classes of items. For example:

- a) balance sheet items could be assessed relative to the appropriate asset or liability base
- b) cash flow items could be assessed against the net cash flow for operating, investing or financing activities
- c) statement of comprehensive income items could be assessed against relative net revenue and net expense figures.

Budgetary reporting

AASB 1055 *Budgetary Reporting* does not define a major variance or provide any specific guidance on what would constitute a major variance. However, TI 945 *Explanatory Statement* provides guidance to State entities subject to the FM Act. AASB 1055.15 states that explanations of major variances are: '*...those relevant to an assessment of the discharge of accountability and to an analysis of performance..., not merely focusing on the numerical differences between original budget and actual amounts. They include high-level explanations of the causes of major variances rather than merely the nature of the variances*'.

[Entity's name] has considered the requirements of AASB 1055 and TI 945 in addition to exercising judgement in adopting the materiality thresholds for budgetary reporting purposes.

Attachment A – Materiality assessment for 202X-2X

[Entity's name] has performed calculations for materiality on the following balances derived from actual total expenditure.

- Expenses – based on expenses included in net cost of services/total expenses.
- Assets – includes all financial and non-financial assets balances.
- Liabilities – includes all payables and provisions.

[The following tables are examples only. If these are used as a basis for preparing an entity- specific position paper they should reflect the relevant base amounts for the entity.]

State entity/LG entity		
Major category	202X-2X actual expenditure \$'000	0.5 to 2% materiality threshold \$'000
Expenses	550,000	2,750 to 11,000
Assets	1,000,000	5,000 to 20,000
Liabilities	700,000	3,500 to 14,000

Recalculation using prior-year financial statements actuals

These materiality levels are reasonably consistent when compared with a calculation based on the prior financial statements for 202X-2X using X% of actual total expenditure which yielded similar results.

State entity/LG entity		
Major category	202X-2X actuals \$'000	0.5 to 2% materiality threshold \$'000
Expenses	563,125	2,816 to 11,263
Assets	956,000	4,780 to 19,120
Liabilities	697,740	3,489 to 13,955

Tool 8 template: Position paper

Introduction

Position papers (technical accounting papers) are an important tool that entities use to analyse and document key judgements and decisions and to keep stakeholders apprised of better practice updates to accounting policies and processes, and how they will affect the financial statements. It is good practice to prepare these well in advance of implementation, and to share these with relevant stakeholders to understand potential impacts and refine as further information comes to hand.

The following template is an example on how you might structure a position paper, the detail required in relation to each issue will vary depending on each entity's particular circumstances and the expectations of key stakeholders and the accountable authority.

Source: OAG using information from the Commonwealth Department of Finance

Position paper – XXXXXXXX

Purpose

Why are we preparing this paper?

Who originated the request? Name, entity, date and how the issue was raised.

If the position paper is dealing with implementation of a new accounting standard, the purpose should outline what the standard requires, when it is effective and a summary of the main issues that will be addressed. This may require discussion of the implications for whole-of-government reporting to ensure a consistent approach to preparation of budget estimates and to consolidated financial statements if applicable.

Scope

The conclusion may be reached under a restricted timeframe and with limited facts available. If the events or circumstances are changed this may affect the conclusion.

Outline what is in scope and what is out of scope.

Facts, circumstances and assumptions

Outline the facts that are presented and what documents were provided outlining the facts. What assumptions are made in the absence of complete knowledge? How would a different assumption influence the conclusion reached?

Consultation

In forming a position, whom did the preparer consult with and what was the nature of the consultation (e.g. phone discussions, draft paper circulated by email)?

If a substantial amount of consultation has occurred, the main conclusion or consensus can be summarised with detailed comments included as an appendix to the paper. The consultation section should note the respondent's position and organisation.

Relevant accounting pronouncements/related documents

Document the relevant legislation and AASB pronouncements that has been referred to in the analysis.

Position 1

Discuss the relevant AASB pronouncements (standards and interpretations) and how they apply to the circumstances outlined in this case. Are the facts in this case similar or different to those considered in accounting standards, in particular the facts discussed in the basis for conclusion or application guidance.

Consider any relevant research papers prepared by the AASB, International Accounting Standards Board (IASB) or major accounting firms.

Position 1	
Conclusion/recommendation	
Prepared by	
Signature:	
Name:	
Position:	[e.g. Finance Officer]
Date:	
Reviewed by	
Signature:	
Name:	
Position:	[e.g. Chief Finance Officer]
Date:	
Approved by	
Signature:	
Name	
Position:	[e.g. Accountable authority/ Audit committee]
Date:	

Tool 10 template: Working papers cover sheet

Introduction

Well-structured and complete working papers are essential to support and validate the financial statements. The following templates can assist in providing a reference to all relevant documents that support each financial statement item or note. Each template should be tailored to meet the entity's particular circumstances as they do not cover all matters that an entity may wish to include.

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.

Completion checklist

A completion checklist is used as a verification control tool for the finance team when undertaking a review of the financial statements.

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.

Source: OAG using information from the Commonwealth Department of Finance

An excel version of this document is available on our website

Working papers cover sheet		
Working papers cover sheet and checklist		
[Entity's name] Financial Statements [current financial year]		
FINANCIAL STATEMENTS ITEM/NOTE NO:		
Account Codes: Refer to Lead Schedule at:		
Ref	Description	Workpaper Reference
1	Completion checklist	
2	Lead schedule (including sign-off)	
3	Working papers supporting lead schedule	
4	Financial statements note disclosure	
5	Audit findings and remedial actions	
6	Compliance and legal issues	
7	Quality control and assurance	
8	Other work performed	
9	Matters for next financial year	
10	Background information	

Completion checklist

Working papers cover sheet and checklist

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

FINANCIAL STATEMENTS ITEM/NOTE NO:

Account Codes: Refer to Lead Schedule at:

Completion checklist	Wp ref	Explanation comments
Planning		
Risk management and planning decisions revised as necessary.		
Ensure that any data requested from the Business Areas has been:		
received by the due date and follow up if not received, and		
checked by the Finance Team for reasonableness and consistency with other related items in the financial statements.		
Review Treasury requirements for whole of government reporting and ensure that any additional information required is obtained for submission by due date.		
Preparation		
Agree lead schedule to financial statements.		
Agree lead schedule to trial balance.		
Ensure that the comparative amounts in the current financial statements match figures in last year's annual report.		
Complete relevant addition and validation checks. Complete cross referencing to supporting documents and schedules.		
Complete analytical review		
(+/-5% to prior year)* f (+/-2% to budget)* f (trend analysis)		
Verify to supporting documentation (attached).		
Ensure compliance with TI/LG FM Regs requirements.		
* These percentages will vary, depending on management's assessment of risk and materiality.		
Review		
Ensure that all material matters have been adequately disclosed. Are the figures complete, accurate and valid?		
Ensure that all adjustments have been resolved. Update the Adjustments schedule, if applicable.		
Consider whether the format is consistent with the TIs/LG FM Regs and Treasury Model Financial Statements issued by Treasury. Include narratives if applicable.		
Ensure the lead schedule is signed off.		

Lead schedule

Working papers cover sheet and checklist			
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[Entity's name] Financial Statements [current financial year]

FINANCIAL STATEMENTS ITEM/NOTE NO:

Account Codes: Refer to Lead Schedule at:

[illegible]

Sign-Off

Completed checklist (attached)	
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Prepared by:	Time and Date:
---------------------	-----------------------

Time and Date:

Reviewed and Approved by:	Time and Date:
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Time and Date:

Management Sign-off:	Time and Date:
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Time and Date:

Tool 11 example: Requirements for supporting documentation

Introduction

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 following example outlines the types of supporting evidence required for selected financial statements items.

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

Source: OAG using information from the Commonwealth Department of Finance

Item	Supporting documentation	Responsibility	Due date
Cash on hand and at bank	Schedule of cash and bank balances as at year-end.		
	Confirmation certificates from cash holders stating the amount held at year-end.		
	Bank reconciliations for all bank accounts at year-end with bank statements and supporting documentation for reconciling items.		
	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.		
	Confirmations from banks for all bank accounts, with explanations if there are differences between bank confirmations and the entity's own records.		
	Schedule of foreign exchange rates at year-end where applicable.		
Receivables	Schedules of receivables at year-end.		
	Ageing analysis of receivables and the impairment allowance.		
	Supporting documentation on impairment allowance made/reversed		
	Schedule of debt written off and recovered during the year.		
	Evidence of the basis of the impairment review.		
Investments	Schedule of investments showing opening, additions, disposals and closing balances during the year, reconciling to ledger balances for investments.		

Item	Supporting documentation	Responsibility	Due date
	Calculations and supporting documentation for any gain/loss on disposal or fair value gain/loss during the year.		
	Examples of documentation are:		
	• investment ledger		
	• policies on accounting for investments		
	• approval documentation for initial investments, rollovers and redeemed investments		
	• funds manager reports		
	• documentation to prove ownership		
	• classification and measurement of investments		
	• sale documentation and approvals		
	• independent confirmations from a third party		
	• delegation instruments for investing relevant moneys.		
Inventory	Supporting documentation for annual stocktakes carried out including obsolete/slow moving stocks.		
	Calculation of stock values at year-end with the basis of such valuations.		
	Documentation supporting any work-in-progress stock.		
Land, buildings and property, plant and equipment	A schedule showing opening balances, additions, disposals, transfers, depreciation, impairment loss/reversal, revaluation increments/decrements, write-offs, classified as held for sale and closing balances for all asset classes.		
	Property, plant and equipment reconciliation by each asset category from general ledger to assets register.		
	A copy of the assets register by asset category showing details such as asset numbers, location, depreciation rate, category, useful life etc.		
	Copies of stocktake procedures and stocktake report, endorsed by management. Reconciliation of stocktake report to asset register.		
	List of write-offs including approvals.		

Item	Supporting documentation	Responsibility	Due date
	Policies and documentation supporting the asset recognition threshold and depreciation rates and methods.		
	Basis for reassessment of useful lives.		
	Evidence that the entity has reviewed all assets for indicators of impairment and assessed the recoverable amounts for relevant assets.		
	Copies of title deeds showing ownership, as well as rights, obligations, or mortgages on the property.		
	Most recent valuation reports, where applicable, including basis, date and name and qualifications of valuer.		
	Reconciliation of the properties listed in the valuer's report to the entity's property records.		
Other assets	Schedule of the different categories of other assets. For example, prepayments.		
	Supporting details for significant account balances.		
Intangibles	Schedule showing opening balances, additions, disposals, transfers, amortisation, impairment loss/reversal, write-offs, classified as held for sale and closing balances for the year.		
	Policies and supporting rationale on capitalisation, carrying values and amortisation of intangibles.		
	Evidence that the entity has reviewed all intangible assets for indicators of impairment and assessed the recoverable amounts for relevant intangible assets.		
Leases (as lessee and as lessor)	Leasing details, especially new leases and leases terminated. Details of payment schedule, rent reviews, lease terms, lease incentives, make-good provisions, sub-leases, operating or finance lease.		
	Copies of lease agreements entered during the year.		
	Information on 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.		

Item	Supporting documentation	Responsibility	Due date
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 of current and non-current provisions.		
	Actuarial assessment of provision for long service leave entitlements. Information on the use of shorthand method, if applicable.		
	Information on the bond rate used for discounting the liabilities to present values and probability factors used in discounting long service leave.		
Loans	Movement schedules showing opening balances, new borrowings, repayments and closing balances.		
	Copies of contracts and financing arrangements, including updated maturity schedule.		
Other payables, liabilities and provisions	Schedules and supporting documentation for different categories of liabilities and provisions. For example, overdrafts, taxation payable and provision for restoration obligations.		
Equity and reserves	A statement of changes in equity — supporting explanation for movements from prior year.		
Appropriations	Appropriation notes with supporting documentation.		
	Appropriation reconciliations — reconciliations of the general ledger to Treasury's appropriation system and bank statements.		
	Analysis of appropriation receivables i.e. holding account.		
	Confirmation of any amounts outstanding at balance date.		
	Supporting documentation for Appropriation Act items, any supplementary funding (new and existing items) and amounts authorised by other statutes (standing appropriations).		
Statement of cash flows	Details of workings and supporting documentation.		
General expense	Transactions download for the year reconciled to the general ledger and trial balance.		
Payroll expense	Listing of payroll expenses showing gross, superannuation, tax, on-cost, leave, award and net balance.		
	Listing of new and terminated employees.		

Item	Supporting documentation	Responsibility	Due date
	Reconciliations between payroll record and general ledger.		
Grant expenses and payables	Schedule of ongoing or new grants paid/payable during the year.		
	Grant agreements for the new grants paid/payable during the year.		
	Reviews performed on grant expenses to ensure compliance with grant agreement.		
	Monthly reconciliations between grants schedule and FMIS and supporting documentation for reconciling items.		
	Supporting documentation for grant payables.		
	Schedule of commitments information in relation to grant expenses.		
	Policies and supporting rationale for the recognition, measurement and disclosure of grant expenses and payables.		
Others	A schedule of resources provided free of charge, detailing their nature and amount or value.		
	Schedules and supporting documentation on grant and other contribution income.		
	Details of cost recovery arrangements and accounting treatment for the over and under recoveries.		
	Schedule of all contingent liabilities and assets.		
	Details of joint arrangements and their accounting treatments.		
	Details and supporting documentation for financial statement note disclosures.		
Minutes	Minutes of executive/board and audit committee meetings held since last audit.		

Tool 12 checklist: CFO assurance

Introduction

Smaller entities can combine Tool 12 and 13 and tailor it for their own circumstances

The Chief Financial Officer (CFO) of an entity generally has primary responsibility for the preparation of the financial statements and is a co-signatory, with the accountable authority, to the financial statements. It is therefore

appropriate that the CFO ensures that necessary processes have been conducted and that the financial statements present fairly in accordance with the financial reporting framework.

The following checklist is provided as a tool in considering a range of issues relating to the preparation of an entity's financial statements. It may assist the CFO in discharging his/her responsibilities. Further, it may form the basis for providing assurance to the audit committee and the accountable authority in preparing the financial statements that all relevant matters have been considered.

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 should be tailored to reflect, where applicable, the lines 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 and business managers who may contribute to the financial statements.

It may also be appropriate for certain sections or questions of the checklist to be completed by other people within the entity.

The checklist is structured in 3 stages:

- **Stage 1:** Covers the planning phase (for entities with the financial year ending at 30 June, this would usually be September to April)
- **Stage 2:** Covers the preparation phase (May to June)
- **Stage 3:** Covers the production phase (July to September).

Source: OAG using information from the Commonwealth Department of Finance

CFO assurance checklist

CFO checklist item	Actioned? (Yes/No)
Planning phase (September to March)	
Review OAG and internal audit findings from previous year and ensure appropriate corrective action has been taken.	
Review the previous year's financial statements preparation process and identify opportunities for improvement.	
Review relevant OAG audit reports and better practice guides for suggestions for improved practice.	
Review the OAG audit planning summary document for the year and identify any implications of their approach.	
Identify and assess the risks to the completion of the financial statements, whether from fraud or error.	

CFO checklist item	Actioned? (Yes/No)
Identify changes in the entity's operations or environment that may affect the financial statements. Examples: new transactions, ceasing transactions, asset types or restructures; fluctuations in asset prices, exchange rates or discount rates.	
Identify changes in accounting standards and the TIs, LG Act and LG Regs that may affect the financial statements.	
Set materiality level for the financial statements (overall and for specific items).	
Decide how to address significant risks of material misstatement.	
Review list of entities the entity is involved with (subsidiaries, associates, joint arrangements and unconsolidated structured entities) and determine appropriate accounting treatment for each (consolidated, equity accounting, disclosure).	
Review thresholds (e.g. for capitalising property, plant and equipment and intangibles).	
Identify line items with a high risk of major variation from budget and document key assumptions underpinning the budgets for each.	
Decide on the strategy for valuing assets and disclosing fair value information; instruct valuers or internal staff accordingly.	
Decide whether to seek an exemption from any requirements of the TIs and discuss with Treasury.	
Review existing accounting policies and methodologies for accounting estimates.	
Identify opportunities to remove unnecessary disclosures and improve overall financial statements presentation.	
Review form of representation letters from the accountable authority and the CFO.	
Identify the extent of internal audit's involvement in the financial statements preparation process.	
Discuss the results of the above steps with the OAG.	
Identify the sequencing and estimates of time required for each step in the financial statements process.	
Determine resource requirements.	
Get agreement to, and document, roles and responsibilities for the financial statements process.	
Identify the required management and third party sign-off (including from shared services) and ensure there is commitment to the required timeframes.	
Establish processes for monitoring progress and completion of financial statements within agreed timeframes.	
Identify and document proposed quality assurance reviews.	
Document project plan for the completion of the financial statements.	
Report to the audit committee regarding the above steps.	
Make changes to systems and records where required.	
Preparation phase (April to June)	
Identify any significant changes since the planning phase and assess implications for the financial statements.	

CFO checklist item	Actioned? (Yes/No)
Review the useful life and depreciation rates for PPE and intangible assets.	
Review any internal audit or OAG findings during the year and assess the implications for the financial statements.	
Assess whether financial systems and controls were effective during the year and, if not, reassess the risks to the financial statements.	
Ensure monthly reconciliations are up-to-date and any discrepancies have been resolved. Examples: bank reconciliations; reconciliation of appropriation receivable balances to Treasury appropriation reports.	
For any errors identified during the year, correct current year records and determine the required adjustment to prior year's figures.	
Prepare pro-forma set of financial statements (without numbers for the current year).	
Ensure adequate staff resources will be available and develop contingency plan for unplanned absences.	
Identify likely variations from budget as per TI requirements, prepare draft explanations and discuss with the OAG.	
Review compliance certifications from line areas and external parties (including shared services) for completeness and adequacy of documentation; investigate anomalies.	
Obtain assurance that external systems relied on for the financial statements are providing accurate data.	
Obtain assurance that formal arrangements are in place for obtaining information from other parties.	
Obtain assurance that all necessary valuations and all impairment reviews are finalised and the results recorded in the FMIS.	
Decide the cut-off date(s) for accruals.	
Report to the audit committee on the above.	
Production phase (July to September)	
Ensure the trial balance of the financial statements has been prepared and resolve any anomalies.	
Ensure adjusting journal entries for end of year accruals and reversals have been prepared.	
Ensure final sign-off from line areas have been received, and are supported by appropriate documentation, with any anomalies investigated.	
Ensure all necessary information from external entities (including shared services and assurance statements) has been received.	
Investigate significant differences between the current year actual and the previous year, current year budget and revised budget.	
Prepare note disclosures.	
Consider whether to add, adjust or remove financial statement disclosures in light of entity materiality levels and actual outcomes.	

CFO checklist item	Actioned? (Yes/No)
Prepare a lead schedule for each financial statement line item or note disclosure.	
Perform a quality review of the financial statements and supporting documentation.	
Submit draft financial statements and lead schedules to the OAG.	
Consider all suggestions from the OAG and implement or document reasons for not implementing.	
Prepare final draft financial statements.	
Prepare written confirmation to the audit committee certifying that:	
<ul style="list-style-type: none"> • Proper financial accounts and records have been maintained by the entity. 	
<ul style="list-style-type: none"> • Internal controls were sufficiently robust to prevent, detect, or correct material error and fraud. 	
<ul style="list-style-type: none"> • Financial management and related systems were operating effectively during the year. 	
<ul style="list-style-type: none"> • Quality control arrangements were in place to protect the integrity of the financial statements. 	
<ul style="list-style-type: none"> • The information required from other parties to complete the financial statements was received and acted on. 	
<ul style="list-style-type: none"> • There is adequate documentation supporting the financial statements, including lead schedules for every financial statement line item and note disclosure. 	
<ul style="list-style-type: none"> • Guidance on entity financial reporting issued by the Department of Treasury has been considered. 	
<ul style="list-style-type: none"> • The approved accounting policies have been consistently applied. 	
<ul style="list-style-type: none"> • The approved materiality thresholds were applied in the preparation of the financial statements. 	
<ul style="list-style-type: none"> • All material misstatements in the financial statements have been corrected. 	
<ul style="list-style-type: none"> • All immaterial misstatements found have been discussed with the OAG. 	
<ul style="list-style-type: none"> • All known or suspected instances of fraud or legal non-compliance have been disclosed to OAG. 	
<ul style="list-style-type: none"> • All recommendations from OAG have been actioned or the reasons for not agreeing with the recommendations disclosed to the audit committee. 	
<ul style="list-style-type: none"> • The financial statements materially comply with Australian Accounting Standards and the TIs or LG Regs. 	
<ul style="list-style-type: none"> • The financial statements present fairly the financial performance, financial position and cash flows of the entity. 	
<ul style="list-style-type: none"> • It is appropriate for the accountably authority to give the certificate required under the FM Act/LG Act and the TI/LG Regs. 	
<ul style="list-style-type: none"> • Arrangements have been made to ensure that the financial statements will be included in the annual report exactly as signed. 	

CFO checklist item	Actioned? (Yes/No)
Present final draft financial statements and written confirmation to the audit committee.	
Make changes to the financial statements in light of audit committee consideration.	
Seek OAG clearance of final financial statements.	
Discuss with the OAG any events occurring after the end of the financial year that may need to be disclosed in the financial statements.	
Prepare management representation letter and submit to the accountable authority.	
Arrange signing of certificate and OAG representation letters by the CFO and accountable authority.	
Arrange signing of the auditor's report and include in the financial statements package for publication.	
Arrange for hard and soft copies to be included in the annual report.	
Provide hard and soft copies of the annual report to the OAG for their review.	
Ensure that the financial statements as included in the annual report, both hard and soft versions, match with the signed financial statements.	
Hold exit interview with the OAG and document lessons learned.	

Tool 13 checklist: CFO and finance team assurance processes for audit committee

Introduction

Smaller entities can combine Tool 12 and 13 and tailor it for their own circumstances

This checklist is an example of what a CFO/finance area might provide to the audit committee in regard to the financial statements process. It includes examples of actions that the finance team may take throughout the year to

support the CFO and audit committees in meeting their financial statements certification responsibilities. The checklist should be tailored to meet the entity's particular circumstances and actions completed.

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.

A no answer does not necessarily indicate a failure or breakdown in the entity's financial statements processes but may indicate where more detailed discussion or consideration by the CFO, or with the audit committee through the CFO, is warranted.

Source: OAG using information from the Commonwealth Department of Finance

CFO and finance team assurance processes for supporting audit committee certification checklist

CFO and finance team checklist item	Actioned? (Yes/no)
Planning phase (September to March)	
The project plan/schedule/risk assessments have been amended to reflect any relevant audit committee feedback from discussions with the CFO on lessons learnt from the prior-year financial statements preparation process and the completion of the OAG audit.	
The CFO/finance team has briefed the audit committee on management's response to any relevant audit committee or OAG feedback on implementation plans for addressing any outstanding audit findings and identified audit adjustments from the prior year.	
The CFO/finance team has briefed the audit committee on any changes in the entity's operations that may affect the financial statements, for example, new responsibilities, asset types or restructures.	
The CFO/finance team has briefed the audit committee on any changes in accounting standards and TIs/LG Regs that may affect the financial statements in the current year.	
The CFO/finance team has briefed the audit committee on the outcome of the review of the entity's accounting policies and the appropriateness of the policies.	
The CFO/finance team has briefed the audit committee on the proposed approach to materiality presented by the CFO for the preparation of the financial statements (overall and for specific items).	
The CFO/finance team has briefed the audit committee on the proposed approach for actuarial, valuations or external advice/assistance and reflected feedback in project plan/schedule.	
The CFO/finance team has confirmed that opportunities to remove unnecessary disclosures and improve financial statements presentation have been considered	

CFO and finance team checklist item	Actioned? (Yes/no)
by the CFO and presented to the audit committee for consideration and endorsement and reflected feedback in project plan/schedule.	
The CFO/finance team has briefed the audit committee on management's response to any OAG recommendations to the audit committee in its audit planning summary document for the year.	
The CFO/finance team has briefed the audit committee on the approach to managing risks to the completion of the financial statements e.g. risks associated with information from third parties, IT data integrity.	
The CFO/finance team has briefed the audit committee on the approach to managing the risks of material misstatement, whether from fraud or error.	
The CFO/finance team has briefed the audit committee on the approach to obtaining, reviewing and investigating compliance certifications from line areas and external parties (including shared services providers).	
The CFO/finance team has briefed the audit committee on instances of non-compliance identified as part of the entity's processes for periodically assessing the entity's compliance with the FM Act and LG Act.	
The CFO/finance team has briefed the audit committee on management's response to any relevant audit committee feedback about fraud risks at the entity, the governance approach in relation to fraud prevention, detection and reporting in the entity and its knowledge of any actual, suspected or alleged fraud affecting the entity.	
The CFO/finance team has briefed the audit committee on the progress made to address OAG recommendations, particularly those that may have financial statements implications.	
The CFO/finance team has briefed the audit committee on management's response to any audit committee feedback on the timetable for the preparation of the financial statements and completion of the OAG audit.	
The CFO/finance team has briefed the audit committee on management's response to any audit committee feedback on the project schedule (particularly about quality assurance reviews of data, to enable the financial statements to be prepared in accordance with requirements and agreed timeframes).	
Preparation phase (April to June)	
The CFO has briefed the audit committee and other management representatives on any significant changes since the planning phase, including on the implications of these for the financial statements.	
The CFO/finance team has briefed the audit committee on management's response to internal audit and OAG audit findings arising during the year and its satisfaction with implications for the financial statements.	
The CFO has briefed the audit committee on any significant changes to short- or long-term resource requirements and responded to any feedback on concerns about the sufficiency of resources to prepare the financial statements.	
Production phase (July to September)	
The CFO has briefed the audit committee on the outcome of reviews of compliance certifications from line areas and external parties (including shared services providers) since the preparation phase and responded to audit committee feedback on its satisfaction with any implications for the financial statements of actual breaches of the FM Act or LG Act.	
CFO has provided appropriate written assurance in relation to the following:	

CFO and finance team checklist item	Actioned? (Yes/no)
<ul style="list-style-type: none"> proper financial accounts and records being maintained by the entity 	
<ul style="list-style-type: none"> internal controls being sufficiently robust to prevent, detect or correct material error and fraud 	
<ul style="list-style-type: none"> financial management and related systems having operated effectively during the year 	
<ul style="list-style-type: none"> adequate quality control arrangements being in place as part of the financial statement preparation process 	
<ul style="list-style-type: none"> the completeness and accuracy of information from other parties to complete the financial statements 	
<ul style="list-style-type: none"> the adequacy of documentation supporting the financial statements, including lead schedules for every financial statement line item and note disclosure 	
<ul style="list-style-type: none"> consideration of guidance on entity financial reporting issued by Treasury/Department of Local Government, Sport and Cultural Industries 	
<ul style="list-style-type: none"> consistency of the application of approved accounting policies throughout the financial statements 	
<ul style="list-style-type: none"> the application of approved materiality thresholds in the preparation of the financial statements 	
<ul style="list-style-type: none"> the correction of all material misstatements in the financial statements 	
<ul style="list-style-type: none"> confirmation that all immaterial misstatements found have been discussed with the OAG 	
<ul style="list-style-type: none"> confirmation that all known or suspected instances of fraud or legal non-compliance have been advised to the OAG 	
<ul style="list-style-type: none"> confirmation that all recommendations from the OAG have been actioned, or the reasons for not agreeing with the recommendations, advised to the audit committee 	
<ul style="list-style-type: none"> certification that the financial statements materially comply with Australian Accounting Standards (AAS) and the TIs/LG Regs 	
<ul style="list-style-type: none"> certification that the financial statements present fairly the financial performance, financial position and cash flows of the entity. 	
The finance team has submitted the draft financial statements and supporting documentation that confirms:	
<ul style="list-style-type: none"> the financial statements comply with the accounting standards and the TIs/LG Regs 	
<ul style="list-style-type: none"> the entity's accounting policies and disclosures, including any significant changes to accounting policies, are appropriate 	
<ul style="list-style-type: none"> there is an adequate explanation for all significant or unusual transactions 	
<ul style="list-style-type: none"> the response to the OAG's conclusion on the adequacy of the entity's processes for the preparation of the financial statements. 	
The CFO/finance team has addressed the audit committee feedback on any significant events that have occurred since the end of the financial year that may need to be disclosed in the financial statements.	

CFO and finance team checklist item	Actioned? (Yes/no)
The CFO/finance team has addressed the audit committee feedback on the draft management representation letters and its satisfaction with the processes underpinning the statements in the management representation letters.	
The CFO/finance team has addressed the audit committee recommendations, from any private meetings between the audit committee and the OAG to discuss the outcomes of the audit process.	
The CFO/finance team has responded to any audit committee concerns raised with the accountable authority with respect to certification of the financial statements.	
The CFO/finance team has established appropriate arrangements to ensure that the financial statements included in the annual report are consistent with the audited and signed version.	

Tool 14 template: Chief financial officer's report

Introduction

The purpose of the CFO's report is to provide the accountable authority, through the audit committee, with assurance that an entity's financial statements are suitable for signing by the accountable authority (and the CFO) in accordance with the requirements of the FM Act, TIs, LG Act and LG Regs.

It is generally accepted that the report from the CFO is the primary source of assurance for the entity's audit committee, to support the committee in meeting its responsibilities in relation to an entity's financial statements.

The content of the report will be influenced by a number of factors, including:

- the complexity of the entity and the financial statements themselves
- the extent of estimates and judgements involved in preparing the financial statements
- the level of risk that the financial statements may contain errors or misstatements
- the extent and nature of changes to the financial statements compared with prior years.

Depending on the context of the report itself, it may also be useful for the report to be supported by a detailed sign-off sheet that covers all key elements of an entity's financial statements. The CFO assurance checklist (Tool 12) could be attached to the CFO Report.

The following is an outline of matters that could be expected to be addressed in the CFO report. The detail required in relation to each issue will vary depending on each entity's particular circumstances and the expectations of the audit committee and the accountable authority.

Source: OAG using information from the Commonwealth Department of Finance

Chief financial officer report

Overview

Include a summary explanation that the financial statements are ready for signature, highlighting any particular issues that the audit committee and the accountable authority should be aware of, such as:

- expected modifications or other references to be included in the auditor's report
- significant improvements or deterioration in the entity's result or financial position
- significant movements in financial statements balances or significant write-offs.

Regulatory requirements

Indicate the basis on which the financial statements have been prepared and outline any substantive changes to legislative and accounting standards' requirements.

Accounting policies and disclosures

Outline the key accounting policies that underpin the financial statements and highlight any significant changes made to these during the year.

Significant events and decisions

Provide assurance that the financial statements are consistent with the entity's accounts and records and reflect where necessary, the decisions of management and the accountable authority (where relevant) during the year and any significant changes in the entity's responsibilities.

Highlights of the financial statements

Provide details of:

- key results for the year
- significant liabilities and contingencies at year-end
- material movements in financial statements balances (by statement)
- key prior year adjustments
- executive remuneration disclosures
- significant one-off events or transactions.

Significant accounting estimates and judgements

Provide details of all significant estimates and judgements made in preparing the financial statements, highlighting any significant changes from prior years.

Internal audit and OAG audit coverage

Provide a summary of the results of internal audit and OAG audit coverage that has impacted the financial statements and the entity's underlying internal controls.

Reliance on external parties

Provide details of the extent of reliance on information from external parties and the steps taken to ensure the accuracy and integrity of this information.

Assessment of internal controls and financial records

Provide assurance that the entity's internal controls and financial records are adequate to enable the preparation of financial statements free from material error.

Financial statements preparation processes

Provide assurance that the financial statements preparation process involved a review of all accounting policies and correction of all material errors and other adjustments identified by the entity's own review processes and audits by internal audit and the OAG.

Details of management sign-off and proposed representations to the OAG

Provide a summary of all management sign-off obtained and provide assurance that the financial statements reflect, to the extent necessary, the issues arising from these processes.

Provide details of, and attach to the report, proposed management and accountable authority representations to the OAG in line with standard audit requirements.

Recommendation

Recommend the audit committee endorse the signing of the financial statements by the accountable authority (and the CFO) (noting any particular matters that should be highlighted to these parties).

Tool 15 template: Register of audit requests

Introduction

The tracking of audit requests through a register allows monitoring on how the audit is progressing and what items are currently outstanding. Better practice entities ensure the register is updated on a regular basis and is shared with the OAG before any meetings regarding the progress of the audit.

Source: OAG using information from the Commonwealth Department of Finance

An excel version of this document is available on our website

Register												
<div> <div>[Entity Name]</div> <div>Financial statements audit</div> <div>Request Register [Audit Phase]</div> <div> <div>Key to Status</div> <div>Outstanding - follow up</div> <div>Complete</div> <div>No change from prior year</div> <div>To be provided</div> </div> </div>												
Reference number	Email sent date	To person responsible	OAG contact	Entity contact	Subject	Request details	Expected response date	Date received	Status	Comments	Finance team comments	
1							SEP000					
2							SEP000					
3							SEP000					
4							SEP000					
5							SEP000					
6							SEP000					
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Enlarged from image above

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Financial statements audit
Request Register [Audit Phase]
Key to Status
Outstanding - follow up
Complete
No change from prior year
To be provided

Auditor General's 2020-21 reports

Number	Title	Date tabled
27	Opinion on Ministerial Notification – Port Agreements	11 June 2021
26	Audit Results Report – Annual 2020 Financial Audits	2 June 2021
25	Delivering Essential Services to Remote Communities	2 June 2021
24	Opinion on Ministerial Notification – DPIRD Capability Review	18 May 2021
23	Local Government General Computer Controls	12 May 2021
22	Opinion on Ministerial Notification – Hospital Facilities Services	6 May 2021
21	Regulation and Support of the Local Government Sector	30 April 2021
20	Opinions on Ministerial Notifications – Policing Information	28 April 2021
19	Opinion on Ministerial Notification – Bennett Brook Disability Justice Centre	8 April 2021
18	Regulation of Consumer Food Safety by the Department of Health	1 April 2021
17	Department of Communities' Administration of Family and Domestic Violence Support Services	11 March 2021
16	Application Controls Audits 2021	8 March 2021
15	Opinions on Ministerial Notifications – Tax and Funding Information Relating to Racing and Wagering Western Australia	26 February 2021
14	Opinion on Ministerial Notification – Hotel Perth Campaign Reports	24 February 2021
13	Opinion on Ministerial Notification – Release of Schedule of Stumpage Rates	24 February 2021
12	Grants Administration	28 January 2021
11	COVID-19 Relief Fund	21 December 2020
10	COVID-19: Status of WA Public Testing Systems	9 December 2020
9	Western Australian Registry System – Application Controls Audit	26 November 2020
8	Regulating Minor Pollutants	26 November 2020

Number	Title	Date tabled
7	Audit Results Report – Annual 2019-20 Financial Audits of State Government Entities	11 November 2020
6	Transparency Report: Major Projects	29 October 2020
5	Transparency Report: Current Status of WA Health's COVID-19 Response Preparedness	24 September 2020
4	Managing the Impact of Plant and Animal Pests: Follow-up	31 August 2020
3	Waste Management – Service Delivery	20 August 2020
2	Opinion on Ministerial Notification – Agriculture Digital Connectivity Report	30 July 2020
1	Working with Children Checks – Managing Compliance	15 July 2020

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