Australian Government

Department of Finance

Financial Statements Better Practice Guide

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Contents

Overview

This Department of Finance (Finance) Financial Statements Better Practice Guide (BPG) replaces the withdrawn Australian National Audit Office (ANAO) Public Sector Financial Statements Better Practice Guide.

The BPG focuses on financial statements preparation by Commonwealth entities and Commonwealth companies, as distinct from accounting treatments or disclosures for Commonwealth entities, and complements the:

- Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR)
- RMG-125 Commonwealth Entities Financial Statements Guide (RMG-125)
- *Primary Reporting and Information Management Aid (PRIMA) Forms of Financial Statements* (PRIMA).

1. Introduction

1.1 Audience

The Financial Statements Better Practice Guide (BPG) will assist individuals involved in the preparation of financial statements, including Chief Financial Officers (CFOs) and audit committees, of Commonwealth entities and Commonwealth companies to efficiently prepare high-quality financial statements that are supported by better practice processes and documentation.

1.2 Key Points

The *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) mandates the minimum financial statements' reporting requirements for all Commonwealth entities. The FRR ensures comparability between Commonwealth entities' financial statements and facilitates the preparation of the whole-of-government Consolidated Financial Statements (CFS). It prescribes the requirements for the presentation, disclosure and certification of Commonwealth entities' financial statements and is principally based on requirements of the Australian Accounting Standards (AAS) and other pronouncements by the Australian Accounting Standards Board (AASB).

Section 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) requires the accountable authority of a Commonwealth entity to prepare annual financial statements that:

- comply with the accounting standards and any other requirements prescribed by the FRR
- present fairly the entity's financial position, financial performance and cash flows.

Section 42(1)(b) of the PGPA Act also requires the accountable authority of a Commonwealth entity to provide the annual financial statements to the Auditor-General as soon as practicable after they are prepared.

Sections 43(4) and 46 of the PGPA Act and sections 17AB-17AJ and 28A-28F plus Schedule 2 of the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule) require entities to prepare and present an annual report that includes the audited financial statements to the responsible Minister.

The reporting requirements for Commonwealth companies are set out in Part 2M.3 of the *Corporations Act 2001* (Corporations Act) which includes, amongst other matters, the requirement to comply with the AAS. Section 97 of the PGPA Act requires the directors of a Commonwealth company to give the responsible Minister a copy of the company's financial report, directors' report and auditor's report (as would be required if the Commonwealth company were a public company).

This guide provides better practice principles and processes for the preparation of clear, succinct and timely financial statements that comply with the AAS and FRR, are readily auditable, and meet the needs of users. It is provided for guidance purposes rather than as a mandatory requirement and complements the following documents, which by contrast focus on accounting treatments and disclosures:

- RMG-125 Commonwealth Entities Financial Statements Guide (RMG-125)
- Primary Reporting and Information Management Aid (PRIMA) Forms of Financial Statements (PRIMA).

1.3 Financial statement better practice indicators

The following are indicators of an entity that applies financial statements better practice:

- The accountable authority, CFO and senior management demonstrate their commitment to and actively promote financial management policies, principles and practices.
- Effective financial governance arrangements are in place across the entity, with:
  - clearly defined financial management roles and responsibilities
  - consistently applied financial management/reporting practices
  - internal control frameworks, including information and communications technology (ICT) and security controls, that are regularly reviewed to ensure they remain strong and effective
  - rigorous and independent assurance processes, particularly for reviewing information from an expert or third party
  - regular review of the maturity of the entity's financial statements processes, taking into account the entity's risk management framework.
- Significant changes to the entity or its environment that impact on the financial statements are identified, communicated and addressed in a timely manner.
- The team responsible for the preparation of the financial statements (financial statements team) collectively has the appropriate accounting and ICT skills and knowledge to deliver its role and responsibilities, with opportunities for continuous learning and/or professional development, and other teams (including internal audit) and/or staff are engaged to fill skill or resource gaps within the team.

- Sound professional judgement is exercised and documented in the preparation of financial statements, such as in the application of materiality.
- Good project management skills, processes and practices are applied to support the timely preparation of financial statements, including undertaking a hard or soft close and bringing forward activities wherever possible, such as valuations, shell statements and accounting position papers.
- Financial statement processes are documented, repeatable and include:
  - audit committee approved/endorsed materiality policy for consideration of relative risk of material misstatement, for assessment of both the risk of material misstatement by individual line item and any proposed adjustments to the financial statements
  - a financial statement risk assessment and mitigation strategy by individual line item
  - documentation supporting representations made in the Management Representation Letter.
- The CFO and financial statements team are proactive and maintain constructive, genuine and effective relationships with relevant business areas, the audit committee (and the financial statements sub-committee where applicable), other entities, and shared services providers and any Commonwealth entities that collect and/or expend money on the entity's behalf.
- Adherence to a well-documented financial statements preparation timetable, which includes regular briefings of the audit committee on progress against the timetable, any accounting policy changes, audit issues and audit adjustments, plus the annual report preparation and tabling deadlines.
- Minimal adjustments required to the financial statements throughout both the financial statement and audit process.
- An effective and efficient external audit process, with key elements of the working arrangements between the entity and the auditor agreed and documented throughout the audit and few audit findings given the scale and complexities of the entity's operations. As year-end financial statements are completed, a rigorous review is conducted of both the financial statements and their preparation process, to identify those practices or processes that should be replicated and areas for improvement in the subsequent year.

1.4 Structure of this guide

The BPG is structured to include both better practice principles and practical resources. For ease of navigation:

- topics are divided into sub-topics
- links to resources are located at the end of the relevant topic.

Where applicable, the guide includes a number of hyperlinks to relevant supplementary information.

A number of acronyms and abbreviations are used in this Guide. A full list of acronyms and abbreviations is provided under **14. Appendices**.

The majority of resources referenced in the BPG are available in Microsoft Word or Excel format, to enable them to be readily customised by entities.

1.4.1 Additional resources

Resource name	Resource description
Audit insights	Australian National Audit Office (ANAO) publication that provides discussions on recurring issues, shortcomings and good practice examples, identified through financial statement and performance audit work.
PGPA legislation, associated instruments and policies	This online resource provides links to the PGPA Act, related rule, instruments and guidance.
BPG resources map	This diagram sets out a suggested order and timing for the use of BPG resources. Available in the Appendices to this Guide.

2. Framework for preparing financial statements

Financial statements are a means by which a Commonwealth entity's accountable authority and CFO discharge their financial accountability responsibilities to their Minister and the Parliament. Financial statements are used by a broad audience for making financial decisions, including about the provision of resources to that entity.

The framework for preparing Commonwealth entity financial statements includes standards and requirements that support the integrity and consistency of financial information, and enable comparison of financial results both within the Commonwealth, between other levels of government or with the private sector and/or financial years.

2.1 Whole of Government standards and reporting requirements

All financial statements prepared by the Government, including those for the Australian Government Budget (the Budget), are required to comply with Australian Accounting Standards (AAS) and in some instances the Australian Government Finance Statistics (Australian GFS) reporting framework.

The AAS are set by the Australian Accounting Standards Board (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 and reduced disclosure requirements.

The Australian GFS reporting framework is set by the Australian Bureau of Statistics (ABS), based on the international system of Government Finance Statistics, set by the International Monetary Fund.

The two sets of relevant accounting standards are prescribed in legislation and are set independently of the Government:

- **AAS**—are mandated for financial statements by the PGPA Act and the Corporations Act 2001 (Corporations Act)
- **Australian GFS and AAS**—are mandated for budget reports by the Charter of Budget Honesty Act 1998.

AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049) is a government specific AAS which harmonises and aligns the AAS and Australian GFS. While this does not mean that the two are exactly the same, they are highly similar and most frequently result in the same accounting requirements applying under both sets of standards. Budgeted financial statements specify that where there are material differences between the two sets of standards, the differences are to be separately reported.

In addition to these external standards, the Australian, state and territory governments have an agreed framework – the Uniform Presentation Framework (UPF) – for the presentation of government budget financial information on a basis broadly consistent with AASB 1049.

2.2 Legislated requirements

Section 101 of the PGPA Act provides that the Finance Minister may make rules by legislative instrument to prescribe matters giving effect to the Act. These Rules include the FRR and *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule). The former sets the financial reporting requirements for Commonwealth entities, whilst the latter sets out annual report requirements and reporting requirements where an entity ceases to exist or functions are transferred.

The PGPA Rule also contains provisions that predominantly relate to the framework that supports transactions of the Commonwealth and Commonwealth entities, in relation to accountability and control mechanisms.

Subsection 42(2) of the PGPA Act requires the annual financial statements of Commonwealth entities to comply with the AAS and any other requirements prescribed by the rules, and present fairly the entity's financial position, financial performance and cash flows.

Section 42 of the PGPA Act also requires the accountable authority of a Commonwealth entity to prepare annual financial statements as soon as practicable after the end of each reporting period. With only a few exceptions, entities are required to report on a financial-year basis.

Paragraphs 11 to 13 of AASB 1053 Application of Tiers of Australian Accounting Standards (AASB 1053) specify the types of entities that should prepare financial statements at Tier 1 (full disclosure) or Tier 2 (simplified disclosure). Section 18 of the FRR prescribes those Commonwealth entities that must apply Tier 1 level reporting as defined by AASB 101 Presentation of Financial Statements (AASB 101). All other Commonwealth entities are to apply Tier 2 level reporting as a minimum. AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 entities* (AASB 1060) sets out the Tier 2 level reporting requirements.

The reporting requirements for Commonwealth companies are set out in Part 2M.3 of the Corporations Act.

2.3 Commonwealth Entities Financial Statements Guide

RMG-125 Commonwealth Entities Financial Statements Guide (RMG-125) assists Commonwealth reporting entities to comply with AAS and the FRR and, for consistency, explains accounting treatment mandated by the FRR where the AAS allows a choice (for example, use of the valuation method for material property, plant and equipment (PPE) and administered disclosures).

2.4 Certification requirements for financial statements

Section 42 of the PGPA Act requires the accountable authority of the Commonwealth entity to state whether, in the accountable authority's opinion:

- the annual financial statements comply with the AAS and any other requirements prescribed by the rules (subsection 42(2))
- present fairly the entity's financial position, financial performance and cash flows.

The accountable authority must also state whether, in the accountable authority's opinion, there are reasonable grounds to believe that the entity will be able to pay its debts as and when they fall due.

For Commonwealth companies, similar requirements for declarations by directors are outlined in Part 2M.3 of the Corporations Act.

2.4.1 Digital certification

If the accountable authority and/or CFO of a non-corporate Commonwealth entity (NCE) cannot meet to physically certify the financial statements, the certification may be signed using an electronic signature(s). Before applying electronic signatures the entity should document the:

- accountable authority and/or CFO's approval for the use of their electronic signature/(s)
- ensure the certification and financial statements are appropriately locked to preclude subsequent changes to the financial statements.

For further information on the use of electronic signatures refer to the Australian Government Solicitor Legal Briefing: Execution solutions for remote working arrangements.

If the accountable authority and/or CFO of a Commonwealth company cannot meet to certify the financial statements by physically signing the certification, electronic signatures can only be applied to the certification if the company's constitution allows for virtual meetings or the use of technology. For more information, see RMG-125.

2.4.2 Additional resources

Resource name	Resource description
Relevant legislation and standards	Details the main legislation, policies and guidelines relevant to the preparation of financial statements by public sector entities and a brief summary of each of these elements.
Accountable authority	Provides guidance on role and responsibilities of accountable authorities with links to related PGPA Act and PGPA Rule provisions.
PGPA legislation, associated instruments and policies	This online resource provides links to the PGPA Act, related rule, instruments and guidance.
List of exemptions to the FRR	A list of entities with approved exemptions from the requirements of the FRR.

3. Knowing your entity's business

The financial statements team's ability to prepare high-quality financial statements on time is enhanced if they possess a sound knowledge of the entity, its operations, legislative, governance and business environments, including but not limited to the corporate plan, portfolio budget statements and the annual report.

As the environment within which an entity operates is continually changing, it is critical to monitor changes on an ongoing basis particularly in legislation, government policy and accounting requirements.

A comprehensive regime of internal control is essential for effectively managing the risks that may affect the financial statements preparation process.

To ensure the business and financial management information systems produce complete, timely and accurate information for inclusion in the financial statements, entities need to have in place appropriate and fully documented:

- governance arrangements
- systems of internal control
- risk management and oversight
- educational and learning and development programs that provide relevant staff with sufficient knowledge and understanding of their specific responsibilities.

3.1 Audit and other management committees

Audit committees—are integral to good corporate governance of Commonwealth entities. Subsection 17(2) of the PGPA Rule stipulates functions that audit committees must undertake including review of the appropriateness of the entity's financial reporting. Better practice entities actively engage with their audit committee throughout the financial statement process and ensure audit committee members are provided with accounting position papers, shell and first draft financial statements with sufficient time for members to provide timely feedback to the financial statement team.

Other management committees—most entities will operate various management committees as part of the governance arrangements. In the context of an entity's financial statements, financial statements sub-committees may be established and given overall management responsibility for their preparation. Often a member of the audit committee chairs the financial statements sub-committee, which assists in streamlining information back to the audit committee. Use of a financial statements sub-committee does not reduce or diminish the audit committee's responsibilities. In establishing financial statements sub-committees, audit committee members should ensure that they are not delegating their responsibilities or independence and that they continue to meet their obligations under the PGPA Rule.

To ensure the independence of the audit committee, it is not appropriate for the roles of a financial statements sub-committee and an audit committee to be combined, and it is important that the respective roles of these committees are well-defined and there are agreed lines of communication between them.

The following publications and guides assist entities in clarifying applicable requirements:

- Governance structures in the public sector—provides an overview of the types of structures used across the Commonwealth public sector
- PGPA Flipchart and entity list—a reference to all entities subject to the PGPA Act, the position title for each accountable authority (for the purpose of the PGPA Act) and whether the entity is currently classified as 'material'
- Governance policy—considerations and decisions influencing the design of a body's governance structure. A comprehensive regime of internal control is essential for effectively managing the risks that may affect the financial statements preparation process. Entities need to have in place appropriate governance arrangements including:
  - **control activities**—activities such as delegations, authorisations, reconciliations, segregation of duties, physical security of assets, systems access and security are important controls that individually or in combination with others, can help prevent, or detect and correct misstatements in classes of transactions, account balances, or note disclosures
  - **policies**—well defined policies should be developed to:
    - set clear directions on how an entity approaches and discharges its external accountability responsibilities
    - provide a link between the financial statements process and other business processes such as budgeting and business operations
    - clearly defines roles and responsibilities, structures, plans, performance and management oversight arrangements
  - **training and recruitment**—the selection and training of staff, a clear understanding of roles and responsibilities, and an understanding of financial reporting, legislative, policy and accountability requirements are important factors in preventing non-compliance with legislation and ensure sound financial management and reporting
  - **procedures**—clearly documented procedures provide guidance for all those who have financial management responsibilities. In this context, procedures include Accountable Authority Instructions (AAIs) or their equivalent, standard financial and administrative operating procedures, financial management information system manuals, checklists and templates. Entities often refer to these procedures as Standard Operating Procedures (SOPs). To be effective, these should be kept up-to-date and readily accessible to staff
  - **information systems**—better practice entities have financial management information systems (FMISs) capable of producing complete, accurate and reliable financial and related information. It is also important that system functionality supports processing and information requirements for the financial statements.
- RMG-126 *Government Business Enterprises* (RMG-126) is relevant to Government Business Enterprises (GBEs) that are Commonwealth entities or wholly owned Commonwealth companies. RMG-126 outlines the oversight arrangements for entity GBEs and company GBEs that are prescribed in the PGPA Rule, and provides guidance regarding board and corporate governance, planning and reporting, financial governance and other governance matters.

3.1.1 Additional resources

Resource name	Resource description
Government Business Enterprises (GBEs)	Links to a Finance site that provides information on the rules and guidance for prescribing GBEs.
Changes to standards relevant to financial statements	Provides an overview of the impact of current and future year changes in Australian accounting standards.
Commonwealth Performance Framework	Information on publishing planning and performance information in the corporate plan and annual report.
Portfolio Budget Statements	Information on budgeted financial statements and reporting on performance in the Portfolio Budget Statements and Portfolio Additional Estimates Statements.
RMG-132	Provides guidance on corporate plans for Commonwealth entities.
RMG-133	Provides guidance on corporate plans for Commonwealth companies.
RMG-134	Provides guidance on preparing annual performance statements for Commonwealth entities.
RMG-135	Provides guidance on preparing annual reports for NCEs.
RMG-136	Provides guidance on preparing annual reports for corporate Commonwealth entities (CCEs).
RMG-137	Provides guidance on preparing annual reports for Commonwealth companies.

3.2 Knowing the entity’s financial reporting structure and dependencies

Section 42 of the PGPA requires all Commonwealth entities’ accountable authorities to:

- prepare annual financial statements
- certify whether, in their opinion, the financial statements:

- comply with the AAS and any other requirements prescribed by the rules
- present fairly the entity's financial position, financial performance and cash flows.

In addition accountable authorities of government business enterprise must state whether, in their opinion, there are reasonable grounds to believe that the entity will be able to pay its debts as and when they fall due.

In practice, responsibility for preparation of the financial statements resides with the CFO. It is important that the accountable authority ensures that the CFO's responsibility for preparing the financial statements is well understood by senior management.

3.3 The Chief Financial Officer (CFO) and financial statements team

The CFO and the financial statements team have primary carriage of the preparation and coordination of the annual financial statements. Their financial statements responsibilities include:

- preparing the financial statements within the required timeframe, which involves:
  - ensuring that the statements are supported by an entity's accounts and records
  - that all figures and information are capable of audit verification
  - that the financial statements comply with relevant legislative, policy and professional requirements
- explaining major variances of reported amounts from budgeted and previous year actual amounts
- providing leadership in developing financial management strategies and policies
- providing periodic (generally monthly) financial reports and related analysis to the accountable authority, other levels of management and the Department of Finance (Finance)
- conducting quality assurance reviews of information provided by business areas and external parties
- ensuring shared services providers provide appropriate evidence to confirm that their internal controls have operated effectively throughout the financial year and can be relied on to provide complete and accurate information
- managing and monitoring the timely remediation of financial statement audit findings
- promoting sound accounting policies and practices, including implementing and providing guidance on applicable accounting standards
- maintaining the entity's FMIS.

The CFO and financial statements team rely on input from business areas, shared services providers and other entities that perform numerous functions on the entity's behalf in preparing the financial statements. These functions could include, but not limited to, collecting and/or expending money, processing and reporting. It is therefore essential that the CFO and financial statements team have well-established relationships with these areas and entities.

It is the responsibility of the CFO and financial statements team to identify, in consultation with the relevant business areas and those other entities the nature and timing of the necessary information flows between the finance area and business areas/other entities. Demonstrating positive leadership and adopting an open and constructive approach, rather than a policing role, is more likely to lead to business areas and other entities meeting their responsibilities in the context of the entity's financial statements.

As entities continue to be accountable for the quality of data that is processed/recorded by other entities under shared services arrangements, it is also essential that the CFO and financial statements teams establish and maintain close working relationships with shared services providers, including agreement on the content and timing of complete and accurate data, plus provision of assurances over the effectiveness of the service provider's internal controls. More information is included at: 7. Development processes and procedures and 7.9. Shared services.

3.3.1 Additional responsibilities of portfolio department CFOs and financial statements teams

In addition to the responsibilities for preparation of their entity's financial statements detailed above, portfolio department CFOs and financial statements teams should also:

- develop strong working relationships with their portfolio entities' CFOs and financial statements teams that encourages free exchange within the portfolio of information on accounting policies and/or issues
- promote sound, consistent accounting policies and practices by all portfolio entities including providing guidance on applicable accounting standards to other portfolio entities
- agree timing for provision plus monitor delivery of, draft financial statements of portfolio entities' financial statements
- provide training and/or second staff to portfolio entities to assist them with skill or resource gaps.

3.4 Officials of the entity

Financial management is the responsibility of all officials who exercise delegations, authorisations and expend relevant moneys. In doing so, it is important that officials in Commonwealth entities are aware of their responsibility to comply with relevant legislative and policy requirements, including any instructions/directions from their accountable authority, and maintain records in accordance with an entity's recordkeeping policies as provided in their AAIs and the entity's delegations.

Officials should also:

- read, understand and focus upon the contents of financial reports
- consider whether the financial statements are consistent with their knowledge of the entity's financial position and performance
- consider the statutory requirements
- apply their knowledge of the affairs of the entity

- where appropriate, challenge unusual or unexpected trends or balances
- make further enquiries if matters revealed in the financial statements call for such enquiries.

Accountable authorities (or members of accountable authorities such as board members, business area managers and financial delegates) should acquire a degree of financial literacy, including a knowledge of the entity's finance polices, as well as accounting practices and standards, so they are able to appropriately review and monitor the financial statements.

3.5 Audit committees

A strong audit committee can significantly assist the accountable authority in meeting their duties and responsibilities under the PGPA Act, particularly in relation to financial reporting.

- The audit committee is expected to actively review the entity's processes and systems for preparing financial reporting. As part of this active process, the entity has to stay informed and advise the audit committee 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.

The relationship between the CFO and the audit committee is an important one in the context of the committee's function to review the appropriateness of financial statements. The CFO is not permitted to be a member of the audit committee but is often an 'advisor' with a key responsibility to provide assurance (generally by way of sign-off) that the financial statements are accurate. Arrangements should be in place for the CFO to advise 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.

To ensure the independence of the audit committee, it is not appropriate for the roles of the financial statements sub-committee and the audit committee to be combined, and it is important that the respective roles of these committees are well-defined and there are agreed lines of communication between them.

For more information see RMG-202 Audit committees (RMG-202).

3.6 The entity's internal audit function

The internal audit function can assist in providing assurance to the accountable authority and management of an entity that risk management, governance and internal control processes are operating effectively, and also provide recommendations to improve such processes.

Areas where internal audit can support the preparation of the financial statements include:

- reviewing new systems during the implementation stage to help ensure that adequate control mechanisms and governance arrangements are put in place
- providing objective assistance in developing financial systems to ensure compliance with relevant accounting requirements and the provision of timely and reliable information for financial reporting purposes
- reviewing the effectiveness of the entity's internal controls to ensure the existence/occurrence, completeness/accuracy, valuation/measurement, rights and obligations, classification and cut-off of higher risk financial statement balances
- reviewing high risk financial statements items
- reviewing the robustness of management sign-offs
- following up remedial actions by management to assess whether they have been implemented in a timely manner
- conducting periodic checks to monitor progress against the financial statements preparation timetable
- undertaking quality assurance reviews of data quality and financial statements processes. This may include reviewing working papers (which contain the evidence and judgements used to prepare the financial statements), other supporting documentation and the draft financial statements for compliance with the FRR and relevant entity policies
- providing assurances about the effective and ethical use of resources and legal compliance, specifically targeting high risk issues that may have a material effect on the financial statements
- seconding individual staff to the financial statements preparation team to fill skill and/or resource gaps within the financial statements team.

3.6.1 Additional resources

Resource name	Resource description
Accountable authority	Provides guidance on role and responsibilities of accountable authorities with links to related PGPA Act and PGPA Rule provisions.
Audit Committees	Provides information on establishing audit committees, information for audit committee members and disclosure requirements in annual reports.

3.7 Knowing your entity's risks and assurance processes

Section 16 of the PGPA Act provides that accountable authorities of all Commonwealth entities must establish and maintain appropriate systems of risk oversight, management and internal control for the entity.

CCEs, whilst not required to comply with the Commonwealth Risk Management Policy, should review and align their risk management frameworks and systems with this policy as a matter of good practice.

A risk assessment process enables an entity to understand how much risk it is exposed to, and defining risk appetite and tolerance allows them to articulate how much risk the entity is willing to accept, and potential impacts to its financial management, position and performance. Only when both risk appetite and tolerance are clearly understood can the entity understand if its risk exposure is acceptable.

Some key questions that financial statements teams should consider are:

- What types of risk are unacceptable?
- What does good risk-taking look like in our entity?
- Under what circumstances do we accept risk?

For more information see RMG-211 Implementing the Commonwealth Risk Management Policy (RMG-211) and Comcover's Risk Resources.

3.7.1 Fraud control

Fraud is a threat that affects every Commonwealth entity in all areas of business, including benefits, taxation, procurement, grants and internal procedures.

The misappropriation of assets, for example, the theft of physical assets or payment for fictitious goods and services, will diminish the financial resources of an entity and can lead to a lack of confidence in public sector administration. In addition, fraudulent financial reporting, such as the falsification of accounting records, the intentional omission of transactions or the misapplication of accounting principles, has the potential to mislead users of the financial statements.

Entities should ensure they have appropriate internal controls in place to identify, monitor and manage fraud risks. To assist entities to manage fraud related risks, the Government has developed the Commonwealth Fraud Control Framework, which provides further detail of the fraud control requirements set out under section 10 of the PGPA Act (the Fraud Rule).

RMG-201 Preventing, detecting and dealing with fraud (RMG-201) also provides guidance on better practice for fraud control arrangements within all Commonwealth entities.

Procedures designed to prevent the occurrence of fraud may include:

- **control activities**—activities such as delegations, authorisations, reconciliations, segregation of duties, physical security of assets, systems access and security are important controls that individually or in combination with others, can help prevent and detect fraud
- **training and recruitment**—the selection and training of staff, a clear understanding of roles and responsibilities, and an understanding of financial reporting, legislative, policy and accountability requirements are important factors in detecting fraud
- **information systems**—better practice entities have FMISs that reduce manual processing which reduces the risk of fraud.

3.7.2 Knowing your entity's information and communication technology controls

Both good risk management practices and ICT controls have a direct impact on the preparation of financial statements and the quality of the final product.

In preparing the financial statements, entities need to design, implement and maintain risk management practices and internal controls to:

- comply with relevant legislative and policy requirements
- accurately record all relevant financial transactions
- prevent or detect and correct misstatements, whether due to fraud or error.

Auditing Standard ASA 315 Identifying and Assessing the Risks of Material Misstatement (ASA 315), issued by the Auditing and Assurance Standards Board (AUASB), provides guidance to auditors on identifying and assessing the risks of material misstatement of financial statements, including risks associated with an entity's ICT environment. Where an entity identifies significant and/or high risks of material misstatement of its financial statements, the entity should implement appropriate controls to mitigate those risks.

3.7.3 Protective security and ICT controls

The Protective Security Policy Framework (PSPF) and Australian Government Information Security Manual (ISM) set out the security and ICT control requirements for Commonwealth entities. The ISM specifies a broad set of ICT controls, designed to encompass the wide range of potential implementation scenarios for ICT systems. It is considered an entity's responsibility to filter this list of ICT controls based on the functionality and componentry of ICT systems.

The entities need to implement and make risk-based assessments on the application of those ICT controls within the context of each specific ICT system as well as the broader networks or environments which house them. Where scenarios are found to exist that are not described or covered within the ICT controls detailed in the ISM, vendor and industry better practice is also used to inform the approach to applying ICT controls.

3.7.4 Additional resources

Resource name	Resource description
Example: Risk framework for financial statements	This framework sets out the risk and assurance profile for the financial statements process for an entity.
Example: Risk analysis for financial statements	This risk analysis process for financial statements can assist management to prioritise the resources allocated to the preparation of the financial statements.

Resource name	Resource description
Strategies to Mitigate Cyber Security Incidents	Australian Cyber Security Centre site that complements the ISM and discusses strategies to mitigate cyber security incidents.
Essential Eight Maturity Model	Australian Cyber Security Centre site that complements the advice in the strategies to mitigate cyber security incidents.

3.8 Anticipating and responding to change

The CFO, the financial statements team 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. To ensure that any changes to the entity's operating environment are identified and their impact on the financial statements assessed in a timely manner, the financial statements team should monitor any changes in:

- legislation that the entity is required to comply with, including legislation the entity administers, particularly as a result of machinery of government changes
- government policy, in particular any new policy initiatives
- both financial and business management information systems
- the entity's organisational structure.

It is equally important that the financial statements team identifies new or varied requirements arising from changes in financial reporting legislation and accounting standards. They should assess their effect on the entity's financial statements and implement appropriate changes to accounting policies and/or financial statement presentation and disclosure where required.

3.8.1 Changes to the entity's operating environment

The operating environment of Commonwealth entities is continually changing. It is therefore critical to constantly monitor changes in areas such as legislation, Government policy and accounting requirements.

Changes in an entity's business environment can affect the preparation of an entity's financial statements. It is therefore important that the financial statements team keeps abreast of changes or potential changes to an entity's operations, to determine if decisions need to be made about the accounting and/or financial reporting implications.

Important sources of information include:

- AASB pronouncements (standards and interpretations)
- Finance guidance, including the annual Changes to standards relevant to financial statements summary
- CFO and officer-level forums and working groups run by Finance
- the ANAO's CFO Forum.

3.8.2 Implementing changes to accounting requirements

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

- assign specific responsibility for monitoring, identifying and assessing new and revised requirements
- where changes to accounting requirements will affect, in a substantive way, the entity's accounting policies and presentation and disclosure in the financial statements, position papers should be prepared outlining the implications of the changes, including how those changes will be implemented. The auditor should be consulted promptly to obtain early agreement
- conduct reviews of the accounting policies at least annually, and assess whether the most appropriate accounting policies have been selected and whether presentation can be improved. Changes to an accounting policy should be made only if required by an AAS, or if they would result in the financial statements providing more reliable or more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows
- prepare draft statements including accounting policy notes for review and agreement by the auditor well in advance of the year-end
- brief the accountable authority, 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.

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

3.8.3 Additional resources

Resource name	Resource description
Checklist: Machinery of Government restructures	A checklist considering a range of issues relating to the implementing MoG changes in relation to an entity's financial statements.
Machinery of Government changes	A Finance site providing guidance, developed with the Australian Public Service Commission (APSC), on implementing MoG changes.

4. Planning for year-end financial statements

Effective project management underpins successful financial statements 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.

Devoting sufficient time at the beginning of the project to fully consider financial reporting requirements, stakeholders' expectations and availability, team resourcing, opportunities and risks, will:

- ensure all parties have a consistent understanding of the project parameters
- set an agreed approach that the financial statements team can then follow
- help individual staff members and stakeholders to plan for their role in the project.

The project plan should, to the extent possible, incorporate all aspects of financial reporting for both internal and external purposes.

As the financial statements project recurs annually, the prior year's project plan is a useful base-document for the planning process—noting that it should be carefully scrutinised and amended to reflect such factors as the current year's scope of work, governance arrangements, timeframes, risks and personnel. In this way, project plans are continuously built from the experience of prior years, taking account of processes that worked well in the past, and those that could be improved.

Most importantly, the plan should clearly assign individual responsibilities and indicate key timelines for carrying out and completing each task.

4.1 Undertaking effective planning

The preparation of an entity's annual financial statements is a significant project for most entities, due to factors such as:

- the complexity of the applicable financial reporting framework
- the nature of assets and liabilities managed by the entity
- the need for suitably skilled and experienced finance staff
- the operation of multiple business information systems
- the devolution of financial responsibility
- shared services arrangements
- the reporting deadlines required by the accountable authority, the Government and the Parliament.

The planning and preparation of financial statements involves a range of managerial and technical tasks and considerations, many of them inter-related and requiring a wide range of knowledge, skills and experience.

The process requires careful and timely planning and a disciplined and structured consideration of a range of technical issues, coupled with a regime of review and quality assurance.

4.1.1 Appointment of the project manager

Careful consideration should be given to the appointment of a project manager (this is often a senior officer or leader/manager of the financial statements team). The project manager is responsible for planning and day-to-day oversight of the whole financial statements process and for ensuring that allocated tasks are completed on time and to a high standard.

Ideally, the project manager/team leader would have:

- appropriate experience and technical expertise
- sufficient authority to achieve results
- interpersonal skills to manage stakeholder relationships and allocate suitable work to the financial statements team.

In appointing the project manager/team leader, the CFO should also consider issues such as, the experience and skills of the financial statements team, their own availability to support the project manager, the complexity of tasks and existing relationships with business areas.

If tasks are particularly complex, the project manager role may be shared between the CFO and/or another senior member of the financial statements team.

Noting that the project manager is likely to also have significant line area responsibilities, it may be beneficial to allocate responsibility for maintenance of project documents (such as the project plan, schedule, risk register and the register of lessons learned) to a member of the financial statements team. This will enable the project manager/team leader to focus on project development and control activities, including engagement with key stakeholders, without getting bogged down in day-to-day administrative tasks.

4.1.2 When project planning should start

As a general rule, as one financial statements project is completed, planning and scheduling for the next should commence. This will help the CFO, the project manager and financial statements team to transfer the learnings from one process into the next.

The plan and project schedule (and other project documents) are living documents that should be regularly reviewed and refreshed to reflect significant events that may affect the plan, such as decisions to change the planning approach to the project, or the receipt of:

- updated rules and guidance, including RMG-125 and PRIMA Forms
- the auditor’s audit strategy for the entity
- changes to the entity’s business and/or operating environment.

4.1.3 Documenting the project plan

The planning process does not need to be onerous and documentation does not need to be overly complex. Before documenting the project plan, clarify whether the CFO, the audit committee or other senior officers have specific requirements for the structure, content and the level of documentation required.

- Many entities may have a project management framework that includes pro forma templates for project planning. If so, these may provide a structured approach for considering the various dimensions of the project. The project plans should outline, at a minimum, the factors that can affect the preparation process: the scope of work, including:

- financial reporting requirements
- activities required for setting and applying materiality
- activities required for a 'hard close' or 'soft close' process. More information is available at: 7.3.1 Deciding on a hard or soft close process.

- team resourcing, recruitment and any procurement requirements
- project risks and dependencies
- stakeholders and communication/reporting arrangements
- FMIS or other systems issues to be managed
- quality assurance activities.

4.2 Planning the scope of work

The planning process should begin with clarifying the scope of work to be managed for preparing the financial statements. Scope planning includes preparing detailed project documentation that captures and defines all the work that must be done as part of the project. A well-written scope statement clearly defines the boundaries of a project.

The process of defining the scope of work will also assist the project manager in identifying those activities that contribute to the production of the financial statements but are to be managed by other parties. This information will be helpful for planning the management of dependencies, stakeholder engagement and communication.

At this early stage, it is also wise to confirm any governance structures that may be planned to oversee, guide or influence the project. For example, will there be a financial statements sub-committee, a steering committee and/or a stakeholder working group?

4.2.1 Establishing the entity's financial reporting requirements

It is important to establish the financial reporting requirements that apply to the entity at the beginning of the project. However, the project manager should 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. This is covered in detail at 3. Knowing your entity's business.

4.2.2 Taking account of the prior year's learnings

Learning from past experience is an important input to project planning. It provides the opportunity to develop better ways of doing things and to implement continuous improvement. Some key things to consider when reviewing past experiences:

- What practices and processes worked well and can these be replicated?
- What processes took longer than originally expected and why?

- Was additional documentation requested by stakeholders (including for example, committee members or auditors), or required for the CFS?
- What did the internal and external auditors (such as the ANAO) focus on and what questions were asked?
- Were there any audit findings, qualifications, recommendations or repeat issues and what is the status of these?

4.2.3 Clarify expectations for activities required before year-end

Better practice entities review their year-end processes and identify tasks that are able to be completed prior to year-end and bring forward as many of these as possible. This may include:

- conducting a hard or soft close process (see 7.3.1 Deciding on a hard or soft close process)
- identifying the need for and, where required, engaging specialist expertise and knowledge to provide reports, opinions, valuations and/or statements to assist in determining specific financial statements items and/or quality assurance processes
  - For example, valuations of PPE and intangible assets; actuarial assessments of superannuation, long service leave liabilities and impairment allowances; measurement of work completed or work in progress on construction contracts; advice on the treatment of specialised accounting matters, legal opinions on legislation, legislative instruments or agreements. More information on engaging experts is provided at: 7.10 Sourcing experts.
- wherever possible obtaining and reviewing valuations and/or other expert reports prior to year-end
- obtaining early management approval for key accounting policies
- documenting any new or changed accounting policy papers and providing these to the auditors and other interested stakeholders early in the planning process
- calculating balances where it is expected that there will be no major changes between the date of calculation and year-end, such as depreciation, valuations, commitments, lease liabilities and loans
- determining the accounting implications of any organisational changes prior to their implementation, including machinery of government changes.

This is covered in detail at: 7. Development processes and procedures.

4.2.4 Identifying stakeholders and project dependencies

There are a lot of people involved in preparing the financial statements. There are also many dependencies, where the financial statements team must receive information from, or give information to another person, business area or stakeholder to keep the project on track.

A stakeholder is either an individual, group or organisation who is impacted by the outcome of a project. Stakeholders can have a positive or negative influence on the project.

It is therefore important to work collaboratively with stakeholders and foster two-way communication. In the planning process the project manager and financial statements team needs to consider how these relationships will be managed.

This may include working with the entity's business areas and/or shared services hubs. More information is included at: 7.9 Shared services.

4.2.5 Planning for stakeholder engagement

Better practice entities organise and structure their year-end activities in a way that encourages ongoing engagement, communication and sharing of accountability between business areas, other entities that collect and/or expend money, perform processing and reporting on the entity's behalf, shared services providers and the financial statements team.

In planning the project, considerations should include the need for:

- regular communication through meetings during the year to brief business areas, other entities that collect and/or expend money on the entity's behalf and shared services providers on the latest developments in accounts processing and requirements
- training seminars for finance and business area teams 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 financial statements team and the business areas
- suggestions for continuous improvement are sought from business areas.

There should also be ongoing dialogue with the audit committee on new or revised reporting requirements, opportunities to improve the effectiveness of financial reporting, and the implementation of any audit recommendations. These matters should first be discussed during the planning phase of the financial statements preparation process.

4.2.6 Additional resources

Resource name	Resource description
Template: Lessons learned tracking sheet	This template assists in the tracking of lessons learned from previous years and implementing related proposed solutions.
Template: Financial statements schedule of activities, year-end project plan and high-level timetable	This template contains: • a schedule of activities outlining those to be completed in the preparation process • a detailed project plan outlining the activities to be completed in the preparation process, including the timeline and responsibility for the completion of each activity and its status

Resource name	Resource description
	• a summary timetable setting out key financial reporting dates in a form that are easily consumable by key stakeholders.

4.3 Assessing the effectiveness of financial statement processes

Assessing and understanding business arrangements enables entities to assess the effectiveness of their approach to financial statement preparation, and therefore identify areas for improvement in future years.

In the context of this guide, the effectiveness of the entity's financial statements processes refers to making a judgement on the adequacy of the entity's current financial governance, processes and systems to support the on-time preparation of high-quality annual financial statements that require minimal adjustments.

Undertaking an assessment of the effectiveness of an entity's financial statement processes enables entities to identify areas of strength and areas for further development. The assessment may also support the identification of project risks and risk treatments.

Better practice indicators of an effective financial statements process could include:

- strong emphasis from the board and/or the executive team on both their own responsibility and a culture of collective responsibility for financial matters
- strong financial capabilities of the accountable authority, audit committee, finance committee, financial statements team, business areas and other relevant staff
- ongoing training and continuous professional development in financial management for staff both within and outside the financial statements team
- a robust and reliable FMIS, including the transactional processing systems
- good systems of internal control, governance arrangements and risk management processes, particularly around the financial statements process
- quality, accurate and timely financial management and forecasting information is provided to decision makers and the Executive
- reports of financial and performance information are tailored to the needs of the user, both internal and external, and reports are open, clear and concise
- reports are presented in a timely manner to internal and external users
- well-defined processes which are well understood and followed by all parties
- regular monitoring of progress and review of processes to ensure they are operating efficiently and effectively.

4.3.1 Linking effectiveness with risk management

Better practice entities would assess the effectiveness of their financial statement process based on evidence of the better practice indicators detailed in 4.3 Assessing the effectiveness of financial statement processes then conduct a risk assessment of the areas/processes based on that assessment using their risk management framework.

As the inherent risk of a process rises (such as a high/extreme rating), generally there would be a greater need for entities to ensure that these processes have a high-level of effectiveness or have strategies in place to improve the effectiveness within a reasonable timeframe.

The risk assessment can then be used by the project manager as a platform for conversations with senior officials on whether the current process is appropriate for the entity.

4.4 Planning for the management of project risks

The project manager and financial statements team members will find that they are managing emerging risks and issues on a daily basis.

Where possible, the entity's risk management framework should be used for undertaking the risk assessment. This is likely to result in the risk ratings and treatment plan being prepared in a manner and format that is consistent with other risk assessments reviewed by the audit committee, the CFO and/or other senior officers.

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 should articulate, which team member is responsible for conducting monitoring and reviewing 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.

4.4.1 Prioritising development activities to mitigate risks

A useful starting point for determining the most efficient and effective approach to the preparation of financial statements is the conduct of a risk analysis of each financial statements item and the accompanying note.

This approach can:

- identify data sources and tasks required for the item
- assist in the allocation of resources to the items of highest risk and identifying the timing of the required work

- provide a framework for the identification, documentation and review of the controls that exist in managing risks of misstatement in the financial statements
- identify areas where controls can be strengthened.

As the management of risks is an ongoing process until the financial statements are signed, the initial risk analysis should be included as an agenda item for audit committee meetings, and updated as unforeseen events arise during the financial statements process.

4.4.2 Managing project delivery risks

The project risk analysis will contribute to developing risk treatment activities, which should then be detailed in the project plan and schedule. The degree of formality and rigour of the risk assessment will depend on a number of factors including the overall complexity of the entity and financial statements, the maturity of an entity's financial statements processes and the level of reporting risk the entity is prepared to accept.

Examples of risks that may affect the preparation of financial statements include:

- **insufficient appropriately skilled resources**—a lack of appropriately trained personnel 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 statement items and posting of amounts to incorrect reporting periods. This could be caused by an unsuitable FMIS and/or ineffective internal controls, or inadequate procedures, training and guidance for finance and other teams that approve and/or record transactions in the entity's FMIS and supporting business systems
- **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 MoG 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 ICT 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.

4.5 Planning to have the right skills at the right time

The effective management of staff, skills and expertise is a critical component for development of the financial statements. It is important that the financial statements team collectively possesses the appropriate skills and knowledge required to prepare the financial statements. This will largely be achieved through sound workforce planning, recruitment, ongoing training, and keeping abreast of accounting developments.

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)
- seconding appropriately skilled staff from other business areas or entities, such as internal audit
- 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 personnel.

The APSC has developed an Australian Public Service Workforce Planning Guide, which may assist CFOs to develop their own workforce plans for their financial statements teams.

4.5.1 Defining and assigning key project roles

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 and auditor 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 reviewers**—responsible for assuring the quality of the financial statements working papers, and the financial statements as a whole.

Team members may have more than one role, and roles can be filled by more than one 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. However to ensure an effective quality assurance review is undertaken, quality assurance reviewers should not have any input into the initial preparation of the financial statement working papers they are reviewing.

4.5.2 Business managers and their staff

Business managers and their staff also play an important role. They typically manage day-to-day accounting and financial management activities and most of an entity's assets and liabilities. Their primary responsibility is ensuring that reported information is accurate, timely and internal controls are effectively applied. Other responsibilities can include:

- processing transactions in FMISs
- providing financial and non-financial information in the format and by the timeframes requested by the CFO and/or financial statements team
- maintaining complete and accurate documentation to substantiate all transactions for their areas of responsibility for review, if required, by entity management and/or audit.

4.5.3 Considering the need to engage an expert

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
- availability of accurate and reliable data and information.

More information on engaging experts is provided at: 7.10 Sourcing experts.

4.6 Planning for the application of materiality

The project manager, CFO and financial statements 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.

More information on materiality, when and how it is applied is provided at: 7.2 The application of materiality.

4.7 Planning for the presentation of the statements

It is wise to plan for document management arrangements early in the project as delays may result if, for example, key working papers are misplaced or lost during the process.

Issues such as safe custody, distribution, retention, storage and confidentiality including backup of electronic documents, should be documented and understood by relevant team members.

4.7.1 The entity's financial statements model

There are many different approaches to the assembly of the financial statements, but most entities use a model to bring together the information from the FMIS into a publishable format. It is wise to consider the entity's model and what this means for project activities.

A well-designed financial statements model will have inbuilt internal consistency checks that allows easy confirmation that all the notes and face statements are consistent across the document. For an example of model financial statements for entities subject to the FRR, see the PRIMA forms. More advanced models allow a trial balance to be imported from your FMIS, and automatically populate with the different notes before summarising them in the 'face statements' to ensure consistency.

More sophisticated models have the ability to track changes made by users. If that is not a facility within your model, the use of a log is better practice as it ensures a record is kept of changes to the document. In the later stages of the process, entities should rely on a single person (or a small group) to make required changes to the model, as this reduces the risk of version control errors.

4.7.2 Must a pro forma approach be developed?

Each entity needs to make judgements on the appropriateness of their disclosures based on the accounting and reporting framework, taking into account, primarily, the information needs of users, especially the Parliament. Some entities decide to follow pro forma approaches, particularly if this minimises the likelihood of lengthy debates.

It is not possible for a pro forma to address all possibilities and circumstances. While pro forma financial statements are a useful aid, strict adherence to their format may result in an unnecessary level of disclosure. This can detract from the financial statements explaining an entity's particular financial circumstances to readers. It is important to remember that the goal of the financial statements is to provide relevant and readable information and this may sometimes require adding relevant information (such as providing more detail on particular material line items), rather than just removing information that detracts from readability. 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 were required (or are recommended for future years) due to:

- changes in accounting standards
- Finance's requirements, or
- 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 statement preparation,

However, review of the format of the financial statements need not wait until year-end. Where resources permit, it should be undertaken in the middle of the financial year, allowing time to consider various options and seek feedback from the auditor, the audit committee and Finance with the aim of reaching consensus on the approach proposed.

Applying the above approaches will involve some time, effort and judgement. It should be noted that improving the presentation of the financial statements does not automatically reduce the preparation time for financial statements.

Presentation of the financial statements is covered in AASB 101 (for Tier 1 reporting) or AASB1060 (for Tier 2 reporting) and at: 8. Structuring the financial statements.

4.7.3 Managing version control for the financial statements

The task of checking that appropriate document security requirements are in place and setting up the file structure for the project should be assigned to an appropriate financial statements team member in the early stages of the project.

Version control allows tracking and identification of the financial statements model throughout the project. This is important as it allows the development of the document to be followed and understood, and reversion if something goes wrong.

4.7.4 Additional resources

Resource name	Resource description
Example: Internal consistency checks	This spreadsheet provides examples of the consistency checks that entities should consider including.

4.8 Planning for the use of information systems

4.8.1 The Financial Management Information System (FMIS)

A detailed understanding of the FMIS, any other systems and their capabilities can make the financial statements planning process more effective. For example, conducting quality assurance checks, producing reports and processing correcting journals can be performed more efficiently if the financial statements team understands the systems from which information is sourced.

At the planning stage, the project manager and other members of the financial statements team should obtain assurance that the FMIS is reliable, has appropriate cyber security risk mitigation strategies in place to ensure security of digital remote access where required and technical support is available to all financial statements team members, including team members using remote access. Peak workloads and deadlines should be communicated to the entity's ICT area. This minimises the risk of delays due to scheduled maintenance and system upgrades.

An assessment should be made as to whether the financial statements team and/or key staff in business areas have sufficient knowledge and experience in using the systems for their role in preparing the financial statements. Where necessary, financial statements team members and key business area staff should be provided with ICT systems training or coaching, for the processing of journals, running reports and transferring systems data into the financial statements model and/or working papers to ensure the completeness and accuracy of data.

4.9 Planning for quality assurance processes

4.9.1 Defining and assigning quality assurance activities

The primary focus of quality assurance arrangements for the financial statements should be heightened in areas that are material and/or where the risk of error or misstatement is the highest. The degree of focus on the assurance process should be in proportion to the risk of error or misstatement.

Responsibility for quality assurance arrangements should be clearly articulated in relevant planning documentation and priority given to ensuring there is an appropriate segregation of duties between the financial statement preparation and quality assurance process. Adherence to the arrangements and documentation requirements per the approved project plan is critical for the quality assurance process to be fully effective.

Officers with responsibility for this work should be experienced finance officers, internal audit and/or other experienced staff who are able to apply a level of objectivity and independence to maximise its effectiveness. They should be aware of the possibility of misstatement due to unintentional or deliberate errors or fraud. This may include identifying unusual circumstances, inappropriate assumptions or information that contradicts other supporting evidence.

4.9.2 Management sign-off processes

Management sign-offs are designed to provide assurance to the accountable authority, through the CFO, on the quality of the entity's financial statements. The content and form of management sign-offs should be agreed as part of the planning process and be communicated at an early date to all relevant entity managers.

It is customary for such sign-offs to be provided to the audit committee to assist the committee in its review of the financial statements.

More information on quality assurance processes is provided at: 9. Quality assurance and certifications.

4.9.3 Performance indicators for assurance processes

Better practice entities develop performance measures for key elements of the financial statements development process. When planning for financial statements assurance processes, the project manager should consider:

- any existing quality assurance performance indicators that may be applied
- if the CFO requires quality assurance performance indicators to be established
- possible mechanisms to measure assurance arrangements, in the interest of continuous improvement.

5. Preparing a schedule of activities and tasks

Having clarified the scope of work and other project parameters, better practice entities develop a schedule for preparing financial statements. The schedule is an important tool as it outlines the main activities, events and project milestones—when they are planned to start and when they are due to be completed.

Among other benefits, the schedule will:

- help the team and senior executives to monitor progress and, if slippage occurs, develop strategies to bring the project back on track
- support workforce planning, to ensure enough appropriately qualified staff are available at peak times
- assist communication and engagement with stakeholders, by forecasting planned actions including when input from other areas is needed.

5.1 Scheduling tools and templates

The scheduling process does not need to be onerous and documentation does not need to be overly complex. Before preparing the schedule, it is helpful to clarify if the CFO or other senior officers have specific requirements for the level of documentation they require.

While specific programs for project scheduling are available, an effective schedule may be prepared using readily available software applications. If the entity has a project management framework, you may have access to a template for preparing the schedule.

5.1.1 Identifying activities and tasks

The schedule will include varying types of tasks, ranging from the updating of accounting policies to the completion of bank reconciliations. The following are key questions to guide the content included in the project schedule:

Key questions	Content to be included in the schedule
What must be done?	Actions to meet the requirements of legislative frameworks and stakeholders, and to prepare documentation.
How is it to be done?	Actions to enable the use of technology, input from internal and external parties and the frequency of communication.
Who is going to do it?	Internal and external resources and the responsible officers or business areas.
When is it to be done?	When financial statements must be prepared for review by various parties. When tasks should start and end for on time delivery. What are the key milestone dates? What are the dependencies?
How will risks be treated?	The risk treatment activities required and when these occur.

5.1.2 Identifying milestones and critical events

When developing the project schedule, it is useful to use last year's schedule as the starting point, looking at when activities were planned and how long they actually took to complete. Last year's activities and timelines can then be updated to take into account the prior year actual timeframes and any changes in current year internal and/or external reporting requirements.

Where there is no prior year project schedule, the financial statements team should start the process by making a list of project milestones and critical events, then build the list of activities, tasks, responsibilities and timeframes around these events. Working backwards from the most critical milestone date, which is generally the signing of the financial statements, is often an effective means of determining realistic timeframes.

The financial statements team should consider the sequence of critical events and then estimate the time required for each event, taking into account prior year experience and any interdependencies, for example, provision of information by shared services providers.

Entities should try to avoid being overly optimistic when estimating the time required for project activities. The largely sequential nature of the closing process means that an individual missed deadline can significantly delay the entire process and jeopardise the timeliness of the financial statements. Therefore, if possible, a buffer should be included in the schedule as a contingency for dealing with unplanned tasks or delays, such as unforeseen staff departures and/or leave, entity or service provider system failures.

5.1.3 Nominating responsible officers

The project schedule should be supported by instructions outlining relevant responsibilities, and the various requirements to be met during the process of preparing the financial statements. Where possible, the schedule should directly reference documents and provide details of where to find them.

Management should also commit sufficient resources to mitigate any risks associated with meeting the deadlines due to unexpected staff shortages. Where resources permit, entity's should consider identifying and, where necessary training, staff from other teams to provide backup for key financial statements team staff if required.

5.1.4 Engaging with stakeholders in preparing the schedule

Increasingly, stakeholders involved in the financial statements will include other entities, such as shared services providers, from which data and information is required for inclusion in the financial statements. It is therefore important that the responsibilities of all these entities be included in the project schedule and details regarding required timeframes be communicated and agreed with them.

The draft schedule should be distributed to relevant parties for comment with the final schedule being agreed with the audit committee, and approved by the CFO. The final schedule should then be circulated to all stakeholders, including shared services providers and other entities that collect or pay money on behalf of the entity. To ensure all stakeholders fully understand and can meet key deliverables detailed instructions and/or briefings should be arranged.

5.1.5 Additional resources

Resource name	Resource description
Template: Financial statements schedule of activities, year-end project plan and high-level timetable	This template contains: • a schedule of activities outlining those to be completed in the preparation process • a detailed project plan outlining the activities to be completed in the preparation process, including the timeline and responsibility for the completion of each activity and its status • a summary timetable setting out key financial reporting dates in a form that are easily consumable by key stakeholders. (also see 4.2.6)
Example: Team and business area process guide	Example instructions for a team and business process.

6. Actioning and monitoring the plan

The project manager should actively monitor progress against the plan and schedule, ensuring that the plan and schedule is updated as required.

Better practice entities implement some or all of the following:

- track the progress of activities against the schedule, for example check if planned activities, meetings and critical milestones are occurring on time
- ensure that the CFO, other financial statements team members, accountable authority, audit committee and other stakeholders are regularly updated on progress against the schedule
- monitor and review financial statement risks throughout the financial statement process and update the schedule and/or plan where required
- as the schedule changes, provide the updated schedule to relevant stakeholders
- provide timely advice and guidance to the financial statements 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, and escalate where appropriate, significant issues promptly, consider their impact and implement corrective action
- periodically brief senior management and the audit committee regarding progress against the agreed timetable.

7. Development processes and procedures

By considering users in the development of financial statements, entities are able to reduce the volume of disclosures while creating a high-quality document.

7.1 Alignment of monthly and year-end reporting processes

Maintaining good financial reporting practices throughout the year enables entities to be responsive to change, and significantly enhances the quality of financial statements.

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

Better practice entities view financial management and reporting as a continuous process that encompasses budget allocations through to the preparation of monthly financial statements and annual financial statements. Within-year reporting is integral to making year-end preparation processes more effective, as financial statements have been systematically prepared and reviewed as an important, albeit routine, part of 'business as usual' activities throughout the year.

While a full set of notes to the monthly financial statements would not be expected to be prepared, it is important that key reconciliations are performed throughout the year and anomalies are investigated and rectified as they are identified.

Where the monthly financial reporting process is aligned with the preparation of the annual financial statements, entities experience less difficulty and delay in completing their year-end processes as:

- errors and problems are identified and rectified, to the extent possible, well in advance of year-end
- business areas, other entities that collect and/or expend money on the entity's behalf, service providers and the financial statements team are familiar with financial reporting requirements, and are well equipped to complete the required tasks within agreed timeframes
- the financial statements team, business areas and other entities that process financial transactions on the entity's behalf, including service providers, are 'on the same wave length' and work together, making the co-ordination process easier.

7.1.1 Financial reporting—from monthly to year-end

Financial management by better practice entities is characterised by the following:

- preparation of monthly accrual financial statements, and keeping the accountable authority informed of any significant changes in accounting policies as they occur
- monthly reporting to the accountable authority includes an analysis of the financial position and the projected financial outcome at year-end; this analysis will include recommendations designed to address any significant variations from budget

- a detailed budget review, at least half-yearly, providing entities with the opportunity to revise their internal budget based on year-to-date actual performance.

Better practice entities will also streamline and simplify routine end-of-month processes, such as calculating and estimating (where appropriate) accruals, performing reconciliations and processing journal entries and clearing suspense accounts.

Within-year financial reporting will also be used to identify and address, to the extent practicable, issues that have the potential to adversely affect the preparation of the annual financial statements.

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

Errors or misstatements identified during the year should be investigated and analysed to determine their root cause. A misstatement, even if it is immaterial in amount, can indicate a broader issue that warrants investigation. Where an error or correction is expected to be of material impact on the year-end process, this should be discussed with the audit committee and the auditor as appropriate.

7.2 The application of materiality

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.

Linked to risk management, setting appropriate materiality thresholds enables entities to undertake risk assessments and establish appropriate risk treatments. While it is expected that an entity's accounts and records will record all financial transactions and other events as a basis for preparing the entity's financial statements, the concept of materiality and its application are important considerations. AASB 101 (and AASB 1060 for Tier 2 entities) states that:

- omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements
- materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

7.2.1 Areas where materiality is commonly applied

Two areas where materiality considerations are commonly applied are:

1. the calculation of accruals and prepayments at year-end
2. the capitalisation of eligible expenditure.

In both these areas, judgements are routinely made about the effect on the financial statements of not including transactions under a certain threshold, for example:

- **For accruals and prepayments**—entities generally set a timeframe for the identification and recognition of accruals for revenue and expenses as well as setting an amount below which accruals and prepayments will not be recognised.
- **For capitalisation of expenditure—**it is common practice to set a threshold below which expenditure on PPE is expensed, rather than capitalised. This practice removes the need for detailed ongoing accounting for immaterial items of PPE.

Such a practice is acceptable as long as it can be demonstrated that, in aggregate, an immaterial amount of PPE falls below the threshold and will clearly not affect the entity's overall financial position and results. An example of this would be amounts too small to warrant disclosure in normal circumstances that may be considered material if they arise from abnormal or unusual transactions or events.

For control purposes, entities will normally maintain a register of portable and attractive assets that could be reviewed periodically to assist in assessing the materiality of assets that are not capitalised.

7.2.2 Practical steps when planning for materiality

The following are practical steps for planning and scheduling the application of materiality:

- 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 the 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 financial statements team and business areas on its application.

7.2.3 Materiality thresholds for errors and misstatements

Setting appropriate materiality thresholds for the adjustments of errors or misstatements for year-end processing will minimise the likelihood that the financial statements team will spend disproportionate resources on correcting matters that that are of immaterial impact to the financial statements.

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

However, there may be instances where adjustments are not considered appropriate, due to reporting timeframes, the practicality of making the change, the risk of error in other aspects of the financial statements process, and the relative materiality of the errors (for example, it falls below the entity's materiality threshold). Therefore each error needs to be assessed individually and in aggregate with any other unadjusted errors to determine the materiality of the error in terms of both its quantitative and qualitative impact on the financial statements.

As the assessment of the qualitative impact of an error involves professional judgment, better practice entities will also have a review and sign-off on the schedule of adjusted and unadjusted errors.

See information at: 7.5.2 Analysis and adjustment of errors or misstatements.

7.2.4 Responsibility for determining the application of materiality

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 thresholds to particular transactions and other events.

The entity and the auditor both have a responsibility to consider and apply materiality in the context of the accounting and auditing standards respectively. These materiality thresholds may differ, so it is important that an entity is aware of the auditor's approach, and wherever practicable makes corrections for all audit identified adjustments.

7.2.5 Setting a materiality threshold

In applying materiality in the preparation of its financial statements, 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 of the correction of errors and misstatements.

These matters should first be discussed with the audit committee and the auditor during the planning phase of the financial statements preparation process.

7.2.6 Assessing materiality

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 Finance Minister and take into account significant matters of interest to the Parliament.

7.2.7 Materiality and record keeping

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.

7.2.8 Materiality and disclosures

Financial statements 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.

Better practice note disclosures are concise and assist the reader to understand how the financial operations of the entity have been reflected in the financial statements. It is therefore good practice if entities conduct a review of financial statement disclosures periodically.

7.2.9 Additional resources

Resource name	Resource description
Example: Materiality assessment paper	This paper is useful for documenting your entities decisions in regards to materiality.

7.3 Undertaking preparatory work before year-end

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

Many entities also use hard or soft close processes, or a combination of both approaches, to prepare work prior to year-end.

- **A full hard close**—involves the full production of financial statements, including notes that meet legislative and policy requirements.
- **A soft close**—involves the verification and computation of individual balances on a selective basis, based on a risk assessment.

The common aim of each of these approaches is to enable an entity to expedite the finalisation of the financial statements at year-end and to achieve timely audit clearance.

7.3.1 Deciding on a hard or soft close process

The decision to undertake a particular close process will generally depend on the effectiveness of an entity's systems and processes, the nature and complexity of its transactions and operations and whether there are advantages in spreading the workload involved in preparing the financial statements over a longer period. However, while the need to conduct a hard close may diminish as entities' systems and processes mature, the ability to provide reliable and timely financial statements improves and leads to accurate full accrual monthly financial statements being produced.

An entity's judgement about the appropriate approach to adopt will be influenced by:

- the availability of staff and/or independent parties with the necessary skills and experience, including experience with producing financial statements using the entity's systems and financial statements model
- the level of confidence the accountable authority and management have in the entity's existing financial systems, controls and related processes
- the level of assurance that the accountable authority and management require about the entity's ability and capacity to meet its year-end financial statements responsibilities
- the benefits to the audit and/or financial statements sub-committees in meeting their responsibilities.

These factors should be considered and discussed with the entity's audit committee.

To maximise the effectiveness of the particular approach adopted, the auditors should also be consulted on the feasibility and efficiency of conducting an audit of the hard close statements or those elements completed for a soft close. A decision on whether the auditor will conduct an audit and how long it will take will be influenced by the capacity of entities to prepare satisfactory auditable financial statements, working papers and other supporting documentation within an agreed timeframe. The audit approach will therefore depend on each entity's particular circumstances.

Entities should consult their auditors at an early date so that both parties can discuss and agree an approach that is mutually beneficial. Entities may also see benefit from internal audit, or an independent party, reviewing the outcome of the particular close process.

7.3.2 Hard close considerations

In effect a full hard close is regarded as a full trial run of the end-of-year processes, recognising that some balances and processes can only realistically be calculated or conducted at or after year-end. A hard close typically involves:

- performing reconciliations
- examining transactions for undetected accruals or transactions processed into the wrong period (cut-off)
- verification of physical balances through stock counts
- an analysis of current period transactions and balances to highlight possible errors arising from misclassification or incorrect posting.

Hard closes should also involve independent valuation and estimates for balances that are not able to be determined by other means. For example, the valuation of non-current assets and the actuarial assessments of certain liabilities.

Such an approach may be resource intensive and many entities prefer to undertake a modified hard close that involves preparing the majority of their financial statements but not completing tasks such as stocktakes and asset valuations. Often it is more cost-effective to complete such tasks once as at year-end.

A key determinant in timing a hard close is the nature and timing of key financial transactions or events. For example, an entity that processes significant financial transactions in May and June may benefit from conducting a hard close as at the end of March or April.

By contrast, an entity whose business cycle is relatively stable and consistent may schedule a hard close at the end of April or May, noting that the later a hard close is undertaken, the less time entities have to resolve issues before preparing the annual statements.

7.3.3 Soft close considerations

A soft close involves 'closing the books' with enough precision to provide specified key financial information to management. In practice most, if not all, entities undertake a soft close periodically during the year to meet their monthly or quarterly management reporting obligations. In a soft close:

- certain balances may not be calculated
- all financial statements reconciliations may not be undertaken, or may be replaced with variance analysis
- certain accruals and estimates may not be calculated, may be calculated other than at period-end, or may be estimated
- cut-offs for transaction processing may be brought forward prior to period-end.

However, a number of issues can impede the full-year financial statements preparation and the audit clearance process including the:

- adequacy of disclosures
- appropriateness of valuations
- determination of contingencies
- calculation of provisions
- reporting of appropriation information, including when MoG changes have affected entity operations.

It is therefore important that such issues are addressed prior to the preparation of the full year's financial statements.

7.3.4 Additional resources

Resource name	Resource description
Example: Risk assessment to bring items forward	This risk assessment demonstrates a risk that could be mitigated by inclusion in a hard or soft close.

7.4 Developing accounting estimates

Due to inherent uncertainties in business activities, some financial statements items cannot be measured with precision, and must be estimated. Such accounting estimates require the exercise of judgement, based on pre-determined assumptions and therefore have a higher inherent risk of material misstatement.

Accounting estimates are frequently required for items such as:

- impairment allowances
- useful lives and residual values of non-current assets
- employee entitlements
- taxation revenue
- provisions for future expense claims
- costs arising from litigation settlements and judgements.

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

Better practice development of accounting estimates is characterised by:

- 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
- ensuring relevant government and management policy decisions, as well as relevant legislation, have been considered
- interdependencies being taken into account when developing assumptions, as an assumption may appear reasonable when used in isolation, may not be reasonable when used in conjunction with, or taking account of, other assumptions
- collecting sufficient, relevant reliable and quality assured data on which to base accounting estimates
- regularly reviewing the circumstances that give rise to the estimates and underlying assumptions and adjusting the estimates if necessary

- undertaking ‘look-back’ analysis, that is, comparing the actual results with prior year estimates to determine the historical accuracy of the estimate
- preparing concise accounting position papers that detail the estimation process, including the assessment of assumptions and supporting documentation
- review and approval of all final estimates, including those prepared by internal or external experts, by personnel with the appropriate skill and authority levels
- audit committee endorsement, plus the auditor’s agreement of accounting position papers prior to year-end.

7.4.1 Accounting estimates—controls and expertise

As the inherent risk of material misstatement is greater when financial statement balances are based on accounting estimates, it is essential that entities establish and maintain a process to develop and produce reliable accounting estimates. A high degree of specialised knowledge and judgement may be required in the case of complex accounting estimates where the risk of developing unreliable estimates increases. Qualified personnel with the necessary skills and knowledge should be selected to prepare accounting estimates. If appropriate, experts within or outside the entity can also be used. These personnel should have:

- sufficient business and accounting knowledge of the item
- a good understanding of its underlying business drivers, processes and controls
- skills in business modelling.

7.4.2 Risk assessment for accounting estimates

In assessing the risks of material misstatement in accounting estimates, entities should identify factors that may affect their reliability and assess whether the level of estimation variance lies within an acceptable tolerance level.

For example, a change in assumption could materially affect the estimate recognised in the financial statements. The existence of recognised measurement techniques should assist in mitigating the degree of uncertainty associated with an estimate.

A change in circumstances such as new legislation may require the entity to revise or develop new accounting estimates. Entities should incorporate mechanisms in their risk management process to identify the need for revised or new accounting estimates.

7.4.3 Analysing the effect of uncertainty

Sensitivity analysis can be used to analyse the effect of uncertainty. Varying the level of inputs or assumptions may help to determine the degree of variation in the monetary amount of an accounting estimate. It also helps to identify the assumptions that are likely to create the most significant variation or degree of unreliability.

An assessment of the degree or range of variation provides a basis for assessing the potential risk of error in the financial statements. Disclosure of estimation uncertainty may assist entities to meet the applicable financial reporting requirements (such as AASB 13 *Fair Value Measurement* and AASB 119 *Employee Benefits*).

7.4.4 Documentation of accounting estimates

Documentation to support accounting estimates is particularly important, as it:

- helps to maintain consistency between years
- provides supporting evidence on how decisions were made, assumptions employed, sources of data, and the management of risk arising from significant variations
- assists management to provide explanations of variances and to improve its estimation techniques.

Documentation should include information on:

- management policies and processes
- sources and reliability of data (such as budget documentation, legislation, government policy, executive and/or other committee minutes and business management information systems)
- selection or construction of significant assumptions, with details of alternative assumptions including the basis for rejecting those assumptions
- changes in accounting estimates from one period to another.

7.5 Using analytical procedures

Rigorous and objective analytical procedures undertaken during the financial statements 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, or assist in identifying potential errors or omissions.

Procedures can range from simple comparisons of items to complex analytical models of relationships. More sophisticated procedures are often used to analyse administered items.

Various analytical procedures can be used. In selecting and applying procedures, including, but not limited to:

- **simple comparisons**—comparing a current year item to a norm, for example:
  - percentage or dollar value changes from prior year results
  - comparing actual amounts to budgets
  - reasonableness relationships such as staff numbers to payroll and depreciation to non-current assets
- **trend analysis**—analysing financial statements items expressed as a percentage of a selected base year
- **predictive analytics**— can include more complex procedures such as financial modelling, as well as relatively simple procedures, and are useful in analysing administered items where transactions are:

  - closely related to non-financial information, such as the number of organisations in receipt of grants
  - not always directly comparable to prior periods because of changes in eligibility rules, demographics, demand patterns and government policy
- **ratio analysis**—examining relationships between financial statements items to either identify or confirm changes in expected relationships. Examples of ratios include:
  - quick asset ratio
  - current ratio
  - receivables turnover.

An entity should consider factors such as the complexity and nature of its activities, the availability and reliability of information used for comparison, and the skills and knowledge of the analysts.

Analytical procedures require significant business expertise and judgements as well as a good understanding of accounting principles and processes.

7.5.1 How to implement analytical procedures

Entities should consider the following when incorporating analytical procedures into their systems and processes:

- **Use analytical procedures throughout the year**—to review monthly financial statements. Reviewing against budget, previous years' results and month-on-month results can identify items such as expected expenditure amounts that have not been invoiced or accrued. Unusual items can be identified and explained, thus minimising problems at year-end.
- **Apply analytical procedures to each line item of the financial statements**—during the preparation process to help provide additional assurance, 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 financial statements team could seek assistance from business areas in preparing such analysis.
- **Review information provided by business areas**—and seek explanations for variances. Information from one 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, which the entity can then:
  - investigate any unusual relationships and items in the statements promptly — these may indicate 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.

7.5.2 Analysis and adjustment of errors or misstatements

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

- analyse the misstatements to consider their implications for the financial statements
- assess the risk of other similar misstatements or omissions occurring
- assess if there is a need to investigate and quantify possible errors in a particular financial statements 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 auditor of all unadjusted errors or misstatements.

7.5.3 Additional resources

Resource name	Resource description
Template: Adjustments schedule	This schedule allows an entity to keeps a record of all adjustments proposed/ made and to enable the changes to be considered and actioned as a whole.

7.6 Using technology

Many entities process a number of journals at the end of each month and at year-end for a variety of reasons including posting accruals, allocating costs and reclassifying income and expenditure. In many instances, these journals are manually compiled and processed, and some are of a recurring nature.

Better practice entities seek to automate the computation and processing of recurring journals to improve the efficiency of processing, and to minimise the occurrence of human error.

Better practice entities also regularly review journals that are raised to correct processing errors. By analysing the type and frequency of errors, entities may be able to find and eliminate their root cause, thereby improving the efficiency of the year-end close process.

Regular reviews of arrangements for, and personnel with, systems access should also be undertaken and documented to ensure that access is only provided to appropriately skilled personnel and segregation of duties is maintained wherever possible.

7.6.1 Use of technology for faster, more accurate processing

Increasingly, entities are using technology to automate, simplify and streamline particular tasks and functions, including production of monthly reports, year-end financial statements, bank reconciliations, purchasing and payments. Apart from the obvious efficiencies involved, automation of financial statements 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.

The integrity of mapping general ledger accounts to financial statement line items should be periodically confirmed through review and quality assurance processes, and strict controls need to be in place to manage any software upgrades or changes.

In addition to a centralised FMIS, better practice entities require data entry at source, preferably online and in real time. Better practice entities also foster a culture of ‘getting it right’ the first time, with errors returned to the originator of the data for correction.

7.6.2 Managing the dependency on technology

It is important that the financial statements team is aware of any systems risks, issues and changes that could impact on the preparation of the financial statements.

Better practice entities work collaboratively with the ICT team to establish processes, controls (including cyber security controls), and timeframes for discussing and addressing any system upgrades, breakdowns or other risks that may affect the integrity or timeliness of financial information.

7.7 Preparing accounting position papers

Accounting position papers are an important tool that better practice entities use to document key decisions and to keep stakeholders apprised of updates to accounting policies and processes, plus their impact on the entity’s financial statements.

Accounting position papers may also address yearly assessments or plans for addressing complex items or accounting estimates, such as:

- administered investments
- stocktake and valuation plans
- new material, complex or significant transactions
- upcoming changes to accounting standards.

7.7.1 Content and structure of accounting position papers

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 (such as 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, including key senior officers within the entity and portfolio department
- a copy of any external advice that has been received, including from an external expert and Finance.

7.7.2 Additional resources

Resource name	Resource description
Template: Position Paper	This template provides a useful structure/guidance to assist in the development of an accounting position paper.

7.8 Collecting information from business areas

While processing and reporting activity is generally centralised in the entity's financial statements team, key transactions are often recorded by business areas. Entities may need to collect source documentation for inclusion in or to support their financial statement working papers from business areas and/or third parties. This documentation may also assist the audit.

The information generally required from business areas relates to:

- prepayments
- accrued expenses
- asset stocktake discrepancies
- internally developed software
- executive remuneration
- contingencies
- commitments (payable and receivables)
- unearned revenue
- open purchase orders and goods received/invoice receipt
- resources provided free of charge.

Entities should determine the information that is available in the FMIS and the additional information that must be collected manually. For the manual collection process, better practice entities collect information, at hard close and year-end, by using a reporting package (usually a standardised information collection pack).

7.8.1 Additional resources

Resource name	Resource description
Checklist: Preparation and use of reporting packs	This checklist provides suggestions for instructions which may be contained in a reporting pack.

7.9 Shared services

Shared services generally involve an entity providing corporate or other services to one or more other entities.

Outsourcing functionality through shared services arrangements is becoming increasingly common in Government. As entities continue to be accountable for the risks associated with the function(s) being delivered by the shared services provider, as well as the quality of financial data in these circumstances, it is important for entities to maintain close working relationships with shared services providers and effectively manage the shared services arrangements.

Better practice entities will ensure that: there is clear agreement on:

- the nature and frequency of reporting of data completeness and accuracy by the service provider
- timely provision of details of any internal or external audit findings raised by the service provider's auditors that could impact on the completeness and/or accuracy of the entity's data.

7.9.1 Managing shared services arrangements

Strong management of shared services arrangements, in line with the examples identified below, supports an effective financial statements preparation processes:

- **Formalised expectations**—put a contract or formal agreement in place with relevant parties that includes:
  - clearly defined roles and responsibilities and related timeframes in relation to the provision and quality of 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 services providers
  - service standards and performance measures to assess the performance of shared services providers
  - provisions that facilitate the external audit of the shared services provider hub.
- **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 the shared services provider hub. Such procedures could include the physical inspection of records and the interrogation of electronic records of the shared services provider considering authorisation, recognition and allocation of financial transactions or balances.
- **Assurance from the shared services provider—**formal assurance statements should be sought at least annually from shared services providers on the operation of their control framework, along with the timely reporting of any material breakdowns in shared services providers' internal control framework that could affect the reporting entity.

  Assurance requirements should be included in a formal agreement with shared services providers. Some entities have found it useful to invite representatives from shared services hubs to attend governance fora meetings (such as the audit and risk committee, a financial statements sub-committee, executive board depending upon the structure and risk profile of the entity) to discuss the assurance framework and walk through assurance items.

7.9.2 Issue management

Better practice entities establish an escalation matrix with shared services providers to promote effective problem resolution. Formalised service standards and performance measures, along with close engagement commencing in the planning stages of the financial statements can support the identification and resolution of any difficulties that arise in a timely manner.

7.10 Sourcing experts

Financial statements items that may require specialist expertise and knowledge can often be material and may involve fair value measurement and disclosure for a number of asset and liability balances at year-end. The following steps should be undertaken to obtain the required assurance about the work undertaken by an expert:

- determine the need to use the work of an expert
- determine the appropriate scope of the work and the responsibilities of the parties
- assess the professional competence and objectivity/independence of the expert
- manage the engagement, including timing of draft and final reports
- evaluate the work of the expert.

To facilitate both the internal quality assurance process and audit, the above steps should be clearly documented.

7.10.1 Clarifying the expert's scope of work

Once an expert has been engaged, matters that need to be clearly determined and communicated to the expert in writing include:

- the scope of the work to be undertaken and the specific matters that the expert's report must cover. It would be expected that, as a minimum, the expert's report would include:
  - the assumptions used
  - an outline of the approach or methodology used
  - the key calculations that underpin the final estimates or valuation
  - relevant characteristics of the data used
  - any limitations or qualifications to the work performed
- how they will satisfy the entity that any potential conflicts of interest have been declared and are being managed effectively
- the intended use of the expert's work and the expected disclosure of the expert's identity and details of work undertaken
- determining the responsibilities of both parties for the accuracy and reliability of the source data to be used by the expert (generally it would be expected that the entity is responsible for this)
- determining the responsibilities of both parties in relation to the accounting aspects of the engagement, including the application of applicable accounting standards
- requirements for upholding the entity's policies and procedures
- the protocols for accessing relevant data and information, including any security considerations
- ensuring the contractual arrangements provide for access to the expert by the auditors and/or a person nominated by the auditor
- the expert's quality assurance or peer review arrangements
- the timeframes in which the services are to be provided.

7.10.2 Considerations for experts engaged to measure fair value

The following matters are particularly important when an expert is engaged to assist in measuring fair value:

- the measurement must be objective, as fair value accounting estimates are expressed in terms of the value of a current transaction or financial statements item, based on conditions prevalent at the measurement date
- the need to incorporate judgements concerning significant assumptions that may be made by others, such as experts employed or engaged by the entity or the auditor
- the availability (or lack thereof) of information or evidence and its reliability
- the breadth of assets and liabilities to which fair value accounting may be, or is required to be applied
- the choice and sophistication of acceptable valuation techniques and models
- the need for appropriate disclosure in the financial statements about measurement methods and uncertainty, especially when relevant markets are liquid.

7.10.3 Engaging an expert

When proposing to use 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.

References should generally be obtained to assist in substantiating the expert's credentials.

It is important that the engagement be actively managed to help ensure the work performance of the expert is satisfactory and the entity's requirements are met.

The key tasks involved in managing the engagement are to ensure that:

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

7.10.4 Evaluating the work of the expert

Management may rely on the professional expertise of relevant experts. However, to be in a position to assess whether the expert's assessment or valuation is suitable for inclusion in the entity's financial statements, management should form their own conclusions based on a review of the work undertaken, asking relevant questions, and evaluating the answers so that the entity is satisfied that the assessment or valuation is appropriate for inclusion in the financial statements. The review would generally involve:

- establishing whether the source data used is accurate and appropriate in the circumstances. Questions that could be asked include:
    - 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?
- obtaining an understanding of the assumptions and methodology used and assessing whether they are appropriate and reasonable in the context of the entity's business and are consistent with any applicable legislation or accounting standards. Questions that could be asked include:
    - are the assumptions within acceptable ranges and consistent with industry practice?
    - are the valuation methods consistent with those used in prior periods?
    - does the expert's sensitivity analysis highlight those assumptions and methods that can significantly affect the results?

The extent of management's review will depend on a number of factors such as:

- the materiality of the item(s) in question
- the complexity of the subject matter and any changes in the entity's business environment that may affect the subject matter concerned
- the extent of variations in the estimate(s) from the previous year and an understanding of the reasons for the change.

8. Structuring the financial statements

The primary purpose of financial statements is to provide relevant and reliable information about the entity's financial position.

The preparation and formatting of financial statements is often a complex task, involving compliance with a large number of requirements, as reflected in the AAS and FRR.

8.1 Considering the needs of users

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

- Ministers and the Government
- parliamentary committees and individual parliamentarians
- taxpayers and the community generally
- officials of Commonwealth entities
- external providers of goods and services
- beneficiaries and other recipients of goods and services provided by Government
- industry and community groups
- the media.

This wide and diverse range of users underlines the importance of public sector entities meeting their financial accountability responsibilities in an efficient and effective manner.

8.1.1 Consider the format of note disclosures

Tabular disclosures in pro forma financial statements typically have columns or rows to cover most eventualities. It is usually a simple matter for an entity to delete the rows and columns that are not relevant.

However, in some cases an entity can go further—an entity might have so few rows and columns that a complete reworking of the format will make the disclosure easier to understand and shorten the financial statements. The challenge here is to take the information that needs to be disclosed and to develop innovative presentations and formats that assist readability of the statements.

8.1.2 Use clear primary statements rather than the notes

Pro forma financial statements often include a long list of notes, to cater for a large number of possibilities.

Entities that replicate these notes can end up with many notes that add little information. For example, an entity may have a line item on its Statement of Financial Position "Other Non-Financial Assets" with a supporting note that shows that this is entirely made up of prepayments.

In this case, changing the name of the line item to “Other—Prepayments” has several advantages:

- the Statement of Financial Position provides more information than before
- the reader does not have to read a note to find out what the other non-financial assets were
- the financial statements are shortened by one note.

8.2 Removing non-material and irrelevant information

The concept of materiality (at: 7.2 The application of materiality) is fundamental to financial statements preparation. Information that is not relevant or useful to users may be omitted.

Materiality is often thought of only in quantitative terms. That is, the focus is on ensuring that there are no significant errors in the numbers presented in the financial statements. However, an entity should also consider if a disclosure is material by nature by asking:

1. How significant is this information to understanding the financial performance, position and cash flows of the entity?
2. Does it help the reader to understand the risks to future operating results or cash flows or financial position?
3. Is it a disclosure that stakeholders require for comparisons with similar entities?

If the answer to all these questions is no, then there may be an opportunity to remove immaterial disclosures from the financial statements. However, it is also important to consider materiality in aggregate, that is, while individual items may be immaterial, they may be material when considered with other immaterial items. This is a matter of professional judgement and different questions may be relevant for different entities.

Better practice entities:

- do not disclose information that is not relevant
- review their accounting policy and overview notes to ensure that they are focused on facts about the specific entity. In particular they should detail the entity’s:
  - legal status
  - financial reporting requirements
  - objectives, plus:
    - any choices of AAS that the entity has made (where a choice of AAS is permitted)
    - significant judgments made in applying AAS
- any unusual features of the entity’s operations or financial statements
- only detail accounting policies for the most significant items in the financial statements
- avoid duplication of information.

8.2.1 Additional Resources

Resource name	Resource description
RMG-125 Appendix A Prompts to user-focused presentation	This checklist includes practical suggestions that Commonwealth entities may adopt in presenting their annual financial statements.

9 Quality assurance and certifications

An important aspect of the financial statements preparation process is the implementation of a quality control and assurance regime, to provide assurance about the accuracy and completeness of the statements, plus confirmation that they comply with all relevant legislative and policy requirements.

While the extent and nature of such a regime will vary between entities, having independent review arrangements in place at key points during the preparation process is a fundamental component of better practice financial statement preparation. Depending on the entity's resourcing and internal audit function, internal audit and/or other staff may be engaged to undertake the quality assurance process.

9.1 Processes subject to quality control and assurance processes

Better practice entities will ensure the following financial statement processes are covered by a quality control and assurance regime:

- the calculation of balances that require complex computation and the collation of information from a variety of sources
- the calculation of estimates
- large and unusual transactions and journal entries
- key documentation supporting the financial statements balances, including lead schedules and supporting working papers
- complex accounting matters and disclosures
- information provided by business areas or external parties, including service providers and experts
- the adjustments schedule
- key reconciliations.

9.2 Documenting issues and decisions in working papers

Financial statement working papers to support and validate the financial statements are essential for establishing a management trail, as well as expediting the quality assurance review and audit processes. The benefits of complete and well-structured working papers 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
- facilitating review, including the external audit process

- having a record of information for the next set of financial statements, including identification of significant matters and comparisons in planning for future work.

9.2.1 Focus on explanatory information

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

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

The type and content of supporting documentation required is a matter of professional judgement, but also depends on factors such as:

- the nature and complexity of the business
- nature and conditions of the entity's internal controls and its financial systems
- the technology used during preparation.

9.3 Preparing working papers and lead schedules

Well structured and complete working papers are essential to support and validate the financial statements. Standardising the form and organisation of working papers is likely to improve the efficiency with which the financial statements are prepared and reviewed. Standardisation facilitates the delegation or allocation of work while, at the same time, providing a means to control its quality.

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
- checking or sign-off has occurred.

A lead schedule should explain the composition of a financial statements item, identifying the detailed general ledger accounts making up the item. Each general ledger account is, in turn, supported by appropriate working papers and cross referenced to the trial balance.

Lead schedules are usually filed in front of each segment of the working papers, providing easy reference for preparation and review. Lead schedules should only record the final, verified balances that agree with the final signed financial statements.

9.3.1 Automation of lead schedules

Automation reduces the potential for errors, and is an efficient approach to extracting and formatting relevant financial data. While most balances can be automated, some manual entries may be required because of the specific nature of disclosures required.

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 the 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.

9.3.2 Additional resources

Resource name	Resource description
Template: Working Papers - Cover Sheet and Lead Schedule	This template contains: • working papers cover sheet template which can be used to assist in providing a reference to all relevant documents that support each financial statements item or note • lead schedules template.
Example: Requirements for supporting documentation	The example documentation requirements outline the types of supporting evidence required for selected financial statements items.

9.4 Certification by the accountable authority and CFO

The accountable authority and the CFO are required by section 10 of the FRR to certify that, in their opinion, the financial statements:

- comply with the AAS, any other requirements prescribed under the PGPA Act, its rules, and other entity-specific legislation
- present fairly the entity's financial position, financial performance and cash flows
- have been prepared on the basis of properly maintained financial records.

To enable the accountable authority to provide this certification, and the required written representations to the auditor (known as representation letters), better practice entities establish a structured process of management sign-offs that include review of the appropriateness of the entity's financial reporting by the audit committee.

The accountable authority should acquire a degree of financial literacy, including a knowledge of accounting practices and accounting standards, so they are able to review and monitor the entity's financial statements. The accountable authority should carefully read, understand and focus upon the content of financial reports, consider whether the financial statements are consistent with his or her knowledge of the entity's financial position, consider the statutory requirements, apply the knowledge he or she has of the affairs of the entity, and if necessary, make further enquiries if matters revealed in the financial statements call for such enquiries.

9.4.1 Representations by the accountable authority

An important aspect of the financial statements process is the provision of one or more representation letters to the auditor. Representations in the form specified by the auditor are required prior to issuing the auditor's report on the entity's financial statements.

Where ANAO is the relevant auditor, the ANAO Auditing Standards require these representations to address the following matters:

- compliance with the applicable financial reporting framework
- that the auditor has been provided with all relevant information and access to all data and records
- that all transactions have been recorded and are reflected in the financial statements
- acknowledgement of responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud
- an assessment of the risk that the financial statements may be materially misstated as a result of fraud
- the entity's knowledge of fraud or suspected fraud affecting the entity
- details of allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others
- instances of non-compliance or suspected non-compliance with laws and regulations
- the effects of uncorrected misstatements, both individually and in aggregate, to the financial statements
- actual or possible litigation and claims
- significant assumptions used in making accounting estimates
- events occurring subsequent to the date of the financial statements
- details of the entity's related parties and all the related party relationships and transactions.

9.4.2 Signatories for representations

For Commonwealth entities where the accountable authority is a single director or chief executive, representations are to be made by the accountable authority and the CFO.

For Commonwealth entities whose accountable authority consists of a board of directors, separate representations are to be made by a director, the chief executive and the CFO.

Where a director/board member signs the representations, they must be in a position to represent the views of the accountable authority. It is therefore preferable that the signing director is the chair of the accountable authority.

9.4.3 Management sign-offs to support assurance and certification

Management sign-offs provide assurance to the CFO of the quality of the entity's financial statements and management's compliance with a range of internal control and legislative compliance issues that underpin the statements. Such sign-offs are generally accepted as an integral component of management's responsibility and accountability and, through the CFO's assurance processes, support the audit committee's assurance to the accountable authority.

The content and form of management sign-offs should be agreed as part of the planning process. Further information is at: 4.9 Planning for quality assurance processes.

9.4.4 Additional resources

Resource name	Resource description
Example: Form for business area certification	An example of a management sign-off.
Example: Financial statement assertions	An example of financial statement assertions, adapted from the Australian Auditing Standard ASA 315.
Checklist: CFO Assurance	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.

9.5 Audit committee financial reporting assurance reviews

The review of the appropriateness of the entity's financial reporting is one of four key audit committee functions under section 17 of the PGPA Rule. In carrying out the financial reporting review and providing its independent advice, the audit committee assists the accountable authority in discharging their duties and obligations under the PGPA Act and supports the development of key practice and capacity within the Commonwealth entity.

The review of an entity's financial statements is an important aspect of a 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 will assist the financial statements 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 financial information systems and processes for preparing financial statements. This would include review of compliance with the mandatory requirements of the PGPA Act, rules and the AAS. 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 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.

Finance has developed guidance which provides examples of matters that could assist audit committees reviewing the entity's financial reporting. Audit committees have knowledge and experience to ask more specific, fit for purpose questions, relevant to the entity's particular operating context.

For more guidance on the role of audit committees, see RMG-202 Audit committees (RMG-202).

9.5.1 Additional resources

Resource name	Resource description
Checklist: Financial statements team assurance processes for audit committee	This checklist is an example of what a Finance Area/CFO might provide to the Audit Committee to provide assurance in regards to the financial statements process.

9.6 Chief Financial Officer's report to the audit committee

The CFO's report is one of the key sources of information and advice that the audit 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:

- 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.

9.6.1 Content to be covered in the report

As a minimum, it is recommended that the CFO's report will:

- summarise the key results for the year and the main business and financial factors that have affected the financial statements (significant variations with budget should be satisfactorily identified and explained, highlighting factors responsible for the budget variance)
- provide details of relevant changes in legislative requirements, accounting standards, the FRR and accounting policies and their effect on the financial statements
- outline the effect that relevant changes in government policies or programs have on the financial statements
- provide assurance that:
    - the year-end results are consistent with internal management reports
    - the financial statements are supported by appropriate management sign-offs and have been subject to appropriate management review
    - the statements reflect, where appropriate, instances of non-compliance identified by the entity's compliance reporting process
    - the auditor has been provided with full access to all entity records and information
- explain all significant movements between the current year's results and the prior year's comparative figures
- explain all material accounting estimates and judgements that have been made in the preparation of the statements
- include details of the entity's liquidity position
- outline the reliance placed on external parties and external information in preparing the financial statements
- provide details of how the entity's key internal controls address the entity's key financial risks
- outline how the entity's materiality approach has been applied
- detail all unadjusted audit differences and those adjusted differences that the CFO considers should be brought to the attention of the committee
- make recommendations that support the audit committee's advice to the accountable authority on the appropriateness of financial reporting, noting in particular any significant issues or judgements that should be brought to their attention prior to the statements being signed.

9.6.2 Additional resources

Resource name	Resource description
Template: Chief Financial Officer's report	Template for the CFO's report to the audit committee and accountable authority to provide assurance.

9.7 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.

Further information is at: 12.1 Conducting a post project review.

9.7.1 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 better practice entities commonly measure 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 additional performance indicators established should be readily measurable and recorded.

9.7.2 Examples of useful performance indicators

Examples of performance indicators that may be useful include the:

- number and significance of adjustments made to the financial statements as a result of reviews
- 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.

10. External audit process

Commonwealth entities' annual financial statements must be audited by the ANAO, who issue their auditor's report on the entity's financial statements to the responsible Minister in accordance with section 43 of the PGPA Act (or shareholders in the case of Commonwealth companies in accordance with the Corporations Act). The ANAO auditor's report is then included with the entity's financial statements in its annual report.

The purpose of the ANAO is to support accountability and transparency in the Australian Government sector through independent reporting to the Parliament, and thereby contribute to improved public sector performance.

10.1 Understanding the auditor's role

The auditor plays an important and ongoing role in assuring the integrity of an entity's financial reports and reviews the entity's financial reporting arrangements and the integrity of financial reports throughout the year.

The auditor's report is formed on the basis of audit procedures, which include:

- assessing the effectiveness of management's internal controls over financial reporting and legal compliance
- examining, on a test basis, information that provides evidence supporting the amounts and disclosures in the financial statements
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the accountable authority.

The audit procedures also extend to key aspects of legislative compliance, such as requirements relating to the appropriation of money. The results of relevant performance audits are also considered in determining the auditor's report on the financial statements.

10.2 Establishing clearly defined roles and responsibilities with the auditors

The preparation of the financial statements involves applying appropriate accounting policies and financial management practices that comply with legislative and financial reporting requirements. Therefore, engagement with the auditor will often involve discussions about the interpretation and application of appropriate accounting standards, policies and procedures.

At the beginning of the process, it is useful to develop, in consultation with the auditor, clearly defined and documented roles and responsibilities for liaison, feedback and issues escalation. It is the CFO's responsibility to identify and bring to the auditor's attention in a timely manner all matters that may have an effect on the entity's financial statements.

Better practice entities will strive for the adoption of a 'no surprises' approach by both parties and will foster a relationship based on mutual co-operation and understanding, characterised by regular and open communication, supported by an Audit Issues Register that details both parties' agreement on the impact of the issue on the financial statements and tracks the status of issues identified by both the entity and auditor. The auditor attends audit committee meetings as an observer and to provide information on entity-specific financial statements and performance audit coverage and assurance reviews where applicable.

10.2.1 Audit liaison officer

An audit liaison officer may be appointed as a central point of contact for all audit related matters. The responsibilities of this role typically include:

- organising the provision of the financial statements working papers at agreed times, through prior consultation between the auditor and the financial statements team on expectations and documentation requirements
- establishing working arrangements between the entity and the auditor
- facilitating the availability of key staff, including business managers, internal and external experts and internal audit during the external audit process
- arranging audit access to an entity’s FMIS and related business systems
- coordinating preparation and receipt of third party confirmation requests, such as bank confirmations and solicitor representation letters
- in consultation with the financial statements team, assessing the implications of internal audit reports and audit reports on the financial statements
- arranging regular contact so that both parties are abreast of progress in the preparation of the financial statements and audit to exchange ideas on solutions, provide opportunities for feedback, facilitate reaching agreements and eliminate surprises
- coordinating and responding to audit reports and management letters promptly.

10.2.2 The role of the audit committee in the external audit

Auditor staff attend entity audit committee meetings as observers, and are able to speak to matters relating to the audit and provide other assistance to the audit committee as required.

Important matters that may be discussed by the audit committee and the auditor include:

- issues of either a strategic or operational nature that have an effect on the entity’s financial statements. Such matters may include:
    - external developments affecting the entity
    - emerging business risks
    - significant new projects or programs
    - significant new contracts
    - restructuring plans
    - legislative changes major policy developments.
- how significant risks of material misstatement are being addressed by the entity (whether due to fraud or error), the controls in place to handle such risks and how well they are being managed

- the entity's approach to any developments or changes in accounting standards and the FRR
- the approach adopted in relation to materiality in the preparation of the financial statements, and the qualitative and quantitative factors that are considered when making materiality judgements, with a view to improving the relevance and readability of the financial statements
- significant estimates and judgements used in the preparation of the financial statements
- progress by the entity in addressing previous audit findings and implementing audit recommendations
- the extent of the internal audit function's coverage and/or involvement in the preparation of the financial statements and the extent to which the auditor may use the work
- any other matters that may affect the quality and timeliness of the financial statements.

10.2.3 The role of internal audit in the external audit

Auditing Standard ASA 610 *Using the Work of Internal Auditors* (ASA 610) applies to auditors conducting:

- an audit of a financial report for a financial year, or an audit or a review of a financial report for a half-year, in accordance with the Corporations Act
- an audit of a financial report, or a complete set of financial statements, for any other purpose.

Auditing Standard ASA 610 also applies, as appropriate, where auditors are conducting an audit of other historical financial information.

Much of the information obtained by the auditor's enquiries is obtained from management and those responsible for financial reporting, however, information may also be obtained by enquiries with the internal audit function and others within the entity.

Paragraph 6 (a) of ASA 315 requires external auditors to make enquiries to the internal audit function irrespective of whether or not the auditor intends to rely on the work of the internal auditor. This requirement arises as the internal audit function is considered a key internal control and may provide information to assist the auditor in obtaining an understanding of the entity and its environment, and in identifying and assessing risks of material misstatement at the financial statement and assertion levels. Where the auditor elects to use internal audit functions in the conduct of the audit of the entity's financial statements, the use of work by internal audit is governed by ASA 610.

In performing its work, the internal audit function is likely to have obtained insight into the entity's operations and business risks, and may have findings based on its work, such as identified control deficiencies or risks, that may provide valuable input into the auditor's understanding of the entity, the auditor's risk assessments or other aspects of the audit.

The role the internal auditor may have in the preparation of an entity's financial statements should be discussed with the auditor at an early stage. This will enable both parties to ensure that working arrangements will comply with auditor standards and be completed within an agreed timeframe.

10.2.4 Documenting and communicating working arrangements

Documenting key elements of the working arrangements between an entity and the auditor, and sharing this information with the financial statements team, will support consistent understanding of the agreed approach.

These arrangements, developed in consultation with the auditor, could usefully cover matters such as:

- the details of key entity and auditor contacts
- timeframes and processes for responding to requests for information from the auditor and to address audit findings, including use of audit request and audit issues registers
- arrangements for regular interaction between key entity and auditor staff
- the processes for reaching agreement on the implementation of new accounting standard requirements, or new or changed accounting policies
- agreement on the extent of review the auditor will undertake of the entity's hard and/or soft close financial statements
- arrangements for escalating and resolving issues, including the role of the audit committee, in the event of differences of opinion between the entity and the auditor.

10.2.5 Additional resources

Resource name	Resource description
Template: Audit assistance package	Provides an example template that sets out details on an audit.
Template: Register of audit requests	Provides an example template for tracking audit requests.
Example: Audit protocols	Is an example of a formal communication plan with the auditors.
Template: Register of audit issues	Provides an example template for tracking issues identified by both the entity and the auditor throughout the audit.

10.2.6 Actions that may be taken by the CFO to support the audit

Particular actions that may be taken by the CFO to support the audit by the auditor include:

- assisting the auditor to plan its audit by providing information such as emerging risks, the application of new or changed accounting policies, changes to systems and unusual transactions
- taking a proactive approach to implementing effective internal controls in areas that underpin the entity's financial statements
- developing effective working arrangements between the entity and the auditor
- discussing, early in the planning phase:

- the application of materiality in the preparation of the financial statements
- the potential opportunities to improve the relevance and readability of the statements, while still complying with applicable accounting standards and the FRR

- implementing any necessary corrective action in a timely manner
- adhering to agreed deadlines, and agreeing with the auditor the nature and extent of documentation to support the financial statements.

10.3 Seeking auditor feedback on proposed positions

The iterative nature of the preparation and audit processes, and the ongoing dialogue between the financial statements team and the auditor will often involve discussions about the interpretation and application of appropriate accounting standards, policies and procedures.

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

Leaving significant issues 'on the back burner', or not discussing the entity's proposed approach to addressing them with the auditor, increases the risk that the issue will affect the timely finalisation and audit of the financial statements.

Further information is available at: 7.7 Preparing accounting position papers.

11 Including financial statements in annual reports

All Commonwealth entities are required to provide and present an annual report to the responsible Minister in accordance with the PGPA Act and associated rules, and any other applicable legislative requirements. Annual reports must include the entity's audited financial statements and the Auditor-General's report. Commonwealth entities' and Commonwealth companies' annual reports are to be published on and accessible from transparency.gov.au as soon as practicable after the presentation of these reports to the Parliament. The Digital Annual Reporting Tool enables companies to draft content and publish annual reports to the Transparency Portal at transparency.gov.au in a fully accessible web format, and generate a printed report for Tabling (using the export feature).

The integrity of the audited financial statements and the auditor's report must be preserved at all times by protecting them from unauthorised access or accidental amendment.

11.1 Timely presentation of the entity's annual reports

Section 46 of the PGPA Act requires that accountable authorities prepare and present annual reports for their entity to the responsible Minister by 15 October each year, for entities that report on a financial year basis.

It has been the practice for the responsible Minister to present the annual report to each house of the Parliament on or before 31 October. If Senate Supplementary Budget Estimates hearings are scheduled to occur before 31 October, Ministers have sought to table annual reports prior to those hearings.

For Commonwealth companies, subsection 97(5) of the PGPA Act requires the responsible Minister to table a Commonwealth company's annual report in the Parliament as soon as practicable after receiving it (wholly-owned companies) or after the annual general meeting.

The annual report is to be made available online as soon as practicable after the report has been tabled in Parliament. Entities are required to comply with web accessibility requirements as determined by Government from time to time.

11.1.1 Format for including the statements in the annual report

Using an unamended electronic copy of the financial statements and auditor's report reduces the risk of errors occurring in the printed version of the annual report and ensure that the relevant signatures and dates of signing are preserved. The relevant electronic files should be provided to the entity's annual report coordinator in accordance with the annual report timetable.

It is wise to check with the annual report coordinator on any specific requirements for the format required for print production processes, for example whether the financial statements and/or signature pages need to be provided in specific formats to meet accessibility requirements.

11.2 Ensuring the integrity of published financial statements

The signed copies of the financial statements and auditor’s report should be filed either electronically or in hard copy, in accordance with the entity’s records management policy. This should help to ensure that when the financial statements and auditor’s report are replicated, they are exactly the same as the originals.

Steps should be taken to prevent public disclosure prior to the tabling of the entity’s annual report in the Parliament.

11.2.1 Amending the audited financial statements

As a general principle, the financial statements must not be amended once they have been signed and the auditor’s report has been issued. However, where errors or omissions are detected in the audited financial statements, entities should consider, in consultation with the auditor, whether it would be appropriate to prepare amended statements.

Amended financial statements, and an updated auditor’s report must be prepared where an error or omission could potentially mislead or misinform users of the statements.

11.2.2 Chief Financial Officer responsibilities

Although the CFO may not be responsible for producing the annual report, he or she and the financial statements team have an important role to play in checking each version that includes the financial statements, auditor’s report, and related financial commentary.

In particular, they must ensure that the information to be published exactly replicates the audited financial statements and auditor’s report, and in the case of any financial commentary, the information is consistent with the financial statements.

Practices that will help in this process include the following:

- **Prior to financial statements signing**:
  - financial statements being reviewed for style and format before being provided for audit
  - financial statements being prepared for audit in the same format as they are to be published, both the hard copy and the electronic copy to meet web accessibility requirements.
- **After certification**:
  - the accountable authority certification and auditor’s report being scanned from original documents
  - printer’s proofs of hard copy reports being reviewed by an independent party or by more than one person
  - responsible officers certifying that required checks of the published information have been conducted
  - the auditors being provided with the opportunity to check the printer’s proofs
  - regular communication with the annual report coordinator.

11.2.3 When and how to correct financial errors in annual reports

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

In rare circumstances, errors may remain undetected in the tabled, and publicly available, annual report.

In these situations, the entity should correct the errors as appropriate. Where an error results in a material misstatement, omission or non-disclosure of information or is considered by the entity to require correction for other reasons, the entity should discuss the issue with the auditor and arrange for a corrigendum to be tabled in the Parliament, if necessary.

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

11.2.4 Additional resources

Resource name	Resource description
Tabling Guidelines	Department of the Prime Minister and Cabinet's guidelines which set out the procedures to follow when presenting documents to Parliament, including tabling of corrections/corrigenda.

12. Project closure

12.1 Conducting a post project review

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 close process remains efficient.

12.1.1 Annual process review by the Chief Financial Officer

Reporting on performance should be supplemented by an annual review of the financial statements production process. Such a review is a very important input into the subsequent year's planning process, as it provides the opportunity to make improvements in the future, where necessary.

Aspects that should be considered in the review include:

- the involvement of senior management
- the leadership and expertise within the CFO group
- 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, other entities that collect and/or expend money on the entity's behalf and/or shared services providers
- the cost effectiveness of the contribution made by external specialists
- the extent and timing of any work undertaken by internal audit
- arrangements with the auditor 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.

The review team should make a record of the key issues identified and distribute the document among the various contributors for comment/confirmation. The record should outline any corrective action to be taken, and allocate responsibility for those actions.

12.1.2 Consultation and distribution for the review

An assessment should involve key members of the financial statements team as well as representatives of any other contributors to the financial statements, such as business areas, accountable authority, the audit committee, internal audit and the auditor. 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 organisations with many contributors may find it useful to supplement discussions with a survey of business areas and other stakeholders.

13. Guidance and support

13.1 Utilising support from Finance

The Finance Minister (supported by Finance) has a significant role in Commonwealth financial reporting, as part of their responsibilities for the PGPA Act. To assist entities to discharge their responsibilities under the PGPA Act, Finance develops and issues:

- accounting policies and financial statements presentation and disclosure requirements through the FRR
- RMGs, including RMG-125 Commonwealth Entities Financial Statements Guide
- PRIMA Forms of Financial Statements
- other internal to government guidance.

Policies are based on the AAS, Australian Interpretations, guidance and other financial reporting policies developed by Finance. This involves interpretations of accounting policies, advice on reporting and appropriation requirements and the development and maintenance of the budget and reporting framework.

Finance is also the convenor of forums, communities of practice and professional development seminars which provide vehicles for the discussion of accounting, auditing and related topics with the CFOs and officers from Commonwealth entities. Attendance at forums can assist in obtaining an understanding of Finance's responsibilities and identifying emerging financial reporting issues.

Where requested, Finance also provides financial reporting advice to Commonwealth entities. It is important to engage with Finance early in the process of developing accounting positions, allowing sufficient time for a response to be formulated.

13.1.1 Publications and support by Finance

The CFO should establish agreed lines of communication with Finance officials to help ensure that any issues arising in the context of financial statements, for which it is appropriate to seek advice from Finance, are identified and resolved in a timely manner.

When requesting advice from Finance, better practice entities include:

- a detailed description of the issue
- any related position papers or accounting position papers
- references and excerpts from the relevant legislation/AAS
- the materiality of the issue
- detail of the classification of the items (Administered or Departmental) and the source of funds (such as a special account)
- details of historical treatment and related government decisions/budgetary documentation
- the related program/policy (if appropriate).

13.1.2 Additional resources

Resource name	Resource description
Template: Requesting advice from Finance	Template that sets out the key information to include in your request for advice from Finance.

14. Appendices

14.1 Acronyms and abbreviations

Acronym/abbreviation	Title in full
AAI	Accountable Authority Instructions
AAO	Administrative Arrangements Order
AAS	Australian Accounting Standards as issued by the AASB
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACSC	Australian Cyber Security Centre
ANAO	Australian National Audit Office
APS	Australian Public Service
APSC	Australian Public Service Commission
ASA	Auditing standards as issued by the AUASB
AUASB	Auditing and Assurance Standards Board
BPG	Financial Statements Better Practice Guide
Budget, the	The Australian Government budget
CBMS	Central Budget Management System
CFO	Chief Financial Officer
CFS	Consolidated Financial Statements
Charter of Budget Honesty	*Charter of Budget Honesty Act 1998*
Corporations Act	*Corporations Act 2001*
Entity	This BPG uses 'entities' to mean Commonwealth entities and Commonwealth companies as defined by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).
Fraud Rule	Section 10 of the PGPA Rule

Acronym/abbreviation	Title in full
ICT	Information and communication technology
IFRS	International Financial Reporting Standards
FBO	Final Budget Outcome
Finance Minister	The Minister for Finance
FMIS	Financial Management Information System
FRR	*Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*
GBE	Government Business Enterprise
GGS Monthly Financial Statements	The Australian Government general government sector Monthly Financial Statements
Australian GFS	Australian System of Government Finance Statistics Australia: Concepts, Sources and Methods 2015, issued by the Australian Bureau of Statistics
ISM	Australian Government Information Security Manual
JCPAA	Joint Committee of Public Accounts and Audit
MoG	Machinery of Government
PBS	Portfolio Budget Statements
PDF	Portable document format
PGPA Act	*Public Governance, Performance and Accountability Act 2013*
PGPA Rule	*Public Governance, Performance and Accountability Rules 2014*
PPE	Property, plant and equipment
PRIMA	Primary Reporting and Information Management Aid
PSPF	Protective Security Policy Framework
RMG	Resource Management Guide
SRP	Supplementary Reporting Pack

Acronym/abbreviation	Title in full
UPF	Uniform Presentation Framework

14.2 Index of BPG resources

Resource name	Resource description	BPG Ref.
BPG Resources Map	This diagram sets out a suggested order and timing for the use of BPG resources.	1.4.1
Relevant legislation and standards	Details the main legislation, policies and guidelines relevant to the preparation of financial statements by public sector entities and a brief summary of each of these elements.	2.4.2
Example: Risk analysis for financial statements	This risk analysis process for financial statements can assist management to prioritise the resources allocated to the preparation of the financial statements.	3.7.4
Example: Risk framework for financial statements	This framework sets out the risk and assurance profile for the financial statements process for an entity.	3.7.4
Checklist: Machinery of Government restructures	A checklist considering a range of issues relating to the implementing MoG changes in relation to an entity's financial statements.	3.8.3
Template: Lessons learned tracking sheet	This template assists in the tracking of lessons learned from previous years and implementing related proposed solutions.	4.2.6
Template: Financial statements schedule of activities, year-end project plan and high-level timetable	This template contains: • a schedule of activities outlining those to be completed in the preparation process • a detailed project plan outlining the activities to be completed in the preparation process, including the timeline and responsibility for the completion of each activity and its status • a summary timetable setting out key financial reporting dates in a form that are easily consumable by key stakeholders.	4.2.6

Resource name	Resource description	BPG Ref.
Example: Internal consistency checks	This spreadsheet provides examples of the consistency checks that entities should consider including.	4.7.4
Example: Team and business area process guide	Example instructions for a team and business process.	5.1.5
Example: Materiality assessment paper	This paper is useful for documenting your entities decisions in regards to materiality.	7.2.9
Example: Risk assessment to bring items forward	This risk assessment demonstrates a risk that could be mitigated by inclusion in a hard or soft close.	7.3.4
Template: Adjustments schedule	This schedule allows an entity to keeps a record of all adjustments proposed/made and to enable the changes to be considered and actioned as a whole.	7.5.3
Template: Position Paper	This template provides a useful structure/guidance to assist in the development of an accounting position paper.	7.7.2
Checklist: Preparation and use of reporting packs	This checklist provides suggestions for instructions which may be contained in a reporting pack.	7.8.1
Template: Working Papers Cover Sheet and Lead Schedule	This template can be used to assist in providing a reference to all relevant documents that support each financial statements item or note. Also contains a template for lead schedules.	9.3.2
Example: Requirements for supporting documentation	The example documentation requirements outline the types of supporting evidence required for selected financial statements items.	9.3.2
Example: Form for business area certification	An example of a management sign-off.	9.4.4
Example: Financial statement assertions	An example of financial statement assertions, adapted from the Australian Auditing Standard ASA 315.	9.4.4

Resource name	Resource description	BPG Ref.
Checklist: CFO Assurance	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.	9.4.4
Checklist: Financial statements team assurance processes for audit committee	This checklist is an example of what a Finance Area/CFO might provide to the Audit Committee to provide assurance in regards to the financial statements process.	9.5.1
Template: Chief Financial Officer's report	Template for the CFO's report to the audit committee and accountable authority to provide assurance.	9.6.2
Template: Audit assistance package	Provides an example template that sets out details on an audit.	10.2.5
Template: Register of audit requests	Provides an example template for tracking audit requests.	10.2.5
Example: Audit protocols	Provides an example of a formal communication plan with the auditors.	10.2.5
Template: Register of audit issues	Provides an example template for tracking issues identified by both the entity and the auditor throughout the audit.	10.2.5
Template: Requesting advice from Finance	Template that sets out the key information to include in your request for advice from Finance.	13.1.2