Example: Team and business area process guide

Foreword

This is an example of instructions to help communicating, to all relevant staff, procedural requirements for the preparation of an entity's financial statements. This example sets out a framework for meeting relevant accounting records requirements.

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

[Entity's name] instructions for the preparation of the 20XX–XX financial statements

Purpose

This document provides instructions and guidance to business areas and the financial statements team for preparing the 20XX–XX financial statements. It also sets out the framework for meeting the requirements for relevant accounting records.

To ensure compliance with legislative requirements, we are working toward the financial statements being signed by [the accountable authority] by [planned signing date]. Your cooperation in ensuring that required actions are performed by due dates is critical to achieving this deadline.

High priority is to be given to preparing accurate and timely 20XX–XX financial statements by [planned signing date]. Our goals are to achieve:

(1) an unqualified auditor's report on the financial statements

(2) no material weaknesses in internal controls, and

(3) no instances of non-compliance with applicable legislation.

These instructions, endorsed by the [name of audit committee], form part of the [entity name] financial statements framework and support the [name of Accountable Authority Instructions or equivalent].

Section 1: General information

Legislative Framework

Commonwealth entities: Section 42 of the *Public Governance, Performance and Accountability Act 2013* (the PGPA Act) requires the accountable authority to provide to the Auditor-General the annual financial statements that comply with the accounting standards and any other requirements prescribed by the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule) and present fairly the entity's financial position, financial performance and cash flows.

The Finance Minister issues the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) each year under the PGPA Act. The Department of Finance (Finance) also provides guidance material such as the:

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

The financial statements of the [entity's name] must comply with the accounting standards and any other requirements prescribed by the FRR and PGPA Rule, and present fairly the entity's financial position, financial performance and cash flows. They must be materially correct, complete, and must embody the principles of accountability, relevance, compliance and comparability. They must also be prepared on the basis of properly maintained financial records.

The Auditor-General must examine the statements and report to the [entity's Minister] in accordance with Section 43 of the PGPA Act. The [entity's name]'s financial statements and a copy of the Auditor-General's report are to be included in the [entity's name] annual report in accordance with section 46 of the PGPA Act [section 97 of the PGPA Act for Commonwealth companies].

A copy of the annual report should be tabled in the Parliament by 31 October. To meet this requirement, it is planned that our annual report (with the audited financial statements) is provided to Minister [name] by [add planned date for provision to the Minister].

Whole-of-Government reporting

The [entity's name] is the Australian Government's principal entity for [purpose].

The [entity's name]'s financial statements are material to the preparation of the Australian Government's Consolidated Financial Statements (CFS). [Name/title of accountable authority] is required to provide audit-cleared financial information to Finance by [specify date], to be included in the Final Budget Outcome (FBO) and CFS.

The FBO reports on the results of the General Government Sector whilst the CFS also includes the Public Non-Financial Corporations sector and the Public Financial Corporations sector.

The FBO is released and tabled by the Treasurer and the Finance Minister no later than three months after the end of the financial year, as required under section 18 of the *Charter of Budget Honesty Act 1998*. The Finance Minister is required to prepare the CFS in accordance with section 48 of the PGPA Act. While no date for tabling in the Parliament is specified in the legislation the CFS is usually issued after the FBO.

The instructions issued by the Chief Financial Officer (CFO) annually will also set out the responsibilities and records that will be required to enable the [entity's name] to meet our Whole-of-Government reporting requirements.

The [entity's name] also provides monthly unaudited financial statements to Finance to enable the Finance Minister to publish monthly Whole-of-Government statements in accordance with section 47 of the PGPA Act.

Preparing the financial statements

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

The CFO and [title of financial statements team's division or branch] is responsible for coordinating and preparing the statements. The information to be included in the statements will be sourced primarily from:

- the financial management information system (FMIS) [add name of system as appropriate]
- supplementary information as supplied by business areas using the information collection packs
- further details (as noted at Section 5: Information collection pack), and

- specific information provided by areas responsible for providing information, primarily information on administered items (detailed instructions have been issued separately for these areas).

The process for preparing year-end financial statements encompasses:

- conducting a risk analysis for each financial statements item and its accompanying note
- developing a detailed work plan and timetable in consultation with the [name of audit committee], the Australian National Audit Office (ANAO) and other parties that provide information for inclusion in the financial statements
- conducting the year-end financial statements process in accordance with the schedule of activities, which will be reviewed on a regular basis (fortnightly up to the end of May) and thereafter on a weekly or daily basis
- the ANAO presenting to management the findings and recommendations resulting from its interim visit. These findings are required to be addressed as a matter of priority, particularly those that may affect the year-end financial statements
- presenting the financial statements by the CFO to [name/title of accountable authority] and the [name of audit committee], recommending that the financial statements be approved for signing by the [name/title of accountable authority]. Following endorsement by the [name of audit committee], the [name/title of accountable authority] and CFO will sign the financial statements, and
- the auditor's report will then be issued by the ANAO.

Liaison with the ANAO

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

All adjustments and changes made to the draft financial statements are to be coordinated centrally by the [name of financial statements team]. Business areas should not agree to any changes directly with the ANAO. All proposed journals and adjustments should be referred to [name of financial statements team or appointed contact officer] who will decide what adjustments will be required, in consultation with the ANAO. Also refer to 'Amendments and Corrections' below.

Operational risk controls

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

Business continuity

Under the Disaster Recovery Plan, the FMIS [name FMIS as appropriate] will be restored within [number] hours in the event of a systems failure. Full replication of FMIS [name FMIS as appropriate] electronic records is maintained off-site.

Section 2: Roles and responsibilities

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

Accountable authority

As the accountable authority, [name/title of accountable authority] has primary responsibility for ensuring that the [entity name] fulfils its reporting requirements to the Minister.

Audit committee

The [entity name] audit committee, the [name of the audit committee], established under section 45 of the PGPA Act (section 92 of the PGPA Act) provides independent advice to the [title of accountable authority] in the discharge of his or her responsibilities. The [name of audit committee] is responsible for:

- reviewing the financial statements and providing advice to [name/title of accountable authority] (including whether appropriate action has been taken in response to audit recommendations and adjustments) and recommending their signing by the [title of accountable authority]
- satisfying itself that the financial statements are supported by appropriate management sign-off on the statements and on the adequacy of the [entity name] systems of internal control, and
- reviewing the processes in place to ensure that financial information included in the [entity's name] annual report is consistent with the signed financial statements.

Business managers

Business managers are responsible for ensuring that their business area meets its responsibilities to enable the [title of accountable authority] to fully discharge the above responsibilities including:

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

Responsibilities, including certification requirements, are set out in sections 5 and 6 of this document. These sections also provide specific details about information requirements, including the associated supporting documentation and deadlines for submission of information to the CFO.

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

Chief Financial Officer

The CFO is responsible for the preparation and coordination of the [entity's name] annual financial statements. The CFO co-signs the financial statements with the [title of accountable authority] and is responsible for the following:

- preparing the financial statements within required timeframes
- ensuring that amounts included in the financial statements agree with [entity's name] accounts and records
- ensuring that the financial statements comply with the FRR requirements, including the application of the concept of materiality in preparing and presenting the financial statements
- ensuring all amounts in financial statements are capable of audit verification, and
- explaining major variances of reported amounts from budgeted and previous year actual amounts.

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

- developing the [entity's name] accounting policies relating to both internal and external financial reporting
- maintaining the chart of accounts and financial systems, and
- implementing the financial statements plan and other initiatives to maintain and improve internal controls over financial systems and records.

All [entity name] staff

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

Staff who become aware of either a deficiency in internal control procedures or any failures to adhere to internal controls, should refer their concerns to either their supervisor or manager, or the senior internal auditor, [add name/title as appropriate], for attention and correction.

Section 3: Schedule of activities

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

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

Officers should develop their own detailed plans or task lists to assist them in completing the required tasks within the required timelines. The largely sequential nature of many of the tasks means that a missed deadline can significantly delay the entire financial statements

close process and jeopardise the timeliness of the financial statements. Therefore, if you are likely to have problems in meeting due dates, you should contact [name and phone number and email address] immediately.

[The schedule may be linked here or included as an appendix].

Section 4: Record keeping and documentation requirements

Documentation standards

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

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

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

At a minimum, documentation should have the following characteristics:

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

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

In cases where there is difficulty in obtaining fully reliable information, the working papers should reflect this through appropriate annotations to the working papers.

Amendments and corrections

No adjustments will be made to the financial statements after [date]. All proposed adjustments after this date must be forwarded to [name] who will maintain a schedule of differences identified by the entity and/or the ANAO after this date, to monitor accumulated errors and adjustments made.

Record keeping requirements

The framework of record keeping within the [entity's name] is outlined in the [name the relevant instructions e.g. accountable authority Instructions or equivalent].

All relevant working papers should be filed in a registered official file (hard copy or electronic) and be made available for audit if required. Business areas should retain all relevant working papers used in preparing the returns in the [name of information collection pack], including a signed copy of each return.

Where information has been sourced from the FMIS [name FMIS as appropriate] the original data and spreadsheets should be kept for audit purposes in hard copy (non-changeable/pdf) of electronic form.

Section 5: Information collection pack

The information collected in the [name of the information collection pack] will be used to prepare the [entity's name]'s financial statements as at 30 June 20XX. The information will also be used to complete Finance's information requirement pack which is used to prepare the Australian Government's CFS.

The pack has eleven returns which require specific information from each business area. The eleven returns are:

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

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

- complete: there are no unrecorded transactions
- accurate: transactions are recognised, measured and disclosed in accordance with applicable accounting principles and policies, and
- valid: transactions are genuine.

The responsibility for completing and reviewing the returns rests with the [nominate business managers' level/position as appropriate]. It is the responsibility of the business managers to

implement procedures to ensure that each return deadline is met and that the information from their area is complete and accurate.

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

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

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

The responsibility for reviewing the returns to ensure their consistency with the financial statements as a whole, rests with the CFO and the [title of financial statements team].

Section 6: Management sign-offs and reports

An integral part of the preparation of financial statements is the requirement for the head of each business area to provide a management sign-off. These sign-offs are designed to provide assurance to the [title of accountable authority] on the quality of the [entity name] financial statements and on management's compliance with a range of key aspects of the public sector's financial management and reporting framework.