Example: Risk assessment to bring items forward

Foreword

In effect, a full hard close or soft close is regarded as a trial run of the financial statements preparation process.

A financial statement item will often be flagged to be included in these processes because of its risk rating, where it is flagged as having a medium to high inherent risk.

Issues that can impede financial statements preparation and the audit clearance process include those related to the adequacy of disclosures, the appropriateness of valuations, the determination of contingencies, the calculation of provisions, and the reporting of appropriation information, including when Machinery of Government changes have affected entity operations.

It is therefore important that such issues be addressed before preparing the full year's financial statements.

(Please also see *Example: Risk framework for financial statements* for more detailed instructions on conducting risk assessments).

Risk analysis:
20XX-XX Financial statement item—Employee Expenses

Inherent Risk

Risk Factor	Key questions to consider	Rating	Reason/Analysis
Materiality and volume of transactions	• Percentage of line item and totals • How significant is this item to users? • How material are individual transactions? • Are there a large number of low value items or a small number of large value items?	High	Large volume of payroll transaction that are completed by a third party provider.
Reporting requirements	• Are there any complex or new accounting arrangements? • Are there significant compliance issues?	High	Employee expenses and the related leave liabilities are calculated through a complicated model.
Level of judgement	• Do the items require considerable judgement? • Do the items require estimates, specific knowledge of the item or accounting standards?	Low	
Reliance	• Is the accuracy of data reliant upon others outside of financial accounting branch? • Does past experience support the provision of accurate and timely data?	High	Data is often delayed as provider is outside the department
Manual intervention and disparity of data source	• Is the level of manual intervention to initiate, record, process or support the transactions significant? • Can data be easily accessed?	Medium	Separate system is imported into SAP.
System changes	• New/significant changes to systems or feeder systems	Low	
Audit issues	• Have there been significant internal or external audit issues raised? • Have any findings been adequately addressed?	Medium	This account has regularly been an item of interest for the ANAO in previous years
	Overall inherent risk:	**High**	
	Rationale for overall inherent risk assessment :	Employee Expenses are an item of detailed review by ANAO, and due to the large number of transactions, investigations into issues are often time consuming.	

Key controls

Analysis of key controls (current)

Governance controls:

- Third party has a detailed control framework, that provides separation of duties and multiply layers of review in addition to regular sampling of transactions.
- Human resources within department reviews super user transaction reports in addition to other assurance reports provided by the third party.

Financial control:

- Monthly reconciliations are completed to ensure matching of pay runs and transaction within SAP match.

Residual risk summary:

- Adequate controls are in place across the organisation to ensure transactions with employee expenses are accurately recorded and acquitted resulting in an overall risk rating of ***low***, noting that the following risk still exists:
  - That any complications with the note will likely require a lengthy review and investigation process due to the need to liaise with third parties who maintain the data.

Overall Residual Risk: Low

Suggestions for control or process improvements

By completing a hard close note in March, we will allow a greater time to review the majority of transaction data and seek out solutions for any issues that might arise.