

Queensland Audit Office

Better Practice Guide

Strategies for earlier financial statement preparation

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Introduction

Early planning is critical to achieve a more efficient and effective financial statement process, including planning for the preparation and verification of the financial statements.

Planning the process

Ensuring management support

Prompt financial statement production needs to be viewed as a critical business process.

Prompt financial statement production needs to be given appropriate priority and support within the organisation including engaging the audit committee to support the timely preparation of financial statements.

Developing a financial statement timetable

Developing and distributing a timetable ensures everyone knows what needs to be achieved.

The financial statement preparation timetable should be agreed as early as possible in the process. The timetable should identify critical activities that must be undertaken. Crucial dates may include —

- when key reconciliations are to be finalised;
- cut-off dates for debtor/creditor balances;
- date for preparation of certain disclosures and determination of key account balances;
- date when information from controlled entities (to be consolidated) will be available (if applicable);
- date for final auditable draft financial statements to be completed, including all notes and supporting work papers;
- date for review by internal audit to be finalised (where applicable);
- date financial statements are to be provided to accountable officer/chief executive officer;

- date of the audit committee meeting to adopt the financial statements (where applicable);
- date of the board meeting to adopt the financial statements (where appropriate) and for the management to sign financial statements; and
- date for sign-off of the financial statements by external audit following management approval and certification.

The timetable should also provide for whole-of-Government reporting, where applicable. Dates should be provided for completion of the draft auditable package; management certification of the final “original data” version of the package; and certification by audit. The final certified package is required to be forwarded to Treasury Department within one week of certification of the financial statements.

The roles of key stakeholders such as the chief executive, audit committee or board, and internal audit in the financial statement process should be considered early and intended activities documented.

When the timetable has been drafted, it should be reviewed to ensure sufficient time has been allocated for —

- the collection of information from branches and regions (where applicable);
- review and certification by management;
- the audit committee or board to be informed of all major audit issues and an opportunity for the committee to consider the financial statements;
- review and certification by audit; and
- other contingencies.

As part of the development of the financial statement timetable, actual performance against the previous year’s timetable should have been considered and the cause of any slippages in the previous years’ timetable been identified and mechanisms put in place to ensure a smoother process in the current year.

Approving and monitoring the timetable

Ongoing monitoring ensures the process stays on track.

Following development of the financial statement timetable, it should be formally agreed between external audit and senior management and approved by chief executive officer, audit committee or board.

Key dates in the timetable should be subject to regular review and followed up to ensure that deadlines are being met. Regular reviews of the progress of the financial statements and the overall timetable should be scheduled. Any slippages in the timetable should be communicated at an early stage. The communication process to be followed for the financial statements should be negotiated and agreed upfront.

Assigning responsibility for preparing financial statements

An appropriate level and number of staff should be involved with the requisite skills and knowledge to deliver a quality outcome.

One person should not be solely responsible for the preparation of financial statements. There should be at least one back-up staff member involved in the process. Responsibility should be assigned to specific officers for the completion of all activities in the timetable and all relevant staff should be readily available during the audit of the financial statements.

The financial statement preparation timetable should be communicated to all staff involved in the provision of individual items of information and other data required for the preparation of the financial statements.

Staff should be adequately trained in the requirements for the financial statements (eg advising expectations at workshops, use of proformas for consistency of data especially when the same data is being collected from a number of branches, etc). Ideally staff involved in the preparation of previous year's financial statements should be included because of their familiarity with the preparation process.

Staff succession planning should be considered to ensure a smooth process in future years, should key staff leave the employ of the organisation. Permanent staff rather than contract staff should be involved in statement preparation in order to retain knowledge of the process in-house.

Protocols should be established between management and external audit for the resolution of significant issues in relation to the financial statements. Appointing an "audit liaison officer" to be a central point of contact for all audit related matters may assist.

Preparing financial statements

Deciding on presentation of accounting policies

Faster finishing can be aided by early decisions on accounting policy changes.

Position papers should be prepared outlining the implications of the significant changes in International Financial Reporting Standards and other prescribed requirements to assist in the early clarification of accounting issues. This assessment can also describe how those changes will be implemented, and how disclosures will be presented and can be provided to the audit committee or board and external audit for review and comment. Accounting policy notes should also be developed early for review and agreement by the audit committee or board and external audit.

The Financial Reporting Requirements (FRRs) (if applicable) should be assessed as soon as these become available to determine how these will impact on the financial statements. The requirements of the Corporations Act 2001 in relation to the presentation, disclosure and certification of financial statements should be considered (if applicable) at an early stage.

Early planning of complex areas such as asset revaluations should be considered so that these occur prior to year-end. In particular, any items with a significant impact on the financial statements should be identified and the implications of these items assessed at an early stage.

All changes in accounting policy, together with an outline of their impact on the financial result and position, should also be provided to the audit committee or other relevant authority for approval prior to year-end.

Implementing mechanisms for faster statement finalisation

Hard closes and trial run financial statements may assist in faster statement finalisation.

Existing prior year proformas for financial statements should be identified and the review of any required amendments to these should be performed at an early stage.

A hard close at the end of the third quarter, month ten or month 11 of the financial year could be implemented to meet tight deadlines by finalising draft financial statements and having these audited earlier than usual. Hard closes usually involve —

- early close and reconciliation of key accounts;
- preparation and finalisation of accounting policies;
- examination of next period transactions for undetected accruals or transactions processed into the wrong period;
- verifications of physical balances through stock counts; and
- analysis of current period transactions and balances to detect classification or posting errors.

The preparation of “trial run” financial statements early in the financial year should be considered to ensure the collation of information from various sources or new financial statement requirements and reporting deadlines can be met, particularly if there have been organisational, personnel or accounting standard changes since the prior year-end.

Reviewing the preparation progress

Ongoing monitoring ensures the process stays on track.

Regular financial statements progress meetings should be convened between external audit and finance area staff responsible for preparing the financial statements. Other interested parties should be included to discuss particular issues, for example, internal audit and staff responsible for tax, treasury or assets.

Ideally, in larger organisations, progress meetings should be held monthly at first and then weekly in the three-month period prior to the conclusion of the financial year to allow early consideration of issues and other relevant matters. The actual dates when milestones are achieved should be recorded and compared to the milestone dates included in the financial statement preparation timetable for performance benchmarking purposes

A process should be in place to ensure senior management and the audit committee or board are kept informed regarding the financial statement preparation process and progress with the timetable.

Verifying financial statements

Financial statement working papers

Well prepared financial statement working papers facilitate a more effective verification process.

Clear guidelines relating to each material account balance in the financial statements may assist in the preparation of year-end packages. Working papers and supporting documentation should include, for example —

- lead schedules incorporating prior year's figures and reasons for significant variances in balances;
- provision of analytical information to explain major variances in account balances;
- certified results of stocktakes, including explanations for major variances and authorities to write on/off adjustments;
- evidence of the annual verification of non-current assets and portable and attractive items;
- third party confirmation of assets and liabilities (eg bank confirmations, investment confirmations, loan confirmations, imprest account confirmations);
- details of the methodology used to calculate employee entitlements; and
- other items identified as being required by external audit.

Working papers should be cross-referenced and supporting documentation attached. All adjustments to financial statement balances should be fully documented and supported and financial statements and work papers filed logically and referenced appropriately.

The officer responsible for the preparation of the financial statements should sign off on the completeness and accuracy of the working papers and supporting documentation.

Quality control

Quality control assists in identifying errors prior to certification of the financial statements.

A competent staff member should review statements before they are provided to external audit to ensure accuracy and consistent presentation. This reviewing officer should be independent of financial statement preparation and at an appropriately senior level. Internal audit could also be involved in the review process.

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